COUNCIL

16 DECEMBER 2014

REPORT OF THE PORTFOLIO HOLDER FOR OPERATIONS AND ASSETS

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2014/15

EXEMPT INFORMATION

None

PURPOSE

To present to Members the Mid-year review of the Treasury Management Strategy Statement and Annual Investment Strategy.

RECOMMENDATIONS

That Council:

Accept the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2014/15.

EXECUTIVE SUMMARY

This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following

- An economic update for the first six months of 2014/15;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- Icelandic Banking Situation; and
- A review of compliance with Treasury and Prudential Limits for 2014/15.

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.

2. There are no issues to report regarding non-compliance with the approved prudential indicators.

3. The investment portfolio yield for the first six months of the year is 0.56% (0.87% for the same period in 2013/14) compared to the 3 Month LIBID benchmark rate of 0.42% (0.38% for the same period in 2013/14). This excludes all investments currently classified as 'At Risk' in the former Icelandic Banking institutions.

4. Following the withdrawal of the Co-operative Bank from Local Authority banking service provision, the Council retendered for its banking services in June 2014. Following the competitive tender process, the new contract was awarded to Lloyds Bank Ltd, and the provision of service by them commenced on the 1st November 2014.

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues has been delivered for Members in February and October 2010, September 2011 and February 2014.

RESOURCE IMPLICATIONS

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

LEGAL/RISK IMPLICATIONS BACKGROUND

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued its revised Code of Practice for Treasury Management in November 2009 (revised 2011) following consultation with Local Authorities during that summer. The revised Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly.

This is the second monitoring report for 2014/15 presented to Members this year and therefore ensures this Council is embracing Best Practice in accordance with CIPFA's revised Code of Practice. Cabinet also receive regular monitoring reports as part of the quarterly health check on Treasury Management activities and risks.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Treasury Management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1. Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) was adopted by this Council on 13th December 2012.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.

Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.

Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

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- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2014/15.

2 Economic Update

2.1 Economic performance to date

2.1.1 U.K.

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.2% in September, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak.
A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong economic growth has also helped lower forecasts for the increase in Government debt (by £73bn over the next five years) compared to that projected in the 2013 Autumn Statement. It also lowers the Government forecast debt by an additional £24bn compared to that announced in the March 2014 Budget.
The March Budget also projected a return to a significant budget surplus (£5bn in 2018-19) though monthly public sector deficit figures have so far disappointed in 2014/15.

2.1.2 **U.S**.

In September, the Federal Reserve continued with its monthly $10bn reduction in asset purchases, which started in December 2013. Asset purchases fell from $85bn to $15bn and ended on 29th October 2014. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised).

The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

2.1.3 **Eurozone**

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of

sovereign debt).
Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international un-competitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

2.1.4 China and Japan

Japan is causing considerable concern as the increase in sales tax in April has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.
As for China, Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has raised fresh concerns. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer.

2.2 Interest Rate Forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

Capita Asset Services undertook a review of its interest rate forecasts on 24 October. During September and October, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, plus fears around Ebola and an accumulation of dismal growth news in most of the ten largest economies of the world and also on the growing risk of deflation in the Eurozone, had sparked a flight from equities into safe havens like gilts and depressed PWLB rates. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2015.
PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an

increase in the inflation premium inherent to gilt yields.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by on-going deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalisation of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti-austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 25th February 2014.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2014/15 Original Programme	Budget B'fwd from 2013/14	Virements to Programme in Year	Total 2014/15 Budget	Actual Spend @ Period 6	2014/15 Revised Estimate
	£m	£m	£m	£m	£m	£m
General Fund	2.982	1.365	-	4.347	0.577	1.130
HRA	6.003	1.483	-	7.486	2.681	7.335
Total	**8.985**	**2.848**	**-**	**11.833**	**3.258**	**8.465**

4.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2014/15 Estimate £m	2014/15 Revised Estimate £m
Supported	-	-
Unsupported	11.833	8.465
Total spend	**11.833**	**8.465**
Financed by:		
Grant	2.583	0.346
General Fund Receipts	0.589	0.232
Section 106 Receipts	0.208	0.209
General Fund Reserve	0.571	0.029
HRA Receipts	0.307	0.315
HRA Reserve	1.366	2.391
HRA Regeneration Fund	0.867	0.461
Major Repairs Reserve	5.253	4.482
General Fund Revenue Contributions	0.089	-
Total financing	**11.833**	**8.465**
Borrowing need	**-**	**-**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

4.3.1 Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

4.3.2 Prudential Indicator – External Debt / the Operational Boundary

	2013/14 Outturn £m	2014/15 Original Estimate £m	2014/15 Revised Estimate £m
CFR – Non Housing	1.311	1.162	1.242
CFR – Housing	68.042	68.034	68.029
Total CFR	69.353	69.196	69.271
Net movement in CFR	**(0.226)**	**(0.075)**	**(0.082)**
Operational Boundary			
Expected Borrowing	72.268	72.268	72.268

Other long term liabilities	-	-	-
Total debt 31 March	**72.268**	**72.268**	**72.268**

4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2013/14 Outturn £m	**2014/15 Original Estimate £m**	**2014/15 Revised Estimate £m**
Gross borrowing	65.060	65.060	65.060
Plus other long term liabilities	-	-	-
Less investments	(28.557)	(20.140)	(21.035)
Net borrowing	36.503	44.920	44.025
CFR (year-end position)	69.353	69.196	69.271

The Executive Director Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	**2014/15 Original Indicator £m**	**Current Position £m**	**2014/15 Revised Indicator £m**
Borrowing	89.112	89.112	89.112
Other Long Term Liabilities	3.000	3.000	3.000
Total	**92.112**	**92.112**	**92.112**

5 Investment Portfolio 2014/15

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £31.30m of investments as at 30th September 2014 (£28.56m at 31st March 2014) and the investment portfolio yield for the first six months of the year is 0.56% against a benchmark of the 3 months LIBID of 0.42%. A full list of investments held as at 30th September 2014 is detailed in **APPENDIX 1**.

The Executive Director Corporate Services confirms that on one occasion during the first six months of 2014/15 that the approved limits within the Annual Investment Strategy were breached. This occurred when an outward going CHAPS payment in respect of a deposit was not actioned by an agreed deadline, resulting in £2.6m being held within the Co-operative Bank overnight, which exceeded the approved limit of £2m.

The Council's budgeted investment return for 2014/15 is £189k, and performance for the year is projected to be £3k below budget.

5.2 CIPFA Benchmarking Club

The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance over the year against other members (22 Authorities).
Our average return for In House Investments for the period October 2013 to September 2014 was 0.56% compared to the group average of 0.77% (information from CIPFA Benchmarking Draft Report Q2 2014/15) excluding the impaired investments in Icelandic banks. This is considered to be a reasonable result in light of the current financial climate, our lower levels of deposits/funds and shorter investment time-lines due to Banking sector uncertainty, when compared to other Authorities.

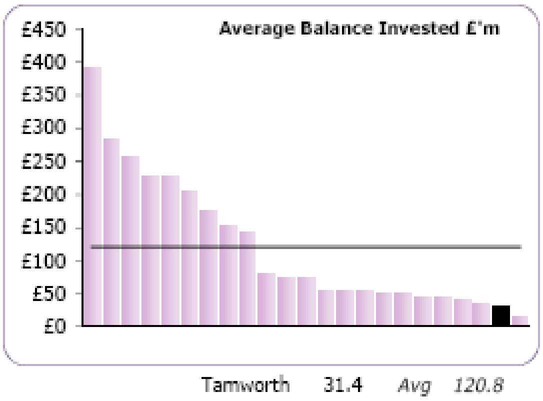
This can be analysed further into the following categories:

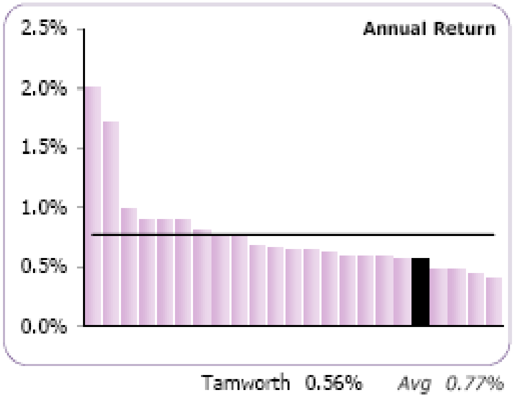
	Average Balance Invested £m		Average Annual Return Received %	
Category	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Fixed Investments (up to 30 days)	0.1	0.9	0.41	0.38
Fixed Investments (between 31 and 90 days)	1.7	2.7	0.45	0.44
Fixed Investments (between 91 and 364 days)	12.1	41.2	0.77	0.68
Fixed Investments (between 1 year and 5 years)	-	12.0	-	2.25
Fixed Investments (over 5 years)	-	1.0	-	3.96
Callable and Structured Deposits	-	0.9	-	2.46
Notice Accounts	8.8	39.8	0.48	0.57
Money Market Funds (Constant Net Asset Value)	7.8	13.1	0.37	0.40
Money Market Funds (Variable Net Asset Value)	-	2.0	-	0.68
DMADF	-	1.8	-	0.25
CD's, Gilts and Bonds	1.0	7.3	0.54	1.20
Average of all investments (Managed in House)	**31.4**	**120.8**	**0.56**	**0.77**

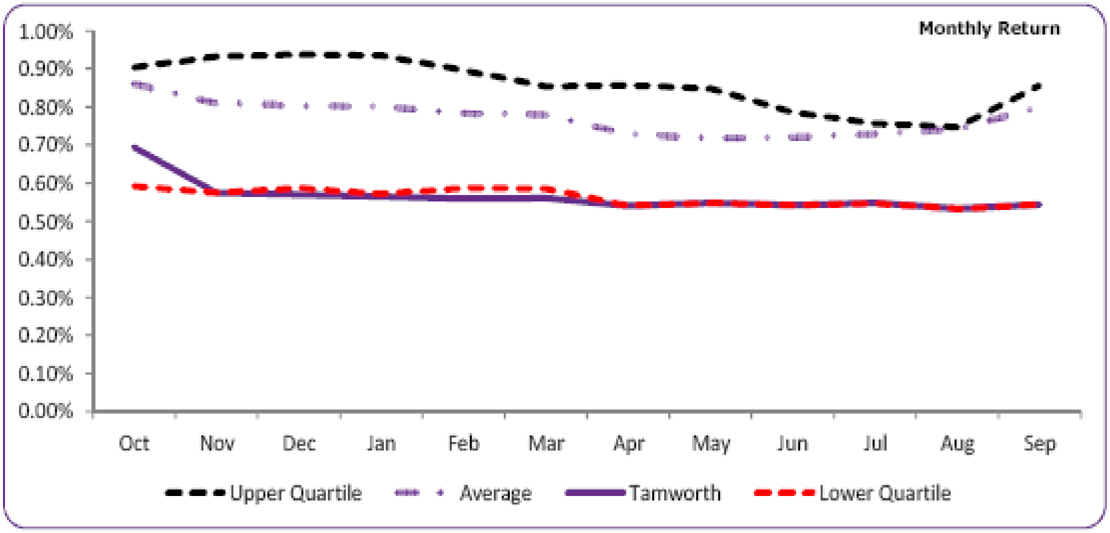
The data above and graphs below display that despite the Council being a small investor in the markets, performance is marginally better in the <365 day investments (coloured green) when compared with other members of the benchmarking club and affirms our ‘low appetite for risk’ in the continuing unsettled markets.

The variance appears to be reflected by better returns on deposits over 1 year in duration, which in line with our use of the Capita Asset Services methodology and our approved specified limits in our Treasury Management Strategy, is currently prohibited for Tamworth Borough Council.

COMBINED IN-HOUSE INVESTMENTS (excluding impaired investments)







Monthly Return (Oct 13 - Sept 14)	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Year
Av Bal £'m	30.20	31.02	30.51	31.32	30.21	28.79	31.64	31.39	31.88	32.70	33.37	34.08	31.43
Earned £'k	17.8	14.6	14.8	15.0	12.9	13.7	14.0	14.6	14.2	15.2	15.1	15.2	177.4
Upper Quartile	0.90%	0.93%	0.94%	0.93%	0.90%	0.85%	0.86%	0.85%	0.79%	0.76%	0.75%	0.86%	0.90%
Average	*0.86%*	*0.81%*	*0.80%*	*0.80%*	*0.78%*	*0.78%*	*0.73%*	*0.72%*	*0.72%*	*0.73%*	*0.74%*	*0.80%*	*0.77%*
% Return	0.69%	0.57%	0.57%	0.57%	0.56%	0.56%	0.54%	0.55%	0.54%	0.55%	0.53%	0.54%	0.56%
Lower Quartile	0.59%	0.57%	0.59%	0.57%	0.59%	0.59%	0.54%	0.55%	0.54%	0.55%	0.53%	0.54%	0.57%
% Diff from Av	-0.16%	-0.23%	-0.23%	-0.24%	-0.22%	-0.22%	-0.19%	-0.17%	-0.18%	-0.18%	-0.21%	-0.26%	

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

6 Borrowing

The Council's revised capital financing requirement (CFR) for 2014/15 is £69.271m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 4.4 shows the Council has borrowings of £65.060m and has utilised £4.211m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

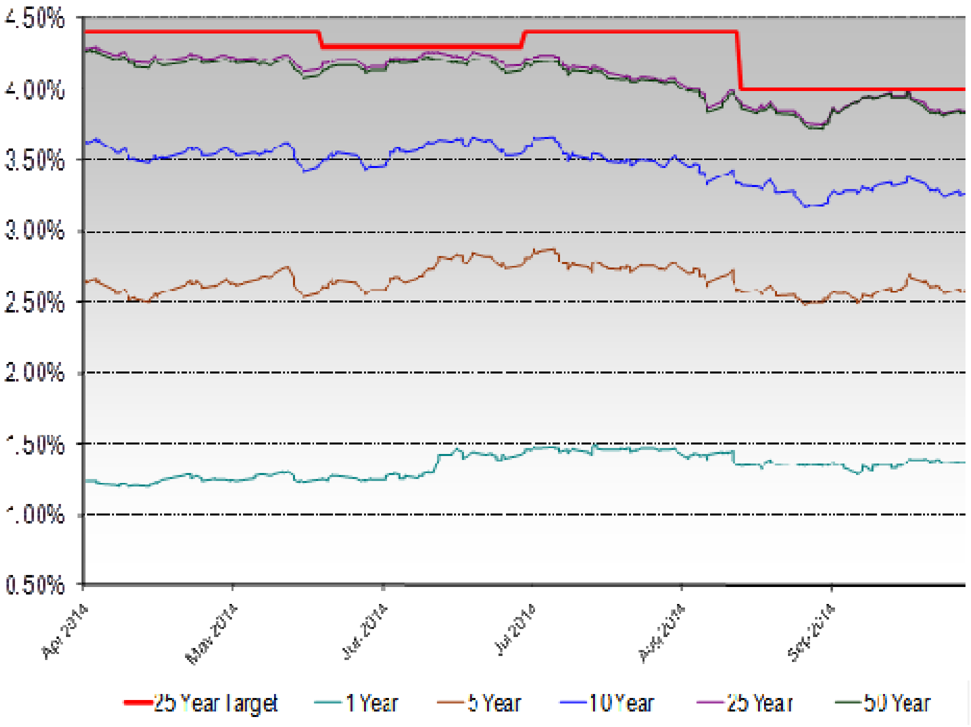
No new external borrowing was undertaken from the PWLB or the money markets in the first half of the year.

As outlined below, the general trend has been a reduction in interest rates during the six months, across all maturity bands.

It is anticipated that further borrowing will not be undertaken during this financial year.

The table and graph below show the movement in PWLB rates for the first six months of the year to 30th September 2014,

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.20%	2.48%	3.16%	3.75%	3.73%
Date	10/04/2014	28/08/2014	28/08/2014	29/08/2014	29/08/2014
High	1.48%	2.86%	3.66%	4.29%	4.26%
Date	15/07/2014	04/07/2014	20/06/2014	02/04/2014	01/04/2014
Average	1.34%	2.65%	3.67%	4.10%	4.17%



7 Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2014/15.

8 Icelandic Banks Update

Appendix 2 contains details of the situation with Icelandic investments as at 30th September 2014.
Expectations of future receipts and timeframes based on current information regarding each bank are given below;

- Glitnir

On 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £587k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement, which is still unknown.

- Heritable

As at the end of September the Council had received £1.415m against our claim of £1.505m, a total recovery of 94.02%. It is anticipated that this will be the final figure received, though the Administrators are withholding a sum as a contingency against disputed claims.

- Kaupthing, Singer and Friedlander

As at the end of September the Council had received £2.588m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m with the majority of repayments being received by June 2015.

REPORT AUTHOR
Please contact Phil Thomas Financial Accountant extension 239

LIST OF BACKGROUND PAPERS

Background Papers : -	*Local Government Act 2003*
	CIPFA Code of Practice on Treasury Management in Public Services 2011
	Treasury Management Strategy & Prudential Indicators Report 2014/15
	Budget & Medium Term Financial Strategy 2014/15
	Financial Healthcheck Period 6, September 2014
	CIPFA Treasury Management Benchmarking Club Report Quarter 2, September 2014

APPENDICES

APPENDIX 1 Current Investment List
APPENDIX 2 Icelandic Banking Situation