

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	EXECUTIVE COMMITTEE
DATE:	21 SEPTEMBER 2015
SUBJECT:	ANNUAL TREASURY MANAGEMENT REVIEW FOR 2014/15
PORTFOLIO HOLDER(S):	COUNCILLOR H E JONES
LEAD OFFICER(S):	RICHARD MICKLEWRIGHT
CONTACT OFFICER(S):	BEN DAVIES / GARETH ROBERTS (EXT. 2610/2675)
Nature and reason for reporting	
<p>To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2014/15 (Appendix 8 of the Treasury Management Strategy Statement 2014/15). In accordance with the Scheme of Delegation, this report was scrutinised by the Audit Committee on 27 July 2015. The Audit Committee resolved to accept the report and forward it to this Committee without further comment. Following on from this Committee, the report will then be presented to the full Council on 29 September 2015.</p>	

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 2014/15. 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).

During 2014/15, 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 27 February 2014);
- a mid year (minimum) treasury update report (received on 4 December 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 2014.

During 2014/15, the Council complied with its legislative and regulatory requirements. 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	2013/14 Actual £000	2014/15 Original £000	2014/15 Actual £000
Capital expenditure			
• Non-HRA	20,936	18,100	15,769
• HRA	3,169	5,700	5,518
• Total	24,105	23,800	21,287
Total Capital Financing Requirement:			
• Non-HRA	86,286	92,400	85,932
• HRA	23,903	23,000	22,650
• Total	110,189	115,400	108,582
Gross borrowing	89,590	125,000	89,583
External debt	89,590	127,000	89,583
Investments			
• Longer than 1 year	-		-
• Under 1 year	9,196		10,983
• Total	9,196		10,983

Other prudential and treasury indicators are to be found in the main body of this report. The Section 151 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 2014/15 continued the challenging investment environment of previous years, namely low investment returns.

RECOMMENDATIONS

The Committee is recommended to:-

- (i) Note that the outturn figures in this report will remain provisional until the audit of the 2014/15 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in this report will be reported as appropriate;
- (ii) Note the provisional actual 2014/15 prudential and treasury indicators in this report;
- (iii) Consider the annual treasury management report for 2014/15 and pass on to the next meeting of the full Council with any comments.

Appendices:

- Appendix 1 - Summary Portfolio Valuation as at 31 March 2015
- Appendix 2 - Credit ratings of investment counterparties and deposits held with each as at 31 March 2015
- Appendix 3 - Equivalent Credit Ratings
- Appendix 4 - The Economy and Interest Rates – A Commentary by Capita Asset Services

Background papers:

- Treasury Management Strategy Statement 2014/15
- Prudential and Treasury Indicators 2014/15
- Treasury Management First Quarter Report 2014/15
- Treasury Management Mid-Year Review Report 2014/15
- Treasury Management Third Quarter Report 2014/15

1. INTRODUCTION

This report summarises the following functions / activities / outcomes in financial year 2014/15:-

- 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 2014/15

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.

	2013/14 Actual (£m)	2014/15 Estimate (£m)	2014/15 Actual (£m)
Non-HRA capital expenditure	21	18	16
HRA capital expenditure	3	6	5
Total capital expenditure	24	24	21
Non-HRA financed in year	9	8	11
HRA financed in year	3	6	5
Non-HRA unfinanced capital expenditure	12	10	5
HRA unfinanced capital expenditure	0	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 2014/15 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 2014/15 MRP Policy (as required by WG Guidance) was approved as part of the Treasury Management Strategy Report for 2014/15 on 27 February 2014.

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	2013/ 14 Actual (£m)	2014/ 15 Budget (£m)	2014/ 15 Actual (£m)
Opening balance	81	86	85
Add unfinanced capital expenditure (as above)	8	10	5
Less MRP/VRP*	(3)	(4)	(4)
Closing balance	86	92	86

CFR: HRA	2013/ 14 Actual (£m)	2014/ 15 Budget (£m)	2014/ 15 Actual (£m)
Opening balance	25	24	24
Add unfinanced capital expenditure (as above)	-	-	-
Less MRP/VRP*	(1)	(1)	(1)
Closing balance	24	23	23

* 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 2014 Actual (£m)	31 March 2015 Budget (£m)	31 March 2015 Actual (£m)
Gross borrowing position	89.6	115.4	89.6
CFR	110.2	115.4	108.6

3.4.1 As part of the financing of capital expenditure for 2014/15, 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 four years. As a result of continuing with this strategy, the gap between CFR and external borrowing decreased during 2014/15 to £19.0m. The gross borrowing at 31 March 2015 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 2014/15 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.

	2014/15
Authorised limit	£127.0m
Maximum gross borrowing position	£89.6m
Operational boundary	£122.0m
Average gross borrowing position	£89.6m
Financing costs as a proportion of net revenue stream - CF	5.79%
Financing costs as a proportion of net revenue stream - HRA	14.60%

The reason for the Council Fund financing costs being a marginally lower percentage of the net revenue stream than estimated was due to lower than budgeted financing costs, combined with lower than budgeted investment income and higher than expected net revenue stream.

4. TREASURY POSITION AS AT 31 MARCH 2015

- 4.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary and through officer activity detailed in the Council's Treasury Management Practices. The borrowing and investment figures for the Council as at the end of the 2014/15 and 2013/14 financial years are as follows:-

	31 MARCH 2014			31 MARCH 2015		
	£'000	Average Rate (%)	Average Maturity (yrs)	£'000	Average Rate (%)	Average Maturity (yrs)
Debt: All Public Works Loans Board, fixed rate	89,590	5.72	26.2	89,585	5.72	25.4
CFR	110,189			108,582		
Over / (under) borrowed	(20,599)			(18,997)		
Fixed term investments (all < 1 year, managed in house and fixed rate)	5,005	0.80		Nil	-	
No notice investments (all managed in house)	4,191	0.58		10,983	0.36	
Total Investments	9,196	0.70		10,983	0.36	

See a more detailed analysis in Appendix 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 2014		31 MARCH 2015		2013/14 and 2014/15 Limits	
	£m	% of total	£m	% of total	% of total (upper)	% of total (lower)
Total borrowing	89.6	100	89.6	100		
Under 12 months	0.0	0.0	0.0	0.0	20	0
12 months and within 24 months	0.0	0.0	0.0	0.0	20	0
24 months and within 5 years	10.5	11.8	15.5	17.3	50	0
5 years and within 10 years	13.7	15.3	8.8	9.8	75	0
10 years and above	65.4	72.9	65.3	72.9	100	0

- 4.3 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, £11.0m at 0.36% (31 March 2014: £4.2m at 0.58%). There were no deposits being held for a period of less than 1 year (31 March 2014: £5m at 0.8%).

5. TREASURY STRATEGY FOR 2014/15

- 5.1** The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015) and gradual rises in medium and longer term fixed borrowing rates during 2014/15. 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 saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.
- 5.4** The economic position and PWLB and investment rates were as shown in Appendix 4.

6. INVESTMENT OUTTURN FOR 2014/15

- 6.1** Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme
- 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 0.75% or £225k after adjusting for the higher rates on existing investments. As it turned out, average balances of £20.4m returned £83k (0.40%). 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 2014/15, 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 2014/15 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 There was one fixed term investment with the Royal Bank of Scotland (RBS) for £5.0m at the start of the year that matured during in May 2014. The rate was 0.80% and upon maturity was transferred into the RBS call account.

8. **ACTIVITY SINCE 2014/15**

- 8.1 It has previously been reported that this Authority was preparing to exit the HRA subsidy system on 2nd April 2015. At the time of reporting for Quarter 3 treasury activity, it was known that the buyout was to be financed through the PWLB, but the settlement amount and rate of interest on the borrowing were under consultation. The potential effect of the buy-out was reflected in the budget setting papers presented to Members for 2015/16 (including the 2015/16 Treasury Management Strategy Statement presented to this Committee for scrutiny on 9th February 2015). It can be confirmed that that buy-out took place and the HRA is now self financed. The exact structure of loans arranged by the Council to fund its self-financing of the HRA reflected the requirements of the HRA business plan, the overall requirements of the Council and certain limitations (e.g. the minimum average duration of any borrowing) put in place by the Welsh Government. The loans were, therefore, arranged at a set of bespoke, higher PWLB interest rates that applied only to Welsh HRA self-financing authorities and may make these loans less flexible, from a restructuring perspective, than would normally be the case.

**Summary Portfolio Valuation
As at 31 March 2015**

	Nominal/Principal (£)	Fair Value (£)
FINANCIAL ASSETS		
Cash (interest bearing accounts) (1)	10,982,986	11,008,287
FINANCIAL LIABILITIES		
PWLB loan – Maturity	89,315,764	129,480,161
PWLB loan – Annuity	267,124	435,780
COUNTERPARTIES		
(1) Cash (interest bearing accounts)	7,499,331	
Santander	480,732	
Bank of Scotland	2,945,930	
HSBC	<u>56,993</u>	
RSB	10,982,986	

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuo a ddelir gyda phob un ar 31 Marwth 2015 *
Credit ratings of investment counterparties and deposits held with each as at 31 March 2015*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuo / 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	481	Galw/ Call	n/a	0.40	A+	F1	A1	P-1	A	A-1	Coch – 6 mis/ Red - 6 months
HSBC Holdings plc	HSBC Bank plc	2,946	Galw/ Call	n/a	0.25	AA-	F1+	Aa2	P-1	AA-	A-1+	Oren – 12 mis / Orange – 12months
Santander Group plc	Santander UK plc	7,499	Galw/ Call	n/a	0.40	A	F1	A1	P-1	A	A-1	Coch - 6 mis / Red – 6 months
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	57	Galw/ Call	n/a	0.25	BBB+	F2	A3	P-2	BBB+	A-2	Glas - 12 mis / Blue - 12 months

* Ceir y Rhestr Meini Prawf Gwrthbartion yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2014/15. / The Counterpart Criteria can be found at Appendix 6 of the 2014/15 Treasury Management Strategy Statement.

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

*** 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 Appendix

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 market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

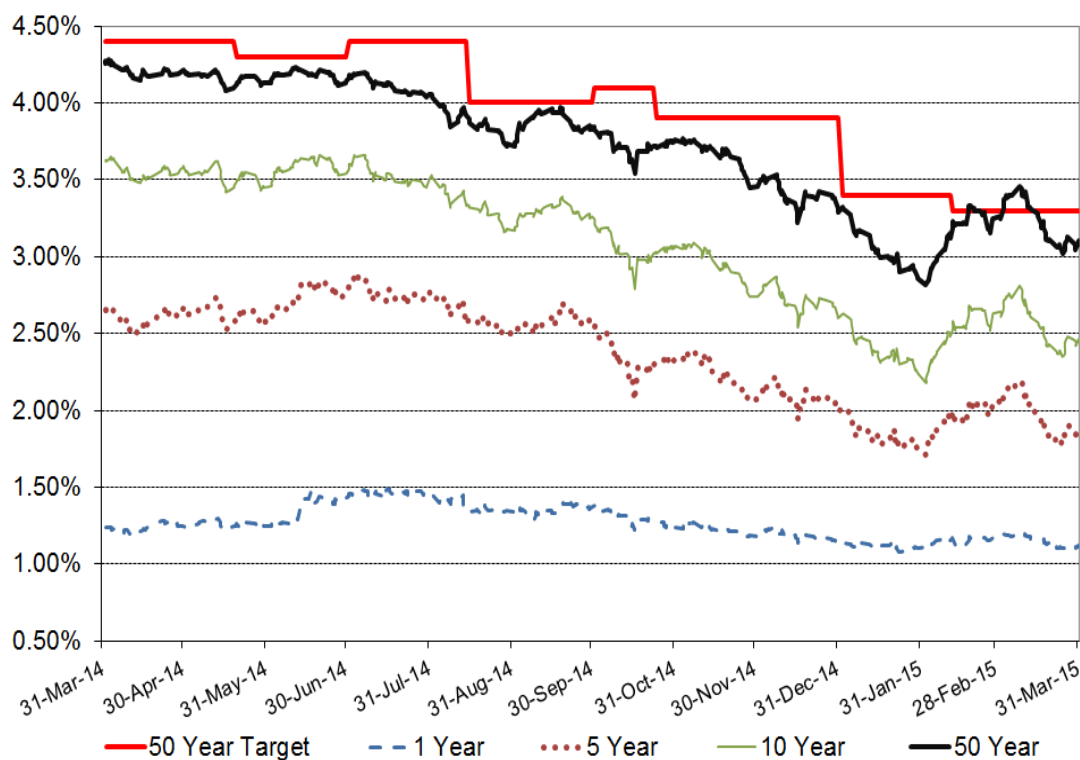
The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

Chart 1: Borrowing Rates 2014-15

PWLB certainty maturity borrowing rates - the graphs and table for PWLB rates below, show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	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
1/4/14	1.240%	1.420%	1.990%	2.340%	2.650%	3.630%	4.290%	4.270%	1.250%
31/3/15	1.110%	1.190%	1.480%	1.680%	1.860%	2.450%	3.110%	3.080%	1.320%
High	1.490%	1.700%	2.280%	2.600%	2.870%	3.660%	4.300%	4.280%	1.340%
Low	1.080%	1.110%	1.380%	1.570%	1.710%	2.180%	2.850%	2.820%	1.250%
Average	1.266%	1.417%	1.863%	2.130%	2.362%	3.083%	3.737%	3.719%	1.290%
Spread	0.410%	0.590%	0.900%	1.030%	1.160%	1.480%	1.450%	1.460%	0.090%
High date	16/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014	17/09/2014
Low date	23/01/2015	06/01/2015	07/01/2015	07/01/2015	02/02/2015	02/02/2015	02/02/2015	02/02/2015	01/04/2014

Chart 2: Investment Rates 2014-15

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

