REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2015/16

PURPOSE

The Annual Treasury report is a requirement of the Council's reporting procedures. It covers the Treasury activity for 2015/16, and the actual Prudential Indicators for 2015/16.

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 2015/16 Prudential Indicators within the report and shown at Appendix 1;**
2. **Accept the Treasury Management Stewardship Report for 2015/16;**
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 2016 and summarises:

- the Council's Treasury position as at 31st March 2016;
- Performance Measurement.

The key points raised for 2015/16 are;

1. The Council's Capital Expenditure and Financing 2015/16
2. The Council's Overall Borrowing Need
3. Treasury Position as at 31st March 2016
4. The Strategy for 2015/16
5. The Economy and Interest Rates
6. Borrowing Rates in 2015/16
7. Borrowing Outturn for 2015/16
8. Investment Rates in 2015/16
9. Investment Outturn for 2015/16
10. Performance Measurement
11. Icelandic Bank Defaults.
12. Increase in Counterparty Investment Limits

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 £44.4m and achieved an average return of 0.68% (budgeted at £20.56m and an average return of 1.25%).

  These results compare favourably with the Council's own Benchmarks of the average 7 day and the 3 month LIBID rates for 2015/16 of 0.36% and 0.46% respectively, and is not significantly different from the CIPFA Treasury Benchmarking Club (45 LA members) average rate of 0.81%. 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 reduced in year to 4.38% (4.47% for 2014/15);
- The Treasury Management Function has achieved an outturn investment income of £293k compared to a budget of £260k. 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 2015/16 the Council complied with its legislative and regulatory requirements.

The Executive Director Corporate Services confirms that there was no overall increase in borrowing within the year and the Authorised Limit was not breached. £3m borrowing was undertaken during the year to replace maturing loans.

At 31st March 2016, the Council's external debt was £65.060m (£65.060m at 31st March 2015) and its external investments totalled £39.715m (£32.353m at 31st March 2015) – 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 (£1.299m at the 31st March 2015).

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 Stefan Garner, telephone 01827 709242 or email stefan-garner@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 24th February 2015);
- Treasury Management Mid-Year Review 2015/16 (Council 15th December 2015);
- Treasury Outturn Report 2014/15 (Council 15th September 2015);
- CIPFA Treasury Benchmarking Club Report 2015.
- Treasury Management Strategy 2016/17 (Council 23rd February 2016)

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 2015/16. 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 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24th February 2015)
- a mid-year (minimum) treasury update report (Council 15th December 2015)
- 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 most recently undertaken in October 2015, but will also be provided as and when required in order to support members' scrutiny role.

During 2015/16, 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	2014/15 Actual £m	2015/16 Estimate £m	2015/16 Actual £m
Capital Expenditure			
Non HRA	0.581	1.901	**0.631**
HRA	4.972	10.430	**5.511**
Total	5.553	12.331	**6.142**
Capital Financing Requirement			
Non HRA	1.242	1.973	**1.001**
HRA	68.041	68.017	**68.041**
Total	69.283	69.990	**69.042**
Gross Borrowing			
External Debt	65.060	66.060	**65.060**
Investments			
Less than 1 year	32.353	21.092	**39.715**
Total	32.353	21.092	**39.715**
Net Borrowing	32.707	44.968	**25.345**

Other prudential and treasury indicators are to be found in the main body of this report. The Executive Director Corporate Services confirms that there was no overall increase in borrowing in year and the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2015/16 continued the challenging investment environment of previous years, namely low investment returns.

1. The Council's Capital Expenditure and Financing 2015/16

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.

General Fund	2014/15 Actual £m	2015/16 Estimate £m	2015/16 Actual £m
Capital expenditure	0.581	1.901	**0.631**
Financed in year	0.581	0.901	**0.631**
Unfinanced capital expenditure	-	1.000	**-**
HRA	2015/16 Actual £m	2015/16 Estimate £m	2015/16 Actual £m
Capital expenditure	4.972	10.430	**5.511**
Financed in year	4.972	10.430	**5.511**
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 2015/16 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 2015/16 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2015/16 on 24th February 2015.

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

CFR: General Fund	31st March 2015 Actual £m	31st March 2016 Budget £m	31st March 2016 Actual £m
Opening balance	1.312	1.242	**1.242**
Add unfinanced capital expenditure (as above)	-	1.000	**-**
Less MRP/VRP	(0.070)	(0.269)	**(0.241)***
Closing balance	1.242	1.973	**1.001**

- As a result of indications that there would probably be little or no further distributions from the Administrators of the Icelandic Banks, the Council made an additional Voluntary Revenue Provision (VRP) in year of £171k to reduce the original Capitalisation of our potential loss.

CFR: HRA	31st March 2015 Actual £m	31st March 2016 Budget £m	31st March 2016 Actual £m
Opening balance	68.041	68.029	**68.041**
Add unfinanced capital expenditure (as above)	-	-	**-**
Less MRP/VRP	-	(0.012)	**-**
Less PFI & finance lease repayments	-	-	**-**
Closing balance	68.041	68.017	**68.041**

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 (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) 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 2015/16. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Gross borrowing and the CFR	31st March 2015 Actual £m	31st March 2016 Budget £m	31st March 2016 Actual £m
Gross borrowing position	65.060	66.060	**65.060**
CFR	69.283	69.990	**69.042**

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 2015/16 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	2015/16 £m
Authorised limit	12.705
Maximum gross borrowing position	-
Operational boundary	1.386
Average gross borrowing position	-
Financing costs as a proportion of net revenue stream %	0.04%

HRA	2015/16 £m
Authorised limit	79.407
Maximum gross borrowing position	65.060
Operational boundary	71.882
Average gross borrowing position	64.541
Financing costs as a proportion of net revenue stream %	25.04%

3. Treasury Position as at 31 March 2016

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 2015/16 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

General Fund	31st March 2015 Principal £m	Rate/ Return %	Average Life yrs	31st March 2016 Principal £m	Rate/ Return %	Average Life yrs
Fixed rate funding:						
-PWLB	-	-	-	-	-	-
-Market	-	-	-	-	-	-
Variable rate funding:						
-PWLB	-	-	-	-	-	-
-Market	-	-	-	-	-	-
Total debt	**-**	**-**	**-**	**-**	**-**	**-**
CFR	***1.24***	***-***	***-***	***1.00***	***-***	***-***
Over / (under) borrowing	***(1.24)***	***-***	***-***	***(1.00)***	***-***	***-***
Investments:						
- in house	18.69	0.56	-	20.11	0.68	-
Total investments	***18.69***	***0.56***	***-***	***20.11***	***0.68***	***-***

HRA	31st March 2015 Principal £m	Rate/ Return %	Average Life yrs	31st March 2016 Principal £m	Rate/ Return %	Average Life yrs
Fixed rate funding:						
-PWLB	65.06	4.47	34.43	65.06	4.29	37.09
-Market	-	-	-	-	-	-
Variable rate funding:						
-PWLB	-	-	-	-	-	-
-Market	-	-	-	-	-	-
Total debt	***65.06***	***4.47***	***34.43***	***65.06***	***4.29***	***37.09***
CFR	***68.04***	***-***	***-***	***68.04***	***-***	***-***
Over / (under) borrowing	***(2.98)***	***-***	***-***	***(2.98)***	***-***	***-***
Investments:						
- in house	13.66	0.56	-	19.61	0.68	-
Total investments	***13.66***	***0.56***	***-***	***19.61***	***0.68***	***-***

Maturity Structures

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

Debt Period	31st March 2015 Actual £m	2015/16 original limits %	31st March 2016 Actual £m
Under 12 months	3.00	20	**2.00**
12 months and within 24 months	2.00	20	**-**
24 months and within 5 years	-	25	**-**
5 years and within 10 years	-	75	**-**
10 years and within 20 years	3.00	100	**3.00**
20 years and within 30 years	2.00		**2.00**
30 years and within 40 years	15.00		**21.20**
40 years and within 50 years	40.06		**36.86**

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

The exposure to fixed and variable rates (based on net debt) was as follows:

Rate Type	31st March 2015 Actual	2015/16 Original Limits	31st March 2016 Actual
Fixed rate - principal	32.706	53.515	**25.345**
Variable rate - interest	-	6.556	**-**

4. The Strategy for 2015/16

The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. 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 additional / increased borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant that the general trend in PWLB rates during 2015/16 was an increase in rates during the first quarter followed by marked bouts of sharp volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year.

5. The Economy and Interest Rates

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China’s economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 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 materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015, eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

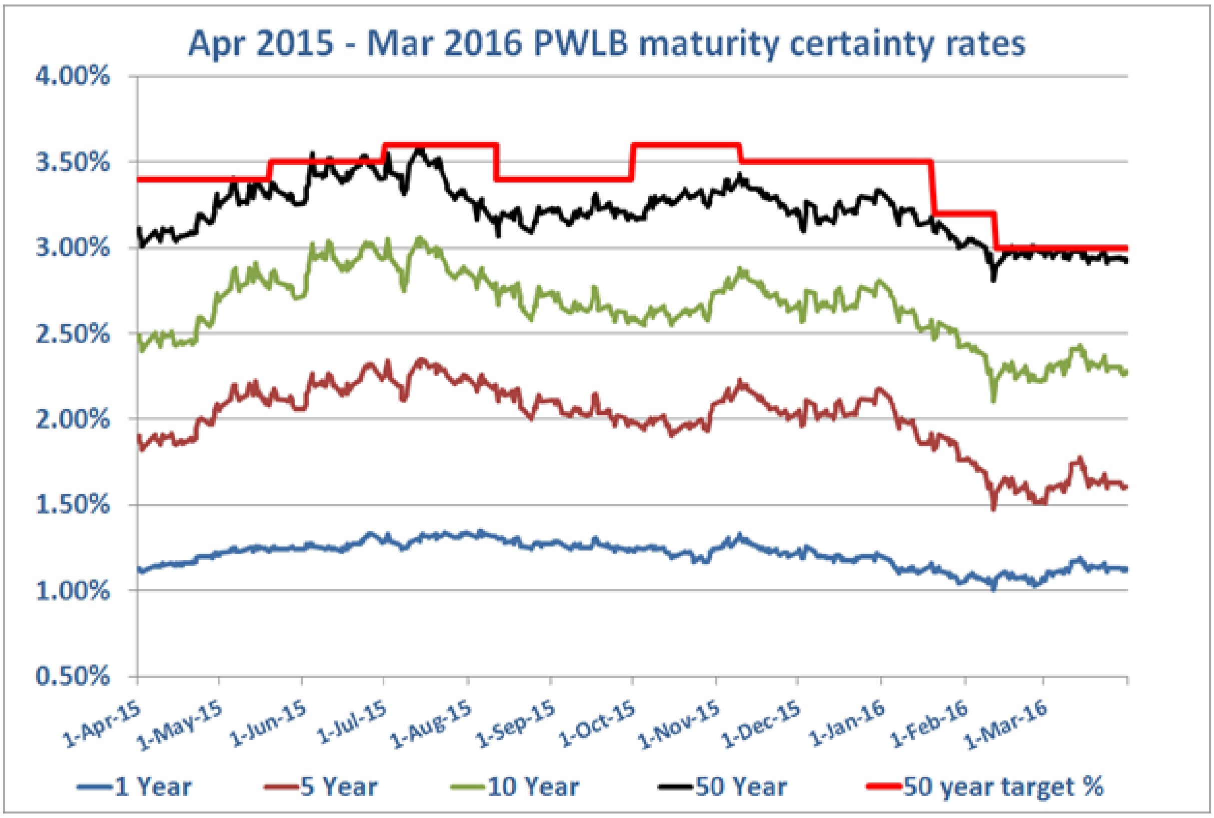
As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament. The impact of the referendum exit vote is broadly negative for the UK’s banking sector and the real economy and as such the UK now faces a very different situation, which will only evolve over time.

6. Borrowing Rates in 2015/16

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 2015/16

Treasury Borrowing

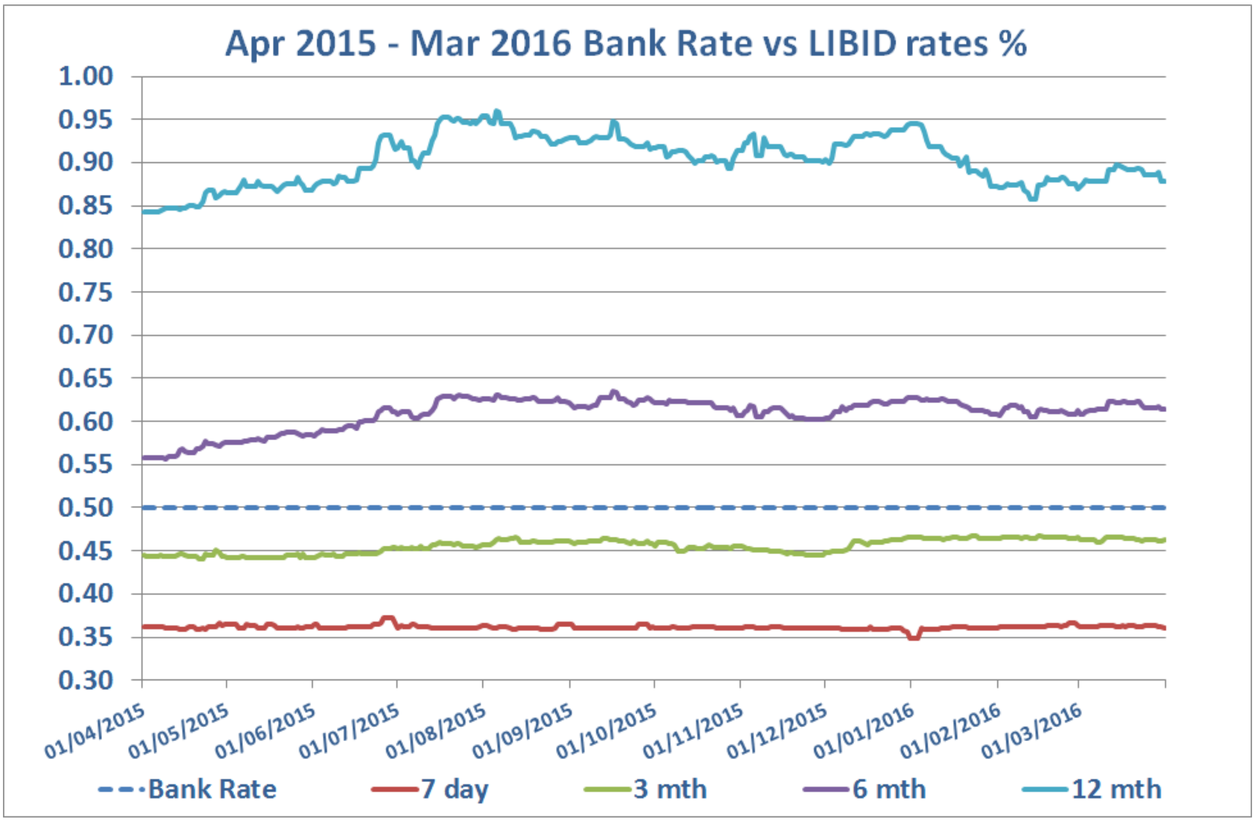
£3m borrowing was undertaken during the year to replace maturing loans. No additional borrowing was undertaken due to investment concerns, both counterparty risk and low investment returns.

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 2015/16

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 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 and due to the continuing weak expectations as to when Bank Rate would start rising.
The result of the 'Exit' referendum has dramatically changed the outlook uncertainty with a possible bank rate reduction and further quantitative easing being proposed. The situation may become clearer as events evolve on both political and economic scenes.



9. Investment Outturn for 2015/16

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 24th February 2015. 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 two occasions during the year, the approved maximum limit held in the Council's bank account (£1m) was exceeded, due to processing problems with outgoing payments on the first occasion, and an investment was not processed due to early closure of a dealing portal for the New Year bank holiday period. These issues were corrected as soon as possible.

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 2015	31st March 2016
Balances	4.912	**6.680**
Earmarked Reserves	5.919	**5.960**
Provisions	1.679	**1.812**
Usable Capital Receipts	0.812	**1.369**
Capital Grants Unapplied	0.048	**0.048**
Total	13.370	**15.869**

Balance Sheet Resources HRA (£m)	31st March 2015	31st March 2016
Balances	5.957	**4.724**
Earmarked Reserves	8.157	**12.746**
Provisions	-	**-**
Usable Capital Receipts	3.086	**3.863**
Total	17.200	**21.333**

Total Authority Resources	30.570	**37.202**

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 indicator:

- *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 0.68% compared to the average 3 month LIBID of 0.46% (0.22% 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 (45 participating Authorities). Our average return for the year (as mentioned above) was 0.68% compared to the group average of 0.81% (information from CIPFA Benchmarking Draft Report 2015/16) 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	-	1.3	-	0.41
Fixed investments 31 to 90 days Managed in-house	-	3.5	-	0.50
Fixed investments 91 to 365 days Managed in-house	26.5	53.8	0.76	0.74
Fixed investments between 1 year and 5 year Managed in-house	0.5	19.9	1.00	1.64
Notice Accounts	3.6	20.6	0.76	0.57
DMADF	-	3.5	-	0.25
CD's Gilts and Bonds	2.7	29.1	0.83	0.93
Callable and Structured Deposits	-	29.3	-	2.88
Money Market Funds Constant NAV	11.1	26.7	0.43	0.47
Money Market Funds Variable NAV	-	17.9	-	0.65
All Investments Managed in-house (excluding impaired investments)	**44.4**	**126.0**	**0.68**	**0.77**
Externally Managed Funds	-	32.1	-	2.41
All Investments (excluding impaired investments)	**44.4**	**130.7**	**0.68**	**0.81**

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 2015/16 in recovering assets and co-ordinating repayments to all UK councils with Icelandic investments.

Heritable Bank plc - Repayments received up to the 31st March 2016 amount to approximately 98% of our claim. The Administrators are currently retaining a reserve to cover final Administrators' costs until closure of the administration of an outstanding legal case. This may allow for a further small distribution once resolved.

Kaupthing, Singer and Friedlander Ltd - The administrators made a further small dividend payment during the financial year, bringing the current recovery level up to 83.75%. Further potential payments and updates are anticipated during 2016/17 and 2017/18.

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/Escrow Adjustments	Repayments Received @ 31/03/2016	Balance Outstanding	Anticipated Recovery
	£'m	£'m	£'m	£'m	£'m	£'m	%
Glitnir	3.000	0.232	3.232	0.099	2.554	0.777	100.00
Kaupthing Singer & Freelander	3.000	0.175	3.175	0.000	2.659	0.516	85.50 - 86.50
Heritable	1.500	0.005	1.505	0.000	1.475	0.030	98.00 -100.00
Totals	**7.500**	**0.412**	**7.912**	**0.099**	**6.688**	**1.323**	-

12. Increase in Counterparty Investment Limits

As a result of the sale of the former Golf Course land, the Council has received an initial capital receipt payment from the developers and further significant receipts are due to be received, phased over the next few years.

At the end of June 2016, the Council's investment portfolio stood at £39.6m 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 £7m with individual institutions, equates to a portfolio level of approximately £35m. As mentioned above, our current portfolio stood at £39.6m at the end of June with an average level invested over the first three months equating to £44.1m this would result in a limit of £8m, which is in line with 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+)	£7m	£8m
Term deposits – Local Authorities	Defined by Regulation (Sec 23 of the 2003 act)	£7m	£8m
Treasury Bills	Defined by Regulation UK Treasury (AA+)	£7m	£8m
Term Deposits, Callable Deposits, including Certificates of Deposits – Banks and Building Societies	In accordance with Capita Asset Services' Creditworthiness Service up to 'Orange' or 'Blue'	£7m individual institutions £10m Group limit	£8m individual institutions £12m Group limit
Pooled investment vehicles (OEIC's, MMF's etc)	AAA (Moody's MR1, Fitch MMF and S&P M).	£7m	£8m
Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity	In accordance with Capita Asset Services Creditworthiness Service up to 'Orange 'or 'Blue'	£7m	£8m

**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.*