Appendix A

Economic Update and interest rates as at August 2013

A1. Growth in the UK economy remains weak. National debt is expected to rise above 100 per cent of GDP by 2015-16 and this resulted in the UK losing its AAA rating.

A2. Household financial conditions remain subdued. Job fears, inflation eroding disposable incomes, small or no pay increases are all factors contributing to consumers' ability to spend and overall living standards have fallen in real terms due to the sharp price rises relative to wages. Average real wages have fallen every month since June 2008. The squeeze on households' income will remain a critical factor in the economy over the next few years. Inflation is the main cause and will continue to have the greatest impact on living standards as real income will continue to decline. The slow recovery has meant that social security payments remain high and tax income is low.

A3. The Euro region suffered a further period of stress with Spain forced to officially ask for a bailout of its domestic banks. However, the ECB declared it would do whatever it takes to stabilise the Eurozone.

A4. The government's Funding for Lending Scheme (FLS) has been introduced to improve access to mortgages at lower rates. This has affected lenders need to borrow and money market rates have fallen considerably as a result. There will be a need to increase interest rates and reverse the government bond purchases at some stage, but it is unlikely to happen in the next 12 to 24 months.

A5. Investor demand in UK gilts as a 'safe haven' continues to keep yield increases down. Long term rates will eventually rise, mainly due to the fact that high volumes of gilts have been issued already in the UK and also in other major western countries.

A6. The interest rate forecast is based on the assumption that growth starts to recover in the next three years. If the EZ crisis worsens or low growth in the UK continues the base rate is likely to remain low for longer than this forecast.

A7. Concerns over investment counterparty risk remain because of the volatile economic conditions. However the council's current treasury management policy manages this risk down to a low level.

Interest rates

A8. The Bank of England changed its forecast significantly in the August Inflation report and upgraded its growth predictions to 1.4% in 2013 and 2.5% in 2014.

A9. Bank rate remained unchanged at 0.5% throughout the first half of 2012/13. The earlier forecast of a rate rise in Q4 of 2014 has been postponed until Q4 in 2016.

A10. Investment rates have remained flat with a range between 0.5 per cent to around 1.0 per cent for up to a year's maturity. This has dropped significantly

as banks and building societies were offered further cheap cash supply via the FLS. The short term rates from one month to six months offer very little differential with six month rates ranging between 0.37 per cent and 0.55 per cent.

A11. Sector's forecast of the expected movement in medium term interest rates:

	NOW	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3 month LIBID	0.39	0.40	0.40	0.40	0.40	0.40	0.40	0.40
6 month LIBID	0.47	0.50	0.50	0.50	0.50	0.50	0.50	0.50
12 month LIBID	0.74	0.80	0.80	0.80	0.80	0.80	0.80	0.80
5 yr PWLB	2.20	2.20	2.20	2.20	2.20	2.20	2.30	2.40
10 yr PWLB	3.40	3.30	3.30	3.30	3.30	3.30	3.40	3.50
25 yr PWLB	4.30	4.20	4.20	4.30	4.30	4.40	4.50	4.60
50 yr PWLB	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70
	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3 month LIBID	0.40	0.40	0.40	0.40	0.50	0.60	0.80	1.00
6 month LIBID	0.50	0.50	0.50	0.60	0.70	0.90	1.10	1.30
12 month LIBID	0.80	0.90	1.00	1.20	1.40	1.60	1.80	2.00
5 yr PWLB	2.50	2.60	2.80	2.90	3.00	3.20	3.30	3.40
10 yr PWLB	3.60	3.80	3.90	4.10	4.20	4.30	4.40	4.50
25 yr PWLB	4.70	4.80	4.90	5.00	5.00	5.10	5.10	5.20
50 yr PWLB	4.80	4.90	5.00	5.10	5.10	5.20	5.20	5.30

Appendix B

Investments as at 31 March 2013

Counterparty	Deposit type	Principal	Rate
Royal Bank of Scotland	Fixed	5,000,000	2.82%
Brentwood Borough Council	Fixed	2,000,000	2.16%
Lloyds TSB	Fixed	5,000,000	2.80%
Lloyds TSB	Fixed	5,000,000	2.80%
Barclays Bank plc	Fixed	2,000,000	2.60%
Bank of Scotland	Fixed	3,000,000	2.80%
Barclays Bank plc	Fixed	3,000,000	2.75%
Kingston upon Hull City Council	Fixed	1,000,000	1.90%
Royal Bank of Scotland	Fixed	1,500,000	3.25%
Royal Bank of Scotland	Fixed	1,500,000	3.10%
Barclays Bank plc	Fixed	2,000,000	3.75%
Barclays Bank plc	Fixed	1,500,000	2.60%
HSBC	Fixed	2,000,000	1.90%
Doncaster MBC	Fixed	2,000,000	1.05%
Bank of Scotland	Fixed	1,000,000	2.55%
National Counties Building Society	Fixed	1,500,000	1.80%
Nottingham Building Society	Fixed	2,000,000	1.75%
Saffron Building Society	Fixed	2,000,000	1.65%
Lloyds TSB	Fixed	4,000,000	2.85%
National Counties Building Society	Fixed	1,000,000	1.40%
Newcastle Building Society	Fixed	4,000,000	1.58%
West Bromwich Building Society	Fixed	1,000,000	1.30%
Royal Bank of Scotland	Fixed	2,000,000	1.55%
Manchester Building Society	Fixed	1,000,000	0.85%
West Bromwich Building Society	Fixed	3,000,000	1.05%
West Bromwich Building Society	Fixed	2,000,000	0.95%
Santander	Call	12,280,000	0.90%
Alliance & Leicester 30 Day Notice A/c	Call	1,139	0.90%
Royal Bank of Scotland	Call	2,298	0.85%
Royal Bank of Scotland	Call	10,024,724	1.05%
Goldman Sachs	MMF	720,000	Variable
Deutsche Bank	MMF	1,000,000	Variable
Blackrock	MMF	2,030,000	Variable
L&G Equities	Unit trust	13,434,099	Variable
Royal Bank of Scotland	Corporate bond	1,712,625	9.63%
Halifax	Corporate bond	2,129,800	11.00%
Santander	Corporate bond	318,249	11.50%
CCLA - property fund	Property fund	5,000,000	
KSF	Icelandic investment	500,171	
GRAND TOTAL		**110,153,104**	

Appendix C

Prudential indicators as at 31 March 2013		
	2012/13 Original estimate £m	31.03.2013 Position £m
Authorised limit for external debt		
Borrowing	5	0
Other long term liabilities	5	0
	10	**0**
Operational boundary for external debt		
Borrowing	2	0
Other long term liabilities	3	0
	5	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	84	100
Limits on variable interest rates	26	30
Maximum principal sums invested > 364 days		
Upper limit for principal sums invested > 364 days	5	70
Limit to be placed on investments to maturity		
1 - 2 years	2	70
2 - 5 years	3	50
5 years +	0	50
Investment portfolio spread		
Supranational bonds	15	0
Gilts	15	0
Equities*	10	13
Corporate bonds	10	4
Money market funds	20	4
Pooled bond fund	5	0
Property - direct investments	30	16
Property related pooled funds	10	5
External fund manager	20	0
Cash and certificates of deposit	85%	76%
Debt management account deposit facility	100%	0%

*Limit at time of purchase - Equities include accumulated dividends

Appendix D

GLOSSARY OF TERMS

Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit

Appendix D

	protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered british government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
LIBID	London inter-bank bid rate
LIBOR	London inter-bank offered rate
Money Market	A well rated, highly diversified pooled investment vehicle

Appendix D

Fund	whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

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