

## CABINET

THURSDAY 24<sup>TH</sup> NOVEMBER 2016

### REPORT OF THE PORTFOLIO HOLDER FOR OPERATIONS AND ASSETS

#### TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2016/17

#### 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 2016/17.**

#### 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 2016/17;
- 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

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 0.59% (0.69% for the same period in 2015/16) compared to the 3 Month LIBID benchmark rate of 0.38% (0.46% for the same period in 2015/16). This excludes all investments currently classified as 'At Risk' in the former Icelandic Banking institutions.

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 2015 and October 2015.

## **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) Code of Practice on Treasury Management (revised 2011) 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 2016/17 presented to Members this year and therefore ensures the Council is embracing best practice. Cabinet also receives regular monitoring reports as part of the quarterly healthcheck 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."*

## Introduction

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

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. 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.
4. 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.
5. 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.

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 part of the 2016/17 financial year;
- 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

## 1. Economic Update

### 1.1 UK

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of

2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23rd.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

### 1.2 US

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

### 1.3 Eurozone

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

### 1.4 Japan and China

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

## 1.5 Interest rate forecasts

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
<b>Bank rate</b>	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
<b>5yr PWLB rate</b>	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
<b>10yr PWLB rate</b>	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
<b>25yr PWLB rate</b>	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
<b>50yr PWLB rate</b>	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1<sup>st</sup> November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

## 2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 23rd February 2016.

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.

## 3. 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.

### 3.1 Prudential Indicator for Capital Expenditure

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

Capital Expenditure by Service	2016/17 Original Programme	Budget B'fwd from 2015/16	Virements to Programme in Year	Total 2016/17 Budget	Actual Spend @ Period 6	2016/17 Revised Estimate*
	£m	£m	£m	£m	£m	£m
General Fund	4.535	2.686	(1.069)	6.152	0.991	6.152
HRA	10.217	6.844	-	17.061	2.983	17.041
<b>Total</b>	<b>14.752</b>	<b>9.530</b>	<b>(1.069)</b>	<b>23.213</b>	<b>3.974</b>	<b>23.193</b>

\* Includes potential expenditure slippage into 2017/18

### 3.2 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.

<b>Capital Expenditure</b>	<b>2016/17 Estimate £m</b>	<b>2016/17 Revised Estimate * £m</b>
Unsupported	2.242	3.242
Supported	12.510	19.951
<b>Total spend</b>	<b>14.752</b>	<b>23.193</b>
Financed by:		
Grants - Disabled Facilities	0.224	0.224
Coalfields Grant	-	0.250
Section 106's	0.284	0.375
GF Receipts	0.461	0.806
GF Reserve	-	0.209
Sale of Council House Receipts	0.090	0.438
HRA Receipts	0.868	0.868
HLF Assembly Rooms Lottery	0.579	0.759
Grants - SCC (Assembly Rooms / Gateways)	0.040	-
Grants - Assembly Rooms (SLGF)	1.962	1.530
Public Contributions (Assembly Rooms)	0.025	0.025
HLF/SCC/Donation - Castle Mercian Trail	0.480	0.536
Grants - Gateways (SLGF)	0.390	-
MRR	4.407	5.651
HRA 1-4-1 Replacements Receipts	0.780	0.898
HRA Reserve	0.679	3.311
HRA Regeneration Fund	1.241	3.578
HCA Grant	-	0.493
<b>Total Financing</b>	<b>12.510</b>	<b>19.951</b>
<b>Borrowing need</b>	<b>2.242</b>	<b>3.242</b>

\* includes potential expenditure slippage into 2017/18

### 3.3 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.

Prudential Indicator – Capital Financing Requirement

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

Prudential Indicator – the Operational Boundary for External Debt

Prudential Indicator	2015/16 Outturn £m	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
CFR – Non Housing	1.001	0.665	0.943 *
CFR – Housing	68.041	70.283	70.283
Total CFR	69.042	70.948	71.226
<b>Net movement in CFR</b>	<b>(0.241)</b>	<b>2.208</b>	<b>2.184</b>
Operational Boundary			
Expected Borrowing	73.268	73.268	73.268
Other long term liabilities	-	-	-
<b>Total debt 31 March</b>	<b>73.268</b>	<b>73.268</b>	<b>73.268</b>

\* The actual level of additional Voluntary Repayment of principal in relation to the capitalisation value of outstanding Icelandic debt was lower than previously forecast within the 2016/17 original estimate.

### 3.4 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 2016/17 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.

Activity	2015/16 Outturn £m	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
Gross borrowing	65.060	67.302	65.060
Plus other long term liabilities	-	-	-
Less investments	39.715	35.194	51.200
Net borrowing	25.345	32.108	13.860
CFR (year end position)	69.042	70.948	71.226

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.



<b>Authorised Limit for External Debt</b>	<b>2016/17 Original Indicator</b>	<b>Current Position</b>	<b>2016/17 Revised Indicator</b>
Borrowing	89.112	89.112	89.112
Other Long Term Liabilities	3.000	3.000	3.000
Total	92.112	92.112	92.112

#### **4. Investment Portfolio 2016/17**

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 1, 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 current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £55.7m of investments as at 30<sup>th</sup> September 2016 (£39.715m at 31<sup>st</sup> March 2016) and the investment portfolio yield for the first six months of the year is 0.59% against a benchmark of the 3 months LIBID of 0.38%. A full list of investments held as at 30<sup>th</sup> September 2016 is detailed in **APPENDIX 1**.

The Executive Director Corporate Services confirms that on one occasion during the first six months of 2016/17 that the approved limits within the Annual Investment Strategy were breached by £29k. This occurred when a payment was received late in the day, resulting in £1.029m being held within the Lloyds Bank account overnight, which exceeded the approved limit of £1m.

The Council's budgeted investment return for 2016/17 is £362k, and performance for the year is projected to be £83k below budget, due to the recent reduction in interest rates.

#### **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. Our average return for In House Investments for the period October 2015 to September 2016 was 0.65% compared to the group average of 0.95% (information from CIPFA Benchmarking Draft Report Q2 2016/17) 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.

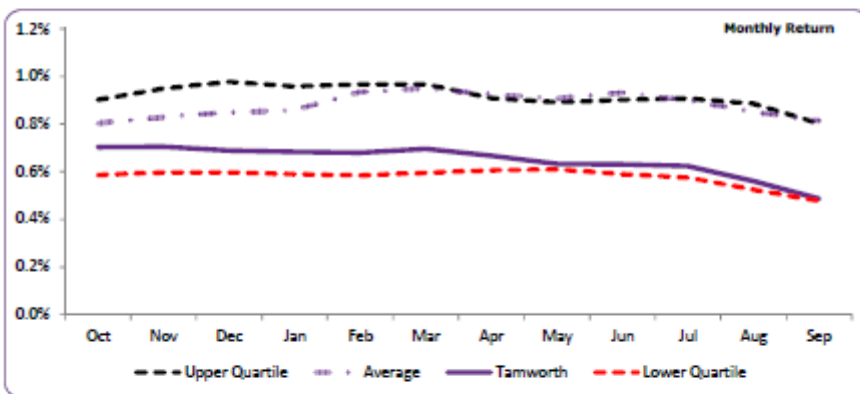
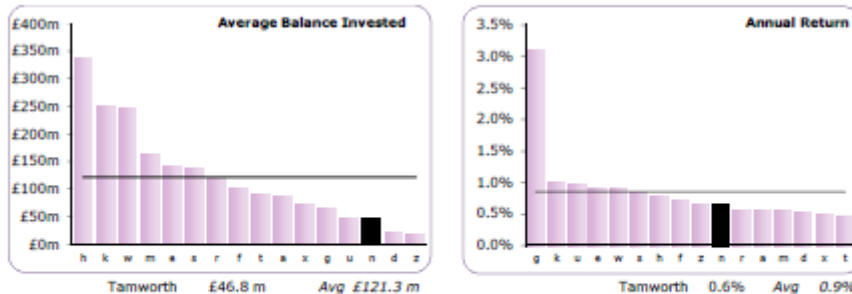
This can be analysed further into the following categories:

Category	Average Balance Invested		Average Annual Return Received	
	£m		%	
	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Fixed Investments (up to 30 days)	-	1.4	-	0.2
Fixed Investments (between 31 and 90 days)	-	6.2	-	0.2
Fixed Investments (between 91 and 364 days)	25.2	42.3	0.7	0.8
Fixed Investments (between 1 year and 5 years)	-	26.6	-	1.8
Fixed Investments (Over 5 years)	-	0.3	-	2.7
Callable and Structured Deposits	-	6.3	-	2.6
Notice Accounts	6.5	31.2	0.8	0.5
Money Market Funds (Constant Net Asset Value)	13.1	25.9	0.4	0.5
Money Market Funds (Variable Net Asset Value)	-	21.0	-	0.7
DMADF	-	1.7	-	0.1
CD's, Gilts and Bonds	2.0	25.4	0.8	0.8
<b>Average of all investments (Managed in House)</b>	<b>46.8</b>	<b>121.3</b>	<b>0.6</b>	<b>0.9</b>

The data above and graphs below display that despite the Council being a small investor in the markets, performance is only marginally lower in those areas where both the Council and other member authorities invest.

The main variances arise from longer term fixed investments (in excess of 1 year) and instruments that the council do not currently get involved with i.e. Callable and Structured Deposits which are longer term deposits which (in line with our use of the Capita Asset Services methodology and our approved specified limits in our Treasury Management strategy) are currently prohibited for Tamworth Borough Council and affirms our 'low appetite for risk' in the continuing unsettled markets.

**COMBINED IN-HOUSE INVESTMENTS (excluding impaired investments)**



Monthly Return (Oct 15 - Sept 16)	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Year
Av Bal £'m	44.51	43.97	47.94	49.33	48.35	44.14	44.66	43.90	45.06	45.90	48.35	55.09	46.77
Earned £'k	26.6	25.5	28.0	28.6	26.1	26.1	24.5	23.6	23.4	24.3	23.0	22.0	301.7
Upper Quartile	0.90%	0.95%	0.98%	0.96%	0.97%	0.97%	0.91%	0.89%	0.90%	0.91%	0.89%	0.80%	0.90%
Average	0.80%	0.83%	0.85%	0.86%	0.93%	0.95%	0.92%	0.91%	0.93%	0.90%	0.85%	0.81%	0.85%
% Return	0.70%	0.70%	0.69%	0.68%	0.68%	0.70%	0.67%	0.63%	0.63%	0.62%	0.56%	0.49%	0.65%
Lower Quartile	0.59%	0.60%	0.60%	0.59%	0.58%	0.59%	0.61%	0.61%	0.59%	0.57%	0.52%	0.48%	0.56%
% Diff from Av	-0.10%	-0.13%	-0.16%	-0.18%	-0.25%	-0.25%	-0.26%	-0.28%	-0.30%	-0.28%	-0.29%	-0.33%	

**Investment Counterparty Criteria**

The current investment counterparty criteria selection approved in the TMSS and as amended at Council on the 23<sup>rd</sup> February 2016 will meet the requirement of the Treasury Management function.

**5. Borrowing**

The Council's estimated revised capital financing requirement (CFR) for 2016/17 is £71.226m. 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 3.4 shows the Council will have estimated borrowings of £65.060m and has utilised £6.166m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

In the first half of the year the Council had no PWLB debt maturing, with £2m due to mature in February 2017. In addition, the capital programme requires additional unsupported borrowing of £3.2m.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Use of internal funds is a more efficient use of resources as borrowing rates are significantly higher than investment returns. However, as and when resources are depleted or utilised, the opportunity to use internal balances will decrease and interest charges will increase.

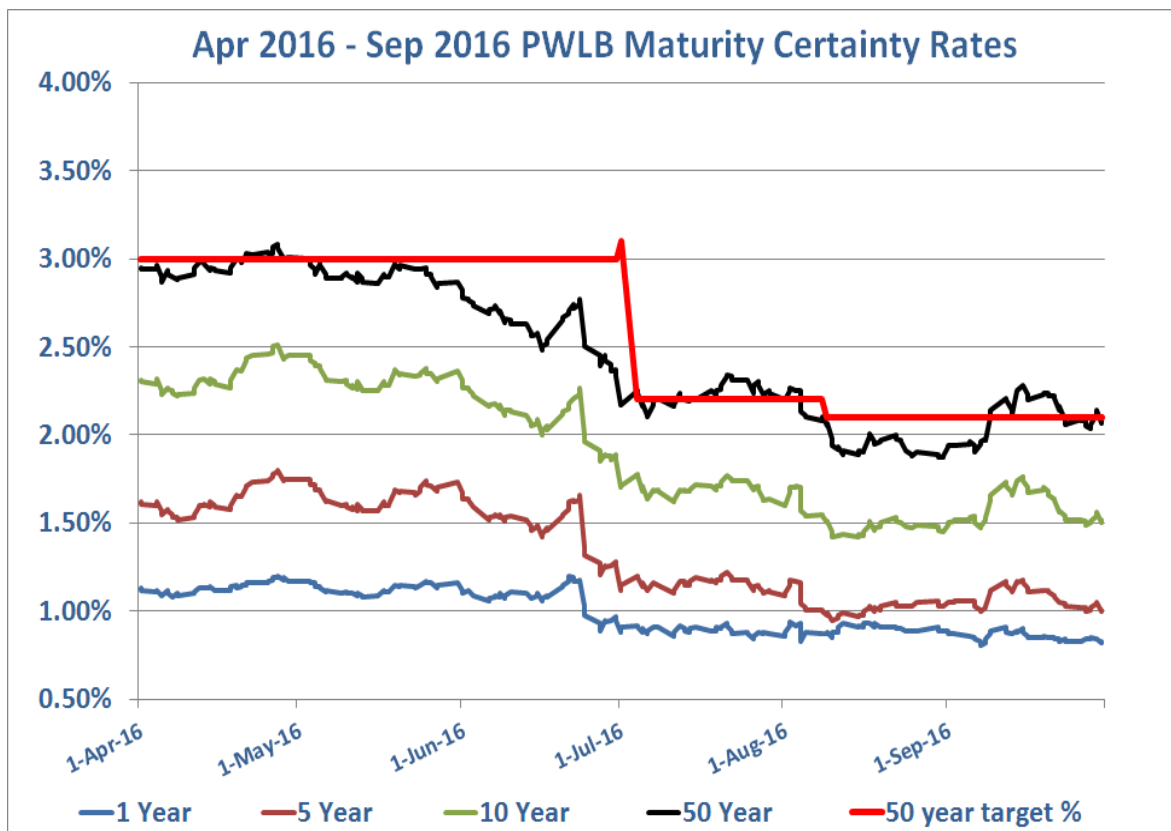
Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- \* *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around recession or risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- \* *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

Given the current economic forecasts for the coming years, it is unlikely that any additional borrowing will be undertaken during 2016/17.

The table and graph below show the movement in PWLB (Certainty Rates) for the first six months of the year to 30.9.16:

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



## 6. 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 2016/17.

## 7. Icelandic Banks Update

**Appendix 2** contains details of the situation with Icelandic investments as at 30<sup>th</sup> September 2016.

Expectations of future receipts and timeframes based on current information regarding each bank are given below;

- Glitnir

On 15<sup>th</sup> March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £777k, 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 £1.475m against our claim of £1.505m, a total recovery of 98%. The administrators are currently retaining a reserve to cover final Administrator's 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

As at the end of September the Council had received £2.659m 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 estimated to be received during 2016/17 and 2017/18.

#### **REPORT AUTHOR**

Please contact Stefan Garner, Director of Finance or Jo Goodfellow, Management Accountant extension 241.

## LIST OF BACKGROUND PAPERS

<i>Background Papers -</i>	<i>Local Government Act 2003</i>
	<i>CIPFA Code of Practice on Treasury Management in Public Services 2011</i>
	<i>Annual Report on the Treasury Management Service and Actual Prudential Indicators 2015/16 – Council 15<sup>th</sup> September 2016</i>
	<i>Treasury Management Strategy &amp; Prudential Indicators Report 2016/17 - Council 23rd February 2016</i>
	<i>Budget &amp; Medium Term Financial Strategy 2016/17 - Council 23rd February 2016</i>
	<i>Financial Healthcheck Period 6, September 2016</i>
	<i>CIPFA Treasury Management Benchmarking Club Report Quarter 2, September 2016</i>

## APPENDICES

**APPENDIX 1 Current Investment List**

**APPENDIX 2 Icelandic Banking Situation**

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