ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**8 SEPTEMBER 2014**
SUBJECT:	**ANNUAL TREASURY MANAGEMENT REVIEW FOR 2013/14**
PORTFOLIO HOLDER(S):	**COUNCILLOR H E JONES**
HEAD OF SERVICE:	**RICHARD MICKLEWRIGHT**
REPORT AUTHOR: TEL: E-MAIL:	**BEN DAVIES** **01248 752610** **BenDavies@anglesey.gov.uk**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

(i) Note the actual 2013/14 prudential and treasury indicators in this report; and
(ii) Consider the annual treasury management report for 2013/14 and pass on to the next meeting of the full Council with any comments.

B - What other options did you consider and why did you reject them and/or opt for this option?

n/a

C - Why is this a decision for the Executive?

To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2014/15 (Annex 8).

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

n/a

DD - Who did you consult?		**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	

E - Risks and any mitigation (if relevant)		
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

Appendix A: Background
Appendix B: Annual Treasury Management Review for 2013/14 (a copy of the report that was presented to, and scrutinised by, the Audit Committee on 22 July 2014)

FF - Background papers (please contact the author of the Report for any further information):

(a) Treasury Management Strategy Statement 2013/14 (including 2013/14 Prudential and Treasury Indicators)
(b) Treasury Management Strategy Statement 2014/15 (Appendix 8)

APPENDIX A

BACKGROUND

In accordance with the Treasury Management Scheme of Delegation for 2014/15 (Appendix 8 of the Treasury Management Strategy Statement 2014/15) the Annual Treasury Management Review report for 2013/14 was scrutinised by the Audit Committee on 22 July 2014. The Audit Committee resolved to accept the report (Appendix B) and to forward it to this committee without further comment. Following on from this committee the report will then be presented to the full Council at the next opportunity.

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APPENDIX B

ANNUAL TREASURY MANAGEMENT REVIEW FOR 2013/14

Summary

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Under the Prudential Code it is a requirement that all local authorities set Prudential Indicators for borrowing and investing among other factors each year. The Council confirmed its limits for 2013/14 on 5 March 2013 and outturn information is provided in this report.

During 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:-

- an annual treasury strategy in advance of the year (received on 5 March 2013);
- a mid year (minimum) treasury update report (received on 27 March 2014);
- an annual review following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

In order to support the scrutiny role of the members of the Audit Committee Member training on treasury management issues was undertaken during July 2013 as part of the induction training after the May 2013 elections. Further training took place this July.

During 2013/14, the Council complied with its legistlative and regulatory requirments. The key data for actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Data for actual prudential and treasury indicators	2012/13 Actual £000	2013/14 Original £000	2013/14 Actual £000
Capital expenditure			
• Non-HRA	16,677	19,000	20,936
• HRA	8,751	4,900	3,169
• Total	25,428	23,900	24,105
Total Capital Financing Requirement:			
• Non-HRA	81,346	88,500	86,286
• HRA	25,062	23,700	23,903
• Total	106,408	112,200	110,189
Gross borrowing	96,097	122,000	89,590
External debt	96,097	124,000	89,590
Investments			
• Longer than 1 year	-		-
• Under 1 year	13,468		9,196
• Total	13,468		9,196

Other prudential and treasury indicators are to be found in the main body of this report. The S151 Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached.

The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened counterparty risk.

Annexes:

Annex 1	-	Summary Portfolio Valuation as at 31 March 2014
Annex 2	-	Credit ratings of investment counterparties and deposits held with each as at 31 March 2014
Annex 3	-	Equivalent Credit Ratings
Annex 4	-	The Economy and Interest Rates – A Commentary by Capita Asset Services

1. INTRODUCTION

This report summarises the following functions/activities/outcomes in financial year 2013/14:-

- Capital activity;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2013/14

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:-

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- Financed from borrowing; this may be through planned borrowing or otherwise. If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2012/13 Actual (£m)	2013/14 Estimate (£m)	2013/14 Actual (£m)
Non-HRA capital expenditure	17	19	21
HRA capital expenditure	9	5	3
Total capital expenditure	**26**	**24**	**24**
Non-HRA financed in year	11	8	9
HRA financed in year	5	5	3
Non-HRA unfinanced capital expenditure	**6**	**11**	**12**
HRA unfinanced capital expenditure	**4**	**0**	**0**

3. THE COUNCIL'S OVERALL BORROWING NEED

3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2013/14 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

3.3 Reducing the CFR

3.3.1 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

3.3.2 The total CFR can also be reduced by:-

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.3.3 The Council's 2013/14 MRP Policy (as required by WG Guidance) was approved as part of the Treasury Management Strategy Report for 2013/14 on 5 March 2013.

3.3.4 The Council's CFR for the year is shown below, and represents a key prudential indicator. This would include any PFI and leasing schemes on the balance sheet, which would increase the Council's borrowing need, the CFR. There were no such schemes during the year.

CFR: Council Fund	2012/2013 Actual (£m)	2013/2014 Budget (£m)	2013/2014 Actual (£m)
Opening balance	79	81	81
Add unfinanced capital expenditure (as above)	6	11	8
Less MRP/VRP*	(4)	(3)	(3)
Closing balance	81	89	86

CFR: HRA	2012/2013 Actual (£m)	2013/2014 Budget (£m)	2013/2014 Actua (£m)
Opening balance	22	25	25
Add unfinanced capital expenditure (as above)	4	0	-
Less MRP/VRP*	(1)	(1)	(1)
Closing balance	25	24	24

** Includes voluntary application of capital receipts*

3.3.5 The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

3.4 Gross borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2013 Actual (£m)	31 March 2014 Budget (£m)	31 March 2014 Actual (£m)
Gross borrowing position	96.1	112.2	89.6
CFR	106.4	112.2	110.2

3.4.1 As part of the financing of capital expenditure for 2013/14 borrowing was used to finance the gap between available resources (capital receipts, capital grants, capital contributions and revenue contributions) and the capital expenditure. It was decided, in light of current and projected market interest rates and counterparty credit risks, to continue internalising borrowing, in the short term at least. This strategy has now been implemented throughout each of the last three years. As a result of continuing with this strategy, the gap between CFR and external borrowing increased during 2013/14 to £20.6m. The gross borrowing at 31 March 2014 is less than the forecast CFR for the following 2 years.

3.5 The other debt related indicators are:

3.5.1 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2013/14 the Council maintained gross borrowing within its authorised limit.

3.5.2 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.5.3 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2013/14
Authorised limit	£122.0m
Maximum gross borrowing position	£96.1m
Operational boundary	£117.0m
Average gross borrowing position	£94.0m
Financing costs as a proportion of net revenue stream - CF	5.43%
Financing costs as a proportion of net revenue stream - HRA	16.62%

The reason for the Council Fund financing costs being a marginally higher percentage of the net revenue stream than estimated was due to higher than anticipated financing costs, combined with lower than expected investment income but countered to some extent by higher than expected net revenue stream. A second set of limits of £2m was approved for other long term liabilities; no such liabilities existed during the year.

4. TREASURY POSITION AS AT 31 MARCH 2014

4.1 The borrowing and investment figures for the Council as at the end of the 2013/14 and 2012/13 financial years are as follows:-

	31 MARCH 2013			31 MARCTH 2014		
	£'000	Average Rate (%)	Average Maturity (yrs)	£'000	Average Rate (%)	Av erage Maturity (yrs)
Debt: All Public Works Loans Board	96,096	5.53	26.5	89,590	5.72	26.2
CFR	106,408			110,189		
Over / (under) borrowed	(10,312)			(20,599)		
Fixed term investments (all < 1 year, managed in house and fixed rate)	10,000	1.63		5,005	0.80	
No notice investments (all managed in house)	3,468	0.79		4,191		
Total Investments	13,468	1.41		9,196	0.58	
					0.70	

See a more detailed analysis in Annex 1. The upper limits for fixed rate and variable rate exposures were not breached during the year.

4.2 Borrowing is further broken down by maturity as:-

	31 MARCH 2013		31 MARCH 2014		2012/13 and 2013/14 Limits	
	£m	% of total	£m	% of total	% of total (upper)	% of total (lower)
Total borrowing	96.1	100	89.6	100		
Under 12 months	6.5	7	0.0	0.0	20	0
12 months and within 24 months	0.0	0	0.0	0.0	20	0
24 months and within 5 years	5.5	6	10.5	11.8	50	0
5 years and within 10 years	16.8	17	13.7	15.3	75	0
10 years and above	67.3	70	65.4	72.9	100	0

4.3 The average borrowing rate of the loan portfolio increased during the year as a loan of £6.5m with a rate of 2.95% matured. There was no debt rescheduling and no new external borrowing. No debt rescheduling took place during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

4.4 Part of the Council's deposits are held in no notice deposit accounts which pay interest at rates near the prevailing base rate (£4.2m at 0.58% (31 March 2013: £3.5m at 0.79%). Of the remaining deposits, £5m was being held for a period of less than 1 year at a rate of 0.80% (31 March 2013: £10m at 1.63%).

5. TREASURY STRATEGY FOR 2013/14

5.1 The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

5.3 The actual movement in gilt yields meant that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the Fed. This duly started in December 2013 and the US FOMC (the Fed.), adopted a future course of monthly reductions of $10bn (from a starting position of $85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

5.3 The economic position and PWLB and investment rates were as shown in Annex 4.

6. INVESTMENT OUTTURN FOR 2013/14

6.1 The base rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations of the start of monetary tightening ended up almost unchanged at around the end of 2014 / start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed throughout the year although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.

6.2 The expected investment strategy was to keep to shorter term deposits (up to 364 days) although the ability to invest out to longer periods was retained (although not used). Available cash balances were expected to be up to £30m, ranging between £15m and £35m. The budget was set at 0.92% or £332k after adjusting for the higher rates on existing investments. As it turned out, average balances of £23.1m returned £185k (0.80%). The lower than budgeted average cash balance was partly the result of continuing to internalise borrowing. The lower than budgeted return was due to worse than anticipated rates of return on investments, with rates continuing to fall throughout the year.

7. INVESTMENT SECURITY AND CREDIT QUALITY

7.1 No institutions in which we had made investments had any difficulty in repaying investments and interest on time and in full during the year.

7.2 During 2013/14, credit ratings remained poor across the range of our usual counterparties. Since late 2008 it has been challenging to place deposits with appropriate counterparties. In December 2008, the Council's approval was obtained to extend flexibility with counterparties to deal with market changes; this included the ability to invest all our surplus funds with central government if necessary. The list was further widened in April 2010 to include nationalised and partly nationalised institutions and this list was clarified in March 2013 in relation to nationalised and part nationalised UK banks for the 2013/14 criteria. Previous decisions had extended flexibility for investing with local authorities.

7.3 The practical effect of these policies was as follows: during the year we continued to use no notice accounts with major high street institutions (Santander, HSBC, RBS and Bank of Scotland) for day to day cash flow.

7.4 The two fixed term investments (both with the Royal Bank of Scotland (RBS), each being £5.0m) at the start of the year, matured during the year (in May 2013 and November 2013). The investment that matured in May 2013 was at a rate of 1.68% and this was reinvested in full with RBS for a further 6 months at a rate of 0.95% and upon maturing in November 2013 it was reinvested in full with RBS for a further 3 months at a rate of 0.8% and again for another 3 months at 0.8% upon maturing in February 2014. The investment from the previous year that matured in November 2013 was at a rate of 1.58% and this was reinvested with RBS on a no notice basis; this was in order to maintain flexibility and minimise risk and given the continued low level interest rate. The decisions to invest with RBS were made primarily due to them being one of the few creditworthy institutions given their UK government backing.

7.5 During 2013/14 the credit rating issues with Santander continued and the suggested investment duration for Santander UK were at times below the minimum acceptable level. As previously reported investment, on a call basis only, continued with Santander UK on the basis of market analysis and advice from our treasury advisors. Santander's position strengthened through the year and the suggested investment durations from Capita increased to and stabilised at 100 days.

RICHARD MICKLEWRIGHT
INTERIM HEAD OF FUNCTION (RESOURCES) &
SECTION 151 OFFICER **14 JULY 2014**

ATODLEN/ANNEX 1

Summary Portfolio Valutaion
As at 31 March 2014

FINANCIAL ASSETS	Nominal / Principal (£)	Fair Value (£)
Cash (interest bearing accounts) (1)	4,190,538	4,240,429
Fixed Term Desposits (2)	5,005,042	5,012,467
FINANCIAL LIABILITIES		
PWLB loan – Maturity	89,315,764	109,721,038
PWLB loan – Annuity	274,315	417,031

Counterparties

(1)	Cash (interest bearing accounts)	
	Santander	198
	Bank of Scotland	3,174
	HSBC	243,670
	RBS	3,943,496
		4,190,538
(2)	Fixed Term Deposits	
	Royal Bank of Scotland	5,005,042

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 31 Marwth 2014 *
Credit ratings of investment counterparties and deposits held with each as at 31 March 2014*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuon / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From - To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating ****	Graddfa Tymor Byr Fitch Short Term Rating ****	Graddfa Tymor Hir Moody's Long Term Rating ****	Graddfa Tymor Byr Moody's Short Term Rating ****	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating ****	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating ****	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**3**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Glas - 12 mis/ Blue - 12 months**
HSBC Holdings plc	HSBC Bank plc	**244**	**Galw/ Call**	**n/a**	**0.25**	**AA-**	**F1+**	**Aa3**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc****	Santander UK plc	**-**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Gwyrdd – 100 diwrnod/ Green - 100 days**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**3,943**	**Galw/ Call**	**n/a**	**0.60**	**A**	**F1**	**Baa1**	**P-2**	**A-**	**A-2**	**Glas - 12 mis / Blue - 12 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,005**	**Tymor Sefydlog/ Fixed Term (3 mis/months)**	**Chwefrord /February 2014 - Mai/ May 2014**	**0.80**	**A**	**F1**	**Baa1**	**P-2**	**A-**	**A-2**	**Glas – 12 mis / Blue - 12 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 5 o'r Datganiad Strategaeth Rheoli Trysorlys 2013/14/Strategaeth Buddsoddi Blynyddol / The Approved Lending List can be found at Annex 5 of the 2013/14 Treasury Management Strategy Statement / Annual Investment Strategy

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

*** The long term credit rating of RBS was downgraded in March 2014. Given the part nationalised status of this institution the credit rating of the bank are not the determinant of whether to invest.

**** Yn Atodiad 3 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Annex 3.

Graddfeydd Credyd Cyfatebol/

Equivalent Credit Ratings (Fitch, Moodys, S&P)

Tymor Hir Fitch Long Term	**Tymor Hir Moodys Long Term**	**Tymor Hir S&P Long Term**
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Tymor Byr Fitch Short Term	**Tymor Byr Moodys Short Term**	**Tymor Byr S&P Short Term**
F1+	d/b / n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

THE ECONOMY AND INTEREST RATES

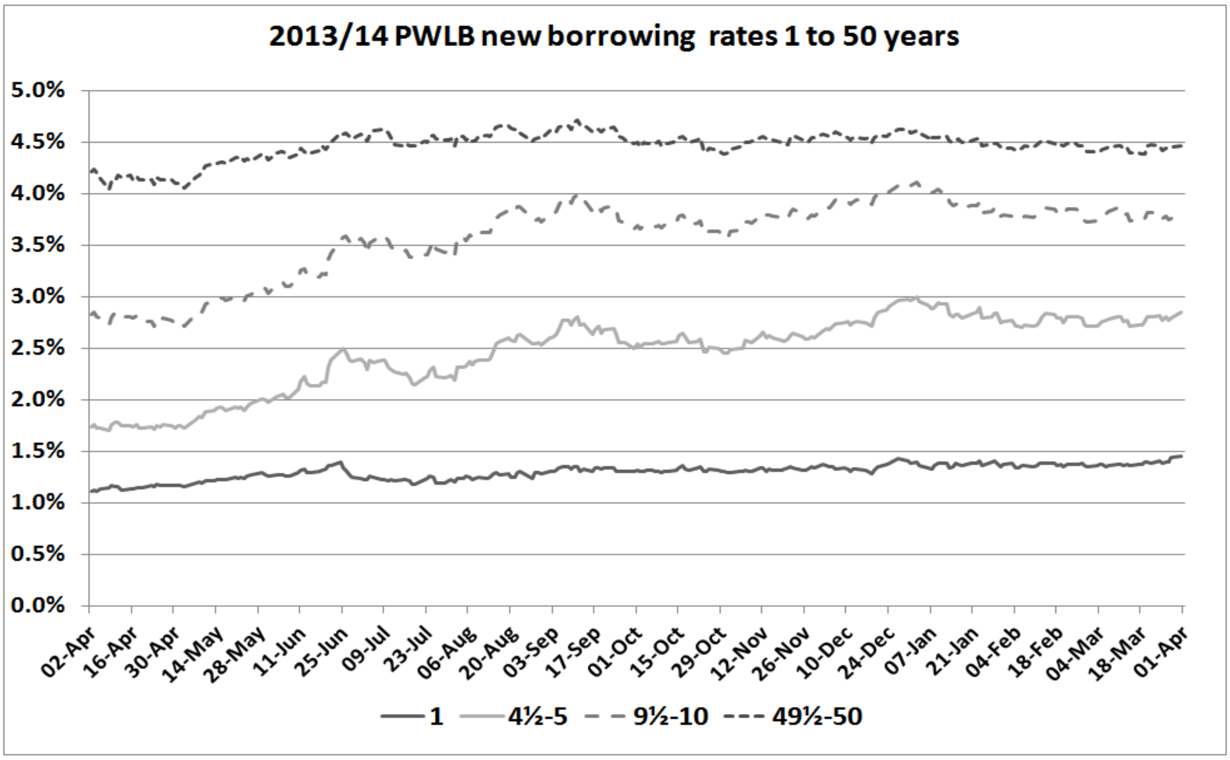
The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality (see paragraph 4.) The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

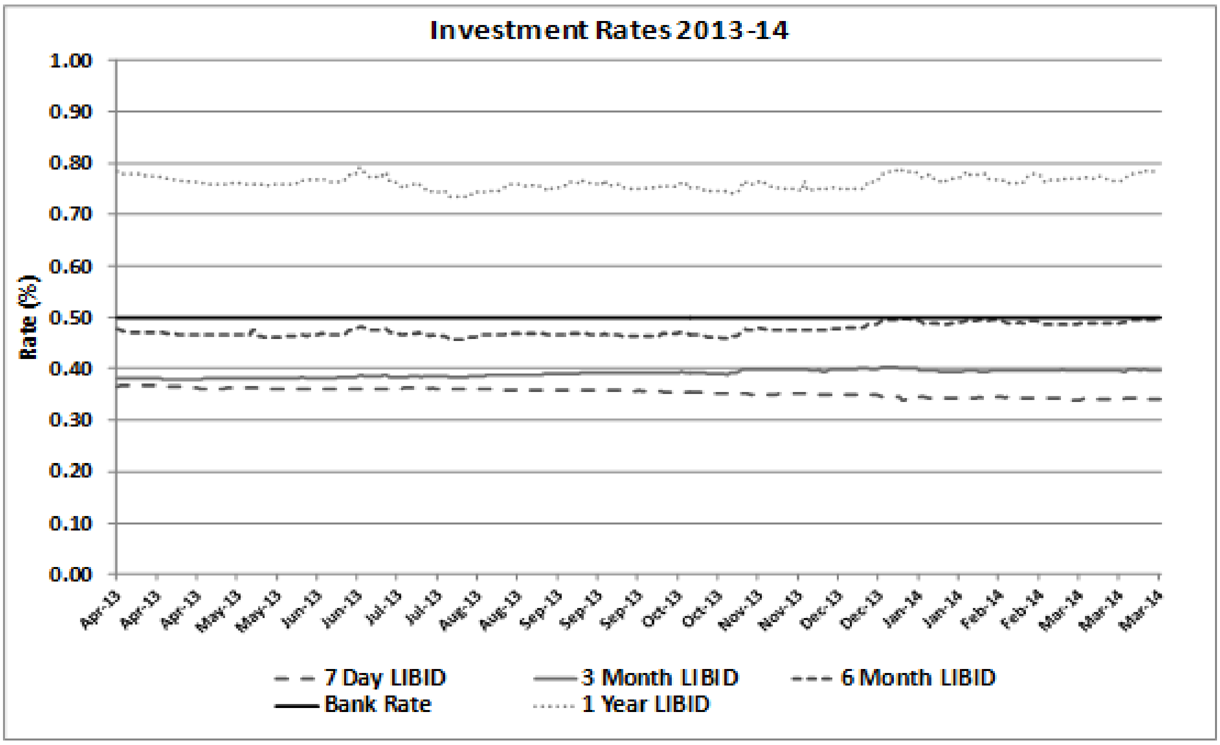
The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

Chart 1: Borrowing Rates 2013-14



PWLB borrowing rates 2013/14 for 1 to 50 years									
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/13	1.120%	1.150%	1.350%	1.530%	1.750%	2.840%	4.080%	4.230%	1.470%
31/3/14	1.300%	1.420%	1.870%	2.190%	2.500%	3.660%	4.450%	4.480%	1.470%
High	1.450%	1.630%	2.230%	2.620%	2.970%	4.100%	4.670%	4.700%	1.480%
Low	1.110%	1.120%	1.250%	1.410%	1.610%	2.580%	3.780%	4.070%	1.450%
Average	1.305%	1.421%	1.853%	2.164%	2.469%	3.584%	4.427%	4.467%	1.466%
Spread	0.340%	0.510%	0.980%	1.210%	1.360%	1.520%	0.890%	0.630%	0.030%
High date	31/3/14	31/3/14	27/12/13	27/12/13	27/12/13	2/1/14	10/9/13	10/9/13	9/4/13
Low date	5/4/13	15/4/13	15/4/13	15/4/13	15/4/13	19/4/13	19/4/13	3/5/13	10/5/13

Chart 2: Investment Rates 2013-14



Allan gan / From: CAPITA ASSET SERVICES – TREASURY SOLUTIONS