

CABINET

7 SEPTEMBER 2017

COUNCIL

12 SEPTEMBER 2017

REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2016/17

PURPOSE

The Annual Treasury report is a requirement of the Council's reporting procedures. It covers the Treasury activity for 2016/17, and the actual Prudential Indicators for 2016/17.

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 Cabinet ask Council to;

- 1. Approve the actual 2016/17 Prudential Indicators within the report and shown at Appendix 1; and**
- 2. Accept the Treasury Management Stewardship Report for 2016/17.**

EXECUTIVE SUMMARY

This report covers Treasury operations for the year ended 31st March 2017 and summarises:

- the Council's Treasury position as at 31st March 2017; and
- Performance Measurement

The key points raised for 2016/17 are

1. The Council's Capital Expenditure and Financing 2016/17
2. The Council's Overall Borrowing Need
3. Treasury Position as at 31st March 2017
4. The Strategy for 2016/17
5. The Economy and Interest Rates
6. Borrowing Rates in 2016/17
7. Borrowing Outturn for 2016/17

8. Investment Rates in 2016/17
9. Investment Outturn for 2016/17
10. Performance Measurement
11. 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 £51.8m and achieved an average return of 0.6% (budgeted at £28.3m and an average return of 1.25%).
- This result compares favourably with the Council's own Benchmarks of the average 7 day and the 3 month LIBID rates for 2016/17 of 0.2% and 0.32% respectively, and is not significantly different from the CIPFA Treasury Benchmarking Club (23 LA members) average rate of 0.8%.;
- The closing weighted average internal rate on borrowing has reduced in year to 4.26% (4.38% for 2015/16);
- The Treasury Management Function has achieved an outturn investment income of £288k compared to a budget of £362k as a result of the continued low interest rate environment.

During 2016/17 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. On two occasions during 2016/17 the approved counterparty limits within the Annual Investment Strategy were exceeded:

- The first occurred on 5th August 2016 when a payment was received late in the day (preventing potential investment opportunity), resulting in £1.029m being held within the Lloyds Bank account overnight, which exceeded the approved limit of £1m by £29k.
- The second occurred on 30th December 2016 where early payments of business rates and council tax income resulted in £1.4m being held in the Lloyds Bank account, exceeding the approved limit by £0.4m for 4 days over the bank holiday weekend.

At 31st March 2017, the Council's external debt was £63.060m (£65.060m at 31st March 2016) and its external investments totalled £50.119m (£39.715m at 31st March 2016) – including interest credited. This excludes £1.092m Icelandic Banking sector deposits (plus accrued interest at claim date) that was 'At Risk' at the year end (£1.323m at the 31st March 2016).

RESOURCE IMPLICATIONS

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

LEGAL/RISK IMPLICATIONS

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 23rd February 2016);
- Treasury Management Mid-Year Review 2016/17 (Council 13th December 2016);
- Treasury Outturn Report 2015/16 (Council 13th September 2016);
- CIPFA Treasury Benchmarking Club Report 2016;
- Treasury Management Strategy 2017/18 (Council 21st February 2017).

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Investment Performance Graph (CIPFA)

Appendix 3 – Borrowing and Investment Rates

Annual Treasury Management Review 2016/17

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 2016/17. 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 2016/17 the minimum reporting requirements were complied with:

- an annual treasury strategy in advance of the year (Council 23rd February 2016)
- a mid-year (minimum) treasury update report (Council 13th December 2016)
- 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 2016/17, 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	2015/16	2016/17	2016/17
	Actual £m	Estimate £m	Actual £m
Capital Expenditure			
Non HRA	0.631	4.535	1.408
HRA	5.512	10.217	7.351
Total	6.143	14.752	8.759
Capital Financing Requirement			
Non HRA	1.001	0.665	0.943
HRA	68.041	70.283	68.041
Total	69.042	70.948	68.984
Gross Borrowing			
External Debt	65.060	67.302	63.060
Investments			
Less than 1 year	39.715	35.195	51.211
Total	39.715	35.195	51.211
Net Borrowing	25.345	32.107	11.849

It should be noted that **£12.306m** of scheme spend has been re-profiled into 2017/18 (also including re-profiling from previous years) which has increased investment balances.

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 2016/17 again continued to be a challenging environment, namely low investment returns with limited investment opportunities.

1. The Council's Capital Expenditure and Financing 2016/17

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 internal funds, then borrowing would be needed (unfinanced capital expenditure).

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	2015/16 Actual £m	2016/17 Estimate £m	2016/17 Actual £m
Capital Expenditure	0.631	4.535	1.408
Financed in year	0.631	4.535	1.408
Unfinanced capital expenditure	-	-	-
HRA	2015/16 Actual £m	2016/17 Estimate £m	2016/17 Actual £m
Capital Expenditure	5.512	10.217	7.351
Financed in year	5.512	7.975	7.351
Unfinanced capital expenditure	-	2.242	-

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 2016/17 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 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 23rd February 2016.

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 2016 Actual £m	31st March 2017 Budget £m	31st March 2017 Actual £m
Opening balance	1.242	0.700	1.001
Less MRP/VRP	(0.241)	(0.035)	(0.058)
Closing balance	1.001	0.665	0.943

CFR: HRA	31st March 2016 Actual £m	31st March 2017 Budget £m	31st March 2017 Actual £m
Opening balance	68.041	68.041	68.041
Add unfinanced capital expenditure (as above)	-	2.242	-
Closing balance	68.041	70.283	68.041

Planned unfinanced HRA capital expenditure relates to the HRA Regeneration of Tinkers Green and Kerria.

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 (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) 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 2016/17. 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 2016 Actual £m	31st March 2017 Budget £m	31st March 2017 Actual £m
Gross borrowing position	65.060	67.302	63.060
CFR	69.042	70.948	68.984

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 2016/17 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.

Borrowing Limits	GF £m	HRA £m	Total £m
Authorised limit	12.705	79.407	92.112
Maximum gross borrowing position	-	65.060	65.060
Operational boundary	-	65.060	65.060
Average gross borrowing position	-	64.825	64.825
Budgeted financing costs as a proportion of net revenue stream %	(4.91)	34.48	29.58
Actual financing costs as a proportion of net revenue stream %	(3.49)	37.84	34.35

3. Treasury Position as at 31 March 2017

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 2016/17 the Council’s treasury (excluding borrowing by PFI and finance leases) position was as follows:

General Fund	31st March 2016 Principal £m	Rate/Return %	Average Life yrs	31st March 2017 Principal £m	Rate/Return %	Average Life yrs
Total debt	-	-	-	-	-	-
CFR	1.001	-	-	0.943	-	-
Over / (under) borrowing	(1.001)	-	-	(0.943)	-	-
Investments:						
- in house	20.110	0.68	-	25.010	0.60	-
Total investments	20.110	0.68	-	25.010	0.60	-

HRA	31st March 2016 Principal £m	Rate/Return %	Average Life yrs	31st March 2017 Principal £m	Rate/Return %	Average Life yrs
Fixed rate funding:						
-PWLB	65.060	4.29	37.09	63.060	4.26	34.59
Total debt	65.060	4.29	37.09	63.060	4.26	34.59
CFR	68.041	-	-	68.041	-	-
Over / (under) borrowing	(2.981)	-	-	(4.981)	-	-
Investments:						
- in house	19.605	0.68	-	26.201	0.60	-
Total investments	19.605	0.68	-	26.201	0.60	-

Maturity Structures

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

Duration	31st March 2016 Actual £m	2016/17 original limits %	31st March 2017 Actual £m
Under 12 months	2	20	-
12 months and within 24 months	-	20	-
24 months and within 5 years	-	25	-
5 years and within 10 years	-	75	-
10 years and within 20 years	3	100	5
20 years and within 30 years	2		-
30 years and within 40 years	21		22
40 years and within 50 years	37		36

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 2016 Actual £m	2016/17 Original Limits £m	31st March 2017 Actual £m
Fixed rate - principal	25.345	45.068	33.242
Variable rate - interest	-	6.618	-

4. The Strategy for 2016/17

The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in Quarter 4 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.

During 2016/17 there was major volatility in PWLB rates, with rates falling during Quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during Quarter 3, and then partially easing back towards the end of the year.

5. The Economy and Interest Rates

The two major landmark events that had a significant influence on financial markets in the 2016/17 financial year were the UK EU referendum on 23rd June and the election of President Trump in the USA on 9th November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from Quarter 3 2018 to Quarter 4 2019. At its 4th August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing Quarter 1 of only +0.2% GDP growth, the three subsequent Quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to Quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

USA. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

EU. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016/17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken by the ECB has resulted in economic growth improving significantly in the eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

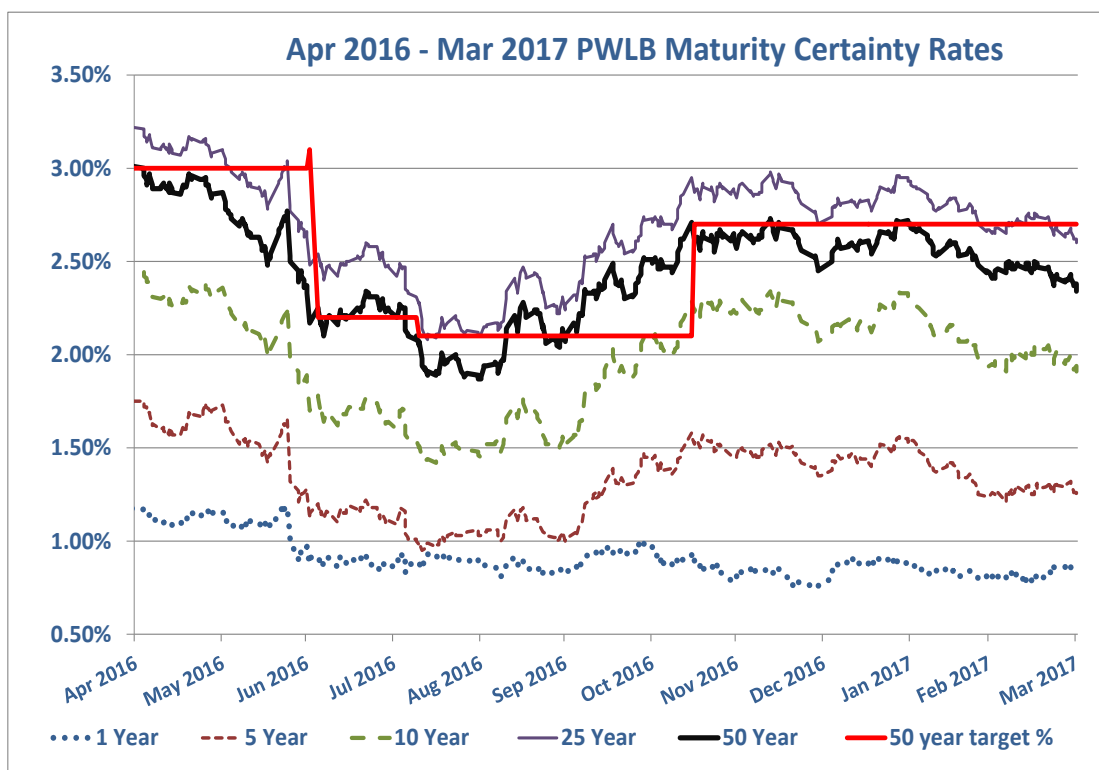
China and emerging market countries. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

Equity markets. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

6. Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates

During 2016/17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. 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 2016/17

Treasury Borrowing

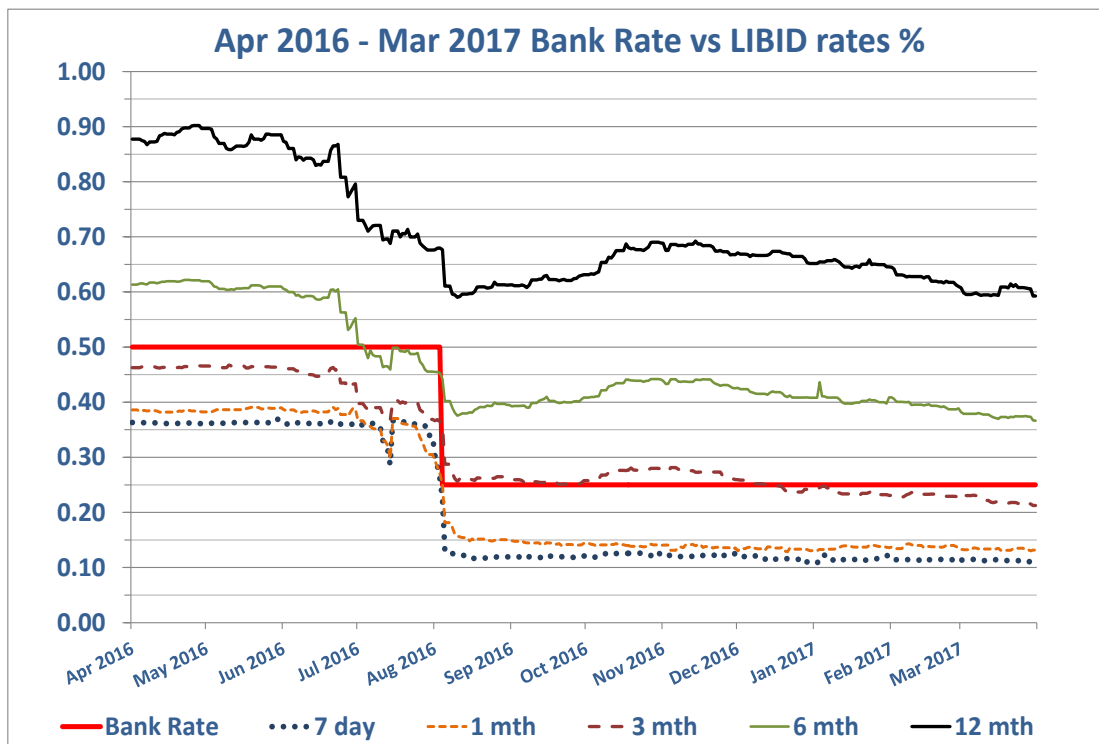
No additional borrowing was undertaken due to investment concerns, both counterparty risk and low investment returns. £2m of maturing debt was not replaced in February 2017.

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 2016/17

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4th August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at Quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at Quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two Quarters and fell even further after the 4th August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



9. Investment Outturn for 2016/17

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 23rd February 2016. 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 2016/17 the approved counterparty limits within the Annual Investment Strategy were exceeded:

- The first occurred on 5th August 2016 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 by £29k.
- The second occurred on 30th December 2016 resulting from early payments of business rates and council tax income resulting in £1.4m being held in the Lloyds Bank account, exceeding the approved limit by £0.4m for 4 days over the bank holiday weekend.

Resources – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised the following:

Balance Sheet Resources General Fund	31 st March 2016 £m	31 st March 2017 £m
Balances	6.680	6.588
Earmarked Reserves	5.960	5.725
Provisions	1.812	1.905
Usable Capital Receipts	1.369	9.049
Capital Grants Unapplied	0.048	0.048
Total GF	15.869	23.315

Balance Sheet Resources HRA	31 st March 2016 £m	31 st March 2017 £m
Balances	4.724	6.353
Earmarked Reserves	12.746	14.513
Usable Capital Receipts	3.863	3.560
Total HRA	21.333	24.426

Total Authority Resources	37.202	47.741
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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 item 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 0.6% compared to the average 3 month LIBID of 0.32% (0.28% 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 (23 participating Authorities). Our average return for the year (as mentioned above) was 0.6% compared to the group average of 0.8% (information from CIPFA Benchmarking Draft Report 2016/17) Combined In-House Investments excluding the impaired investments in Icelandic banks.

This can be analysed further into the following categories:

Category	Average Balance Invested £ m		Average Rates Received %	
	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Fixed investments up to 30 days Managed in-house	-	1.4	-	0.3
Fixed investments 31 to 90 days Managed in-house	-	3.4	-	0.4
Fixed investments 91 to 364 days Managed in-house	29.0	59.2	0.6	0.7
Fixed investments between 1 year and 3 years Managed in-house	-	27.2	-	1.1
Fixed Investments over 3 years Managed in-house	-	24.9	-	2.9
Notice Accounts	7.5	19	0.7	0.5
Debt Management Office	-	3.2	-	0.2
CDs Gilts and Bonds	3.5	21.6	0.6	1.7
Callable and Structured Deposits	-	41.0	-	1.8
Money Market Funds Constant NAV	11.9	27.8	0.5	0.4
Money Market Funds Variable NAV	-	25.7	-	0.6

All Investments Managed in-house (excluding impaired investments)	51.8	146.1	0.6	0.7
Externally Managed Funds	-	21.6	-	3.8
All Investments (excluding impaired investments)	51.8	149.8	0.6	0.8

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 continued to work throughout 2016/17 in recovering assets and co-ordinating repayments to all UK councils with Icelandic investments.

Heritable Bank plc - Repayments received up to the 31st March 2017 amount to approximately 98% of our claim. Negotiations are currently underway to finalise the affairs of Heritable and there is the potential for a distribution of residual funds.

Kaupthing, Singer and Friedlander Ltd - As at the end of March the Council had received £2.675m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 86.5% or approximately £2.747m.

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 committed to a full repayment. However, due to Icelandic currency restrictions, elements of our deposits held in Icelandic Krone were held back pending changes to Icelandic law. On 27th June 2017, the Council received €1.017m, £0.885m in respect of the repayment of the Icelandic Bank Glitnir deposit held in escrow, following a discounted offer from the Central Bank of Iceland to release the funds, realising a surplus of £208k (due to interest received and exchange rate movements).. This was an opportunity for those Councils with balances to use this as an exit route, in liaison with the LGA – and also to realise the significant exchange rate gains made during the last 2 years. The escrow funds were also no longer receiving interest credits.

At 31st March 2017, the Authority had the following investments ‘at risk’ in Icelandic banks;

Bank	Original Deposit £m	Accrued Interest £m	Total Claim £m	Exchange Rate/ Escrow Adjustments £m	Repayments Received @ 31/03/2017 £m	Balance Outstanding £m	Anticipated Recovery %
Glitnir	3.000	0.232	3.232	0.343	2.554	1.021	100
Kaupthing Singer & Friedlander	3.000	0.175	3.175	-	2.675	0.500	86.5
Heritable	1.500	0.005	1.505	-	1.475	0.030	98
Total	7.500	0.412	7.912	0.343	6.704	1.551	94.35

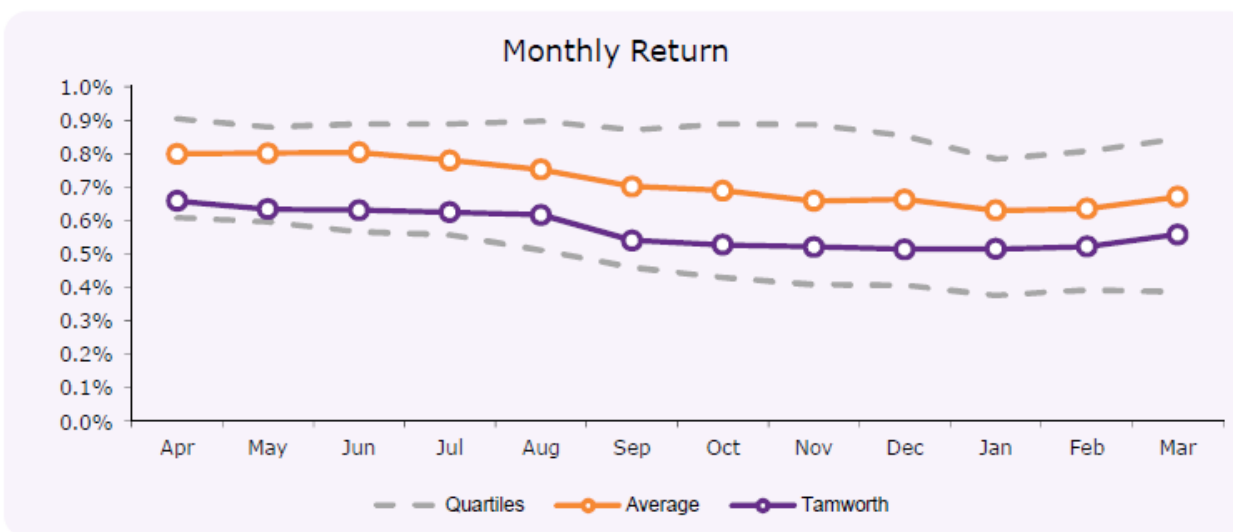
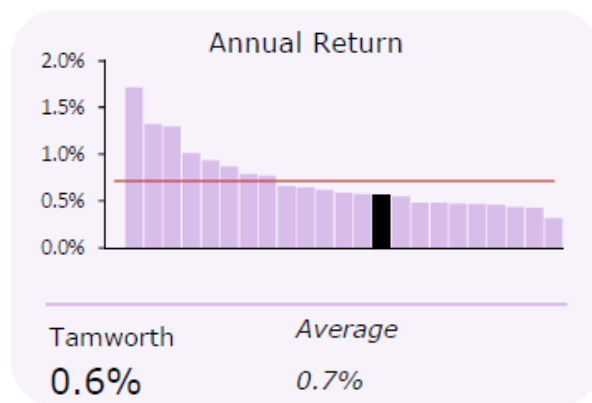
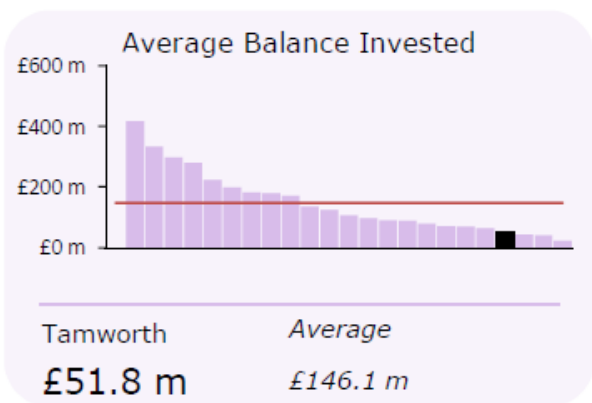
PRUDENTIAL AND TREASURY INDICATORS

APPENDIX 1

1. PRUDENTIAL INDICATORS	2015/16	2016/17	2016/17
Extract from budget and rent setting report	Actual	Original	Actual
Capital Expenditure	£m	£m	£m
Non - HRA	0.631	6.152	1.408
HRA	5.512	17.061	7.351
TOTAL	6.143	23.213	8.759
Ratio of financing costs to net revenue stream	%	%	%
Non - HRA	0.04	(4.91)	(3.49)
HRA	25.04	34.48	37.84
Gross borrowing requirement HRA	£m	£m	£m
brought forward 1 April	65.060	65.060	63.060
carried forward 31 March	65.060	67.302	63.060
in year borrowing requirement	-	2.242	-
Gross debt	£m	£m	£m
carried forward 31 March	65.060	67.302	63.060
Capital Financing Requirement	£m	£m	£m
Non – HRA	1.001	0.665	0.943
HRA	68.041	70.283	68.041
TOTAL	69.042	70.948	68.984
Annual change in Capital Financing Requirement	£m	£m	£m
Non – HRA	(0.241)	(0.035)	(0.058)
HRA	-	-	-
TOTAL	(0.241)	(0.035)	(0.058)
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	(0.36)	0.76	0.76
Increase in average housing rent per week	(0.01)	-	-

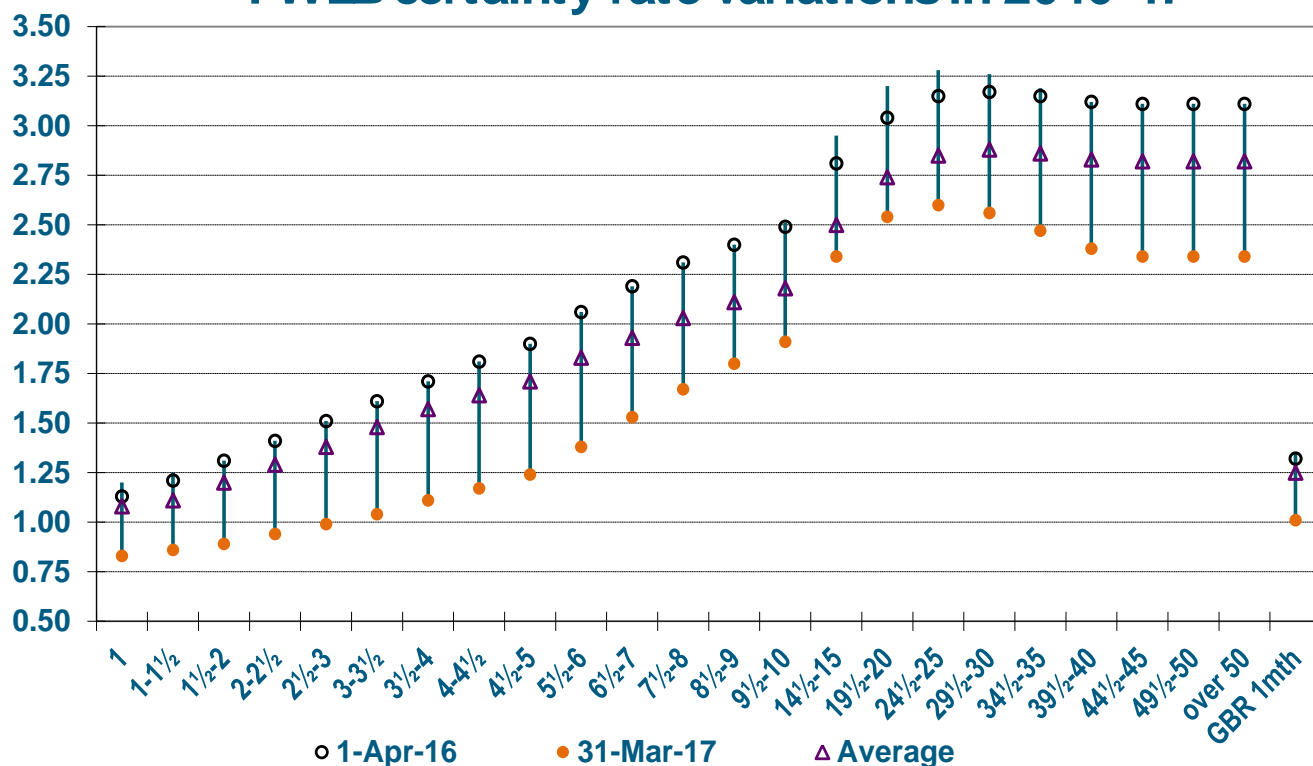
2. TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2016/17
	Actual	Original	Actual
	£m	£m	£m
Authorised Limit for external debt - General Fund			
borrowing	9.705	9.705	9.705
other long term liabilities	3.000	3.000	3.000
TOTAL	12.705	12.705	12.705
Authorised Limit for external debt - HRA			
borrowing	79.407	79.407	79.407
TOTAL	79.407	79.407	79.407
Operational Boundary for external debt - General Fund	£m	£m	£m
borrowing	1.386	-	-
TOTAL	1.386	-	-
Operational Boundary for external debt - HRA	£m	£m	£m
borrowing	71.882	73.268	65.060
other long term liabilities	-	-	-
TOTAL	71.882	73.268	65.060
Actual external debt	£m	£m	£m
	65.060	67.302	63.060
Maximum HRA debt limit	£m	£m	£m
	79.407	79.407	79.407
Interest Rate Exposure (Upper Limit)	£m	£m	£m
Limits on Fixed Interest Rates based on net debt	39.526	53.515	33.242
Limits on Variable Interest Rates based on net debt	6.454	6.556	6.483
Limits on Fixed Interest Rates:			
Debt only	64.541	65.563	64.825
Investments only	41.693	20.558	52.638
Limits on Variable Interest Rates:			
Debt only	6.454	6.556	6.483
Investments only	16.677	8.223	21.055
Upper limit for total principal sums invested for over 364 days (per maturity date)	2.000	2.000	2.000

Combined In-House Investments (excl. impaired investments)



Monthly Return (April 16 - March 17)													
	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Year
Balance £'m	43.3	43.9	45.1	45.9	42.4	50.1	56.1	57.4	60.4	60.5	61.5	55.9	51.8
Interest £'k	23.4	23.6	23.4	24.4	22.2	22.2	25.1	24.6	26.4	26.4	24.6	26.5	292.9
Return	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%
Upper Quartile	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.9%
Average	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.7%	0.7%
Lower Quartile	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%
% Diff from Avg	-0.1%	-0.2%	-0.2%	-0.2%	-0.1%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	

PWLB certainty rate variations in 2016-17



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/16	1.130%	1.160%	1.330%	1.470%	1.620%	2.310%	3.140%	2.950%	1.310%
31/3/17	0.830%	0.860%	0.990%	1.110%	1.240%	1.910%	2.600%	2.340%	1.010%
High	1.200%	1.250%	1.460%	1.630%	1.800%	2.510%	3.280%	3.080%	1.350%
Low	0.760%	0.800%	0.840%	0.880%	0.950%	1.420%	2.080%	1.870%	1.040%
Average	0.928%	0.961%	1.104%	1.226%	1.361%	2.007%	2.724%	2.494%	1.150%
Spread	0.440%	0.450%	0.620%	0.750%	0.850%	1.090%	1.200%	1.210%	0.310%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	20/05/2016
Low date	20/12/2016	15/03/2017	10/08/2016	10/08/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016	30/11/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.91%	2.60%	2.34%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	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	0.93%	1.36%	2.01%	2.72%	2.49%

Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16