COUNCIL

TUESDAY, 15 SEPTEMBER 2015

REPORT OF THE CABINET

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2014/15

PURPOSE

The Annual Treasury report is a requirement of the Council's reporting procedures. It covers the Treasury activity for 2014/15, and the actual Prudential Indicators for 2014/15.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes in accordance with Regulations issued under the Local Government Act 2003. It also provides an opportunity to review the approved Treasury Management Strategy for the current year and enables Members to consider and approve any issues identified, that require amendment.

RECOMMENDATIONS

That Council ;

1. **Approve the actual 2014/15 Prudential Indicators within the report and shown at APPENDIX 1;**

2. **Accept the Treasury Management Stewardship Report for 2014/15.**

3. **Approve an increase in the current counterparty limits as identified at item 12 within this report.**

EXECUTIVE SUMMARY

This report covers Treasury operations for the year ended 31st March 2015 and summarises:

- the Council's Treasury position as at 31st March 2015;
- Performance Measurement.

The key points raised for 2014/15 are;

The Council's Capital Expenditure and Financing 2014/15

The Council's Overall Borrowing Need

Treasury Position as at 31st March 2015

The Strategy for 2014/15

The Economy and Interest Rates

Borrowing Rates in 2014/15

Borrowing Outturn for 2014/15

Investment Rates in 2014/15

Investment Outturn for 2014/15

Performance Measurement

Icelandic Bank Defaults.

The Treasury Function has achieved the following favourable results:

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

- There are no issues to report regarding non-compliance with the approved prudential indicators;
- Excluding the Icelandic investments (currently identified 'at risk') the Council maintained an average investment balance externally invested of £33.2m and achieved an average return of 0.56% (budgeted at £25.70m and an average return of 0.75%).

  These results compare favourably with the Council's own Benchmarks of the average 7 day and the 3 month LIBID rates for 2014/15 of 0.35% and 0.43% respectively, and is not significantly different from the CIPFA Treasury Benchmarking Club (22 LA members) average rate of 0.78%. This is not considered to be a poor result in light of the current financial climate, our lower levels of deposits/funds and shorter investment timelines due to Banking sector uncertainty, when compared to other Councils;
- The closing weighted average internal rate on borrowing has remained at 4.47%;
- The Treasury Management Function has achieved an outturn investment income of £202k compared to a budget of £189k. The additional revenue attained was as a result of higher levels of funds being available for investment, due to underspends/slippage on the revenue and capital programmes but tempered by the continuing subdued market interest rates.

During 2014/15 the Council complied with its legislative and regulatory requirements.

The Executive Director Corporate Services confirms that no borrowing was undertaken within the year and the Authorised Limit was not breached.

At 31st March 2015, the Council's external debt was £65.060m (£65.060m at 31st March 2014) and its external investments totalled £32.353m (£28.557m at 31st March 2014) – including interest credited. This excludes £1.323m Icelandic Banking sector deposits (plus accrued interest at claim date) that was 'At Risk' at the year end (£1.355m at the 31st March 2014).

RESOURCE IMPLICATIONS

There are no financial implications or staffing implications arising from the report.

LEGAL/RISK IMPLICATIONS BACKGROUND

The Council is aware of the risks of passive management of the Treasury Portfolio and with the support of Capita Asset Services, the Council's current Treasury advisers, has proactively managed its debt and investments over this very difficult year.

SUSTAINABILITY IMPLICATIONS

None

REPORT AUTHOR

If Members would like further information or clarification prior to the meeting please contact Phil Thomas Ext 709239 or email phil-thomas@tamworth.gov.uk

LIST OF BACKGROUND PAPERS

- Local Government Act 2003;
- Statutory Instruments: 2003 No 3146 & 2007 No 573;
- CIPFA Code of Practice on Treasury Management in Public Services;
- Treasury Management Strategy & Prudential Indicators (Council 25th February 2014);
- Treasury Management Mid-Year Review 2014/15 (Council 16th December 2014);
- Treasury Outturn Report 2013/14 (Council 16th September 2014);
- CIPFA Treasury Benchmarking Club Report 2014.
- Treasury Management Strategy 2015/16 (Council 24th February 2015)

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Investment Performance Graph (CIPFA)

Appendix 3 – Borrowing and Investment Rates

This 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 (Council 25th February 2014)
- a mid-year (minimum) treasury update report (Council 16th December 2014)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, Cabinet has received quarterly Treasury management updates as part of the Financial Healthcheck Reports.

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 also confirms that it has complied with the requirement under the Code to give scrutiny to all of the above Treasury Management Reports by the Audit and Governance Committee. Member training on Treasury Management issues was undertaken during the year on 4th February 2015 in order to support members' scrutiny role.

During 2014/15, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential & Treasury Indicators	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Capital Expenditure			
Non HRA	1.339	2.982	**0.581**
HRA	7.602	6.003	**4.972**
Total	8.941	8.985	**5.553**
Capital Financing Requirement			
Non HRA	1.311	1.162	**1.241**
HRA	68.042	68.034	**68.042**
Total	69.353	69.196	**69.283**
Gross Borrowing			
External Debt	65.060	65.060	**65.060**
Investments			
Longer than 1 year	-	-	**-**
Less than 1 year	28.557	20.140	**32.353**
Total	28.557	20.140	**32.353**
Net Borrowing	36.503	44.920	**32.707**

Other prudential and treasury indicators are to be found in the main body of this report. The Executive Director Corporate Services confirms that no borrowing was undertaken in year 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.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- 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;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2014/15

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
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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 General Fund	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Capital expenditure	1.339	2.982	**0.581**
Financed in year	1.339	2.982	**0.581**
Unfinanced capital expenditure	-	-	**-**
£m HRA	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Capital expenditure	7.602	6.003	**4.972**
Financed in year	7.602	6.003	**4.972**
Unfinanced capital expenditure	-	-	**-**

2. The Council's Overall Borrowing Need

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 indebtedness. The CFR results from the capital activity of the Council and resources 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.

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 that 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.

Reducing the CFR – the Council's (non HRA) 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 non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). 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.

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).

The Council's 2014/15 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2014/15 on 25th February 2014.

The Council's CFR for General Fund and the HRA for the year are shown below, and represent a key prudential indicator.

CFR (£m): General Fund	31st March 2014 Actual £m	31st March 2015 Budget £m	31st March 2015 Actual £m
Opening balance	1.525	1.227	**1.312**
Add unfinanced capital expenditure (as above)	-	-	**-**
Less MRP/VRP	(0.213)*	(0.065)	**(0.070)**
Less PFI & finance lease repayments	-	-	**-**
Closing balance	1.312	1.162	**1.242**

- As a result of notifications that there would probably be no further distributions from the Administrators of the Icelandic Bank Heritable, the Council made an additional Voluntary Revenue Provision (VRP) in year of £135k to reduce the original Capitalisation of our potential loss.

CFR (£m): HRA	31st March 2014 Actual £m	31st March 2015 Budget £m	31st March 2015 Actual £m
Opening balance	68.054	68.044	**68.042**
Add unfinanced capital expenditure (as above)	-	-	**-**
Less VRP	(0.012)	(0.010)	**-**
Less PFI & finance lease repayments	-	-	**-**
Closing balance	68.042	68.034	**68.042**

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

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 (2014/15) plus the estimates of any additional capital financing requirement for the current (2015/16) 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 in 2014/15. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31st March 2014 Actual £m	31st March 2015 Budget £m	31st March 2015 Actual £m
Gross borrowing position	65.060	65.060	**65.060**
CFR	69.353	69.196	**69.283**

The Authorised Limit - the authorised limit is the "affordable borrowing limit" required by s3 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 has maintained gross borrowing within its authorised limit.

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 is acceptable subject to the authorised limit not being breached.

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.

General Fund	2014/15 £m
Authorised limit	12.705
Maximum gross borrowing position	1.231
Operational boundary	1.367
Average gross borrowing position	-
Financing costs as a proportion of net revenue stream %	(1.19)%

HRA	2014/15 £m
Authorised limit	79.407
Maximum gross borrowing position	68.380
Operational boundary	70.901
Average gross borrowing position	65.060
Financing costs as a proportion of net revenue stream %	22.55%

3. Treasury Position as at 31 March 2015

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. At the beginning and the end of 2014/15 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

General Fund	31st March 2014 Principal £m	Rate/ Return %	Average Life yrs	31st March 2015 Principal £m	Rate/ Return %	Average Life yrs
Fixed rate funding:						
-PWLB	-	-	-	-	-	-
-Market	-	-	-	-	-	-
Variable rate funding:						
-PWLB	-	-	-	-	-	-
-Market	-	-	-	-	-	-
Total debt	***-***	***-***	***-***	***-***	***-***	***-***
CFR	***1.31***			***1.24***		
Over / (under) borrowing	***(1.31)***			***(1.24)***		
Investments:						
- in house	16.50	0.71		18.69	0.56	
Total investments	***16.50***	***0.71***		***18.69***	***0.56***	

HRA	31st March 2014 Principal £m	Rate/ Return %	Average Life yrs	31st March 2015 Principal £m	Rate/ Return %	Average Life yrs
Fixed rate funding:						
-PWLB	65.06	4.47	35.43	65.06	4.47	34.43
-Market	-	-	-	-	-	-
Variable rate funding:						
-PWLB	-	-	-	-	-	-
-Market	-	-	-	-	-	-
Total debt	***65.06***	***4.47***	***35.43***	***65.06***	***4.47***	***34.43***
CFR	***68.04***			***68.04***		
Over / (under) borrowing	***(2.98)***			***(2.98)***		
Investments:						
- in house	12.05	0.71		13.66	0.56	
Total investments	***12.05***	***0.71***		***13.66***	***0.56***	

Maturity Structures

Debt - The maturity structure of the debt portfolio was as follows:

	31st March 2014 Actual £m	2014/15 original limits %	31st March 2015 Actual £m
Under 12 months	0	20	**3.00**
12 months and within 24 months	3.00	20	**2.00**
24 months and within 5 years	2.00	25	**0**
5 years and within 10 years	0	75	**0**
10 years and within 20 years	1.00	100	**3.00**
20 years and within 30 years	4.00		**2.00**
30 years and within 40 years	10.00		**15.00**
40 years and within 50 years	45.06		**40.06**

Investments - All investments held by the Council were invested for under one year.

The exposure to fixed and variable rates was as follows:

	31st March 2014 Actual	2014/15 Original Limits	31st March 2015 Actual
Fixed rate - principal	36.503	49.712	**32.707**
Variable rate - interest	-	6.506	**-**

4. The Strategy for 2014/15

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.

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.

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. 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.

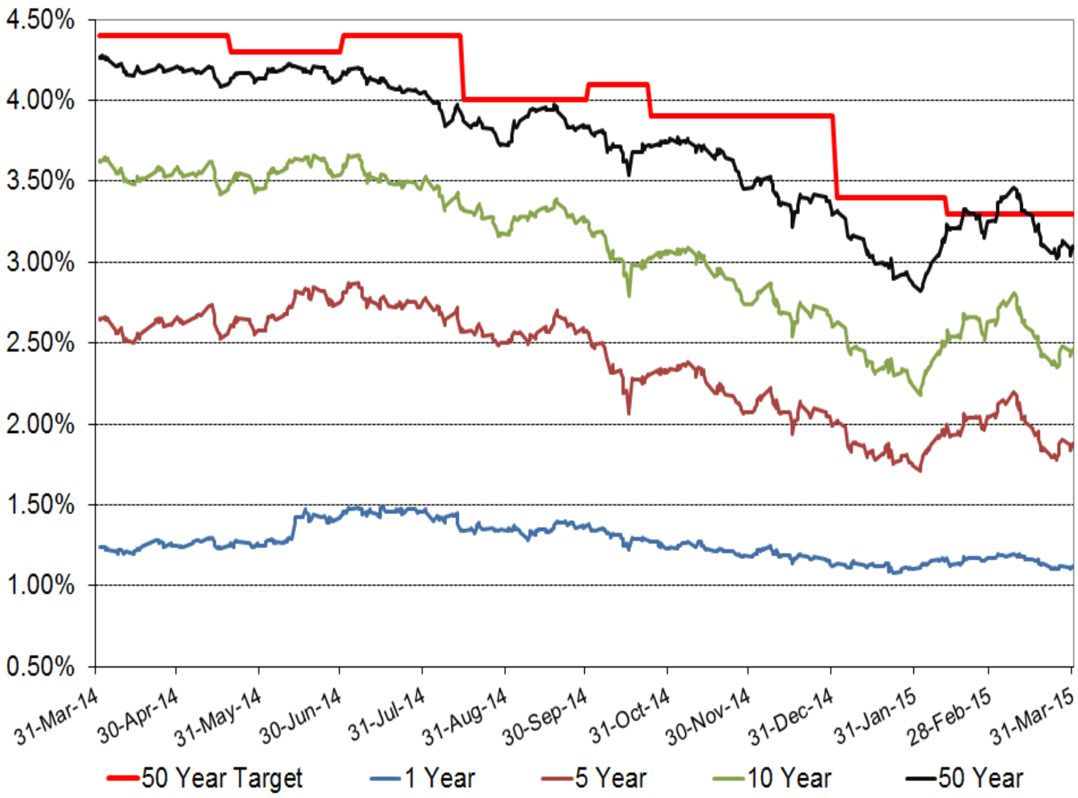
The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

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.

6. Borrowing Rates in 2014/15

PWLB certainty maturity borrowing rates - the graphs and table for PWLB rates below and in appendix 3, 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.



7. Borrowing Outturn for 2014/15

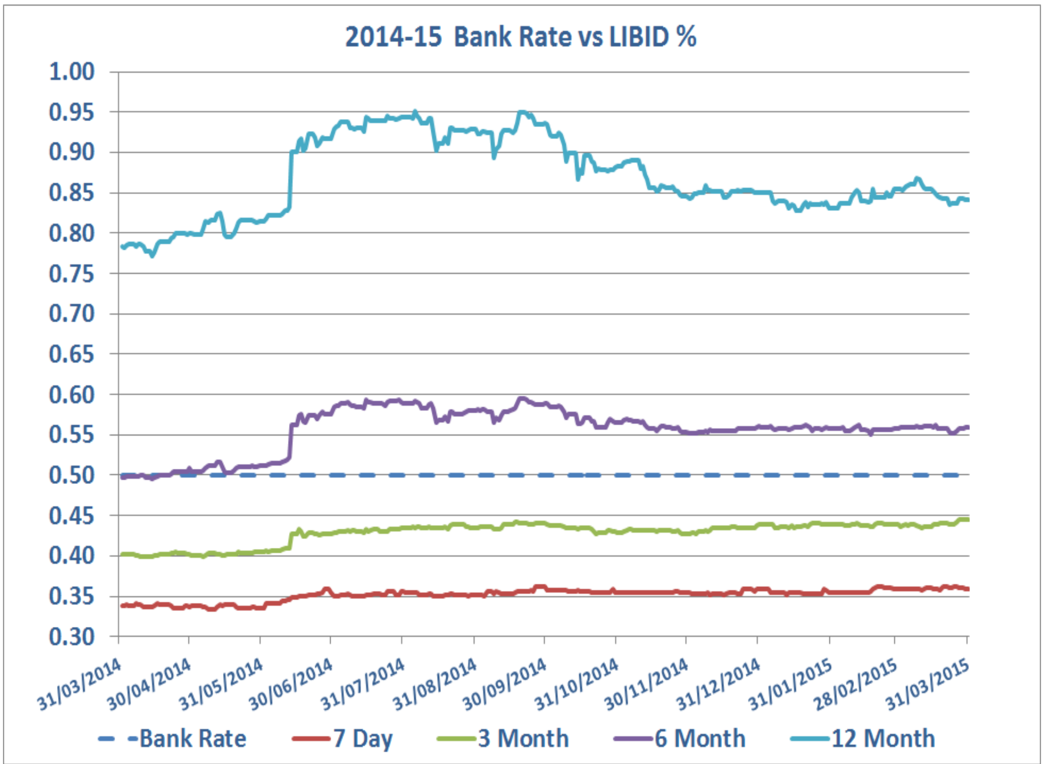
Treasury Borrowing

Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Rescheduling
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Rates in 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.



9. Investment Outturn for 2014/15

Investment Policy – the Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 25th February 2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. However, on one occasion during the year, the approved maximum limit held in the Council's bank account (£2m) was exceeded by £592k, due to processing problems with an investment, this issue was corrected the following day.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources General Fund (£m)	31st March 2014	31st March 2015
Balances	4.570	**4.912**
Earmarked Reserves	5.987	**5.967**
Provisions	0.547	**1.679**
Usable Capital Receipts	0.826	**0.812**
Total	11.930	**13.370**

Balance Sheet Resources HRA (£m)	31st March 2014	31st March 2015
Balances	5.481	**5.957**
Earmarked Reserves	5.276	**8.157**
Provisions	-	**-**
Usable Capital Receipts	2.116	**3.086**
Total	12.873	**17.200**

Total Authority Resources	24.803	**30.570**

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide *(as incorporated in the table in section 3).* The Council's performance indicators were set out in the Annual Treasury Management Strategy.

This service had set the following local performance indicators:

- *To Maximise investment returns by ensuring that the average balance held in the Council's current accounts (non-interest earning) is maintained below £5,000*;

  The actual average balance held in the current accounts for 2014/15 was £12,970 cr (in hand) (£14,954 cr in hand in 2013/14);

  The net loss of interest for 2014/15 (loss of investment interest on un-invested balances less any overdraft interest incurred) was £29 (£18 for 2013/14) or approximately 8p per day;

- *Average external interest receivable in excess of 3 month LIBID rate;*

  Whilst the assumed benchmark for local authorities is the 7 day LIBID rate, a higher target is set for internal performance.

  The actual return of 0.56% compared to the average 3 month LIBID of 0.43% (0.13% above target).

CIPFA Benchmarking Club

The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance for the year against other members (22 participating Authorities). Our average return for the year (as mentioned above) was 0.56% compared to the group average of 0.66% (information from CIPFA Benchmarking Report 2014/15) Combined In-House Investments excluding the impaired investments in Icelandic banks.

This can be analysed further into the following categories:

	Average Balance Invested £ m		**Average Rates Received %**	
Category	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Fixed investments up to 30 days Managed in-house	0.1	1.9	0.41	0.38
Fixed investments 31 to 90 days Managed in-house	1.0	4.7	0.43	0.46
Fixed investments 91 to 365 days Managed in-house	15.6	54.6	0.69	0.72
Fixed investments between 1 year and 5 year Managed in-house	0.5	24.7	1.00	1.59
Fixed investments over 5 years	-	5.9	-	5.19
Notice Accounts	4.7	30.2	0.45	0.52
DMADF	-	8.7	-	0.25
CD's Gilts and Bonds	2.0	23.3	0.60	1.12
Callable and Structured Deposits	-	40.0	-	2.19
Money Market Funds Constant NAV	9.3	23.4	0.39	0.43
Money Market Funds Variable NAV	-	10.2	-	0.55
Externally Managed Funds	-	1.6	-	0.71
All Investments Managed in-house	**33.2**	**141.9**	**0.56**	**0.78**

Graphs showing a summary of the Authority's investment performance over the year can be found at **APPENDIX 2**.

11. Icelandic Bank Defaults

The U.K. Government, Local Government Association, administrators and other agencies have continued to work throughout 2014/15 in recovering assets and co-ordinating repayments to all UK councils with Icelandic investments.

In the case of Heritable Bank plc, a significant repayment was made in August 2013, bringing the total repayments to approximately 94%. A recent update provided by the Administrators has indicated that following the resolution of an outstanding dispute, a further distribution is anticipated in August 2015, which could take the projected recovery to between 98% and 100%.

In the case of Kaupthing, Singer and Friedlander Ltd, the administrators made a further small dividend payment during the financial year, bringing the current recovery level up to 82.5%. Further payments and updates are anticipated during 2015/16.

Investments outstanding with the Iceland domiciled bank Glitnir Bank hf have been subject to decisions of the Icelandic Courts. Following the successful outcome of legal test cases in the Icelandic Supreme Court, the Administrators have committed to a full repayment and the Authority received a significant sum in late March 2012. However, due to Icelandic currency restrictions, elements of our deposits which are held in Icelandic Krone have been held back pending changes to Icelandic law. This sum has been placed in an interest bearing account and negotiations are still continuing for their early release.

Members will be periodically updated on the latest developments of these efforts.

The Authority currently has the following investments 'at risk' in Icelandic banks;

Bank	Original Deposit	Accrued Interest	Total Claim	Exchange Rate Adjustments	Repayments Received @ 31/03/2015	Balance Outstanding	Anticipated Recovery
	£'m	£'m	£'m	£'m	£'m	£'m	%
Glitnir	3.000	0.232	3.232	0.024	2.554	0.654	100.00
Kaupthing Singer & Freelander	3.000	0.175	3.175	-	2.620	0.555	85.75
Heritable	1.500	0.005	1.505	-	1.415	0.090	98.00 -100.00
Totals	**7.500**	**0.412**	**7.912**	**0.024**	**6.589**	**1.299**	-

12. Increase in Counterparty Investment Limits

Arising from the planned sale of the former Golf Course land, it is anticipated that the Council will receive a significant capital receipt, potentially phased over the next few years.

At the end of June 2015, the Council's investment portfolio stood at £37.5m with investment levels with the majority of our approved counterparties being at, or close to the maximum approved under our current Treasury Strategy Statement.

It is considered prudent to review our lending limits for Specified Investments* at this early stage and increase them now, to provide flexibility for easier investment of these additional funds as and when they are received.

Our Treasury Management consultants Capita Asset Services, recommends that no more than 20% of the Council's investment portfolio should be placed with an individual counterparty, in order to spread risk. The current limits of up to £5m with individual institutions, equates to a portfolio level of approximately £25m. As mentioned above, our current portfolio has averaged around £37m over the past 3 months and would result in a limit of just over £7m, which is above the proposal mentioned below.

Members are asked to approve an increase in our lending limits as follows;

Specified Investments*	Criteria	Current Limit	Proposed Limit
UK Government/ Debt Management Agency Deposit Facility	Defined by Regulation UK Treasury (AA+)	£5m	£6m
Term deposits – Local Authorities	Defined by Regulation (Sec 23 of the 2003 act)	£5m	£6m
Treasury Bills	Defined by Regulation UK Treasury (AA+)	£5m	£6m
Term Deposits, Callable Deposits, including Certificates of Deposits – Banks and Building Societies	In accordance with Sector's Creditworthiness Service up to 'Orange' or 'Blue'	£5m individual institutions £8m Group limit	£6m individual institutions £9m Group limit
Pooled investment vehicles (OEIC's, MMF's etc)	AAA (Moody's MR1, Fitch MMF and S&P M).	£5m	£6m
Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity	In accordance with Sector's Creditworthiness Service up to 'Orange 'or 'Blue'	£5m	£6m

**These investments are sterling denominated investments of not more than one-year maturity, meeting the minimum 'high' quality criteria where applicable. They are of relatively high security, high liquidity and are low risk assets where the possibility of loss of principal or investment income is small, they could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes.*

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