Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Treasury Management 6-month Performance Review
Meeting/Date:	Overview & Scrutiny Panel (Performance and Customers) – 2 November 2016 Cabinet – 17 November 2016
Executive Portfolio:	Strategic Resources: Councillor J A Gray (Deputy Executive Leader)
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

Best practice and prescribed treasury management guidance requires Members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

The main purpose of the Treasury Management is to;

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are considered to be low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues through the first half of 2016/17 influencing the Council's decision-making were;

- Economic growth forecasts are moving towards a more pessimistic position.
- The Bank of England has reduced the Bank Rate to 0.25% from 0.5%, as a response to the increasingly pessimistic growth forecasts and a lack of market confidence.
- Market rates as a whole are very low in response to the fall in the Bank Rate, reducing the Council's ability to earn a return on investments without increasing the riskiness of the investments. The Council's average investing rate was 0.21%
- Whilst no banks were reported to have failed the European Banking Authority stress tests, the forecast deterioration in economic growth, could over time

degrade the banks profitability and asset holdings.

The Council's response to the key issues was;

- When the Council has surplus funds these will primarily be invested on a short term basis, (the majority on call on a daily basis) in liquidity accounts and money market funds.

- Where possible to take a higher return without sacrificing liquidity.

- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing, based on gilt yields over a long period. The average interest rate paid was 3.57%.

- Where economic conditions are forecast to deteriorate it is vital to monitor financial institutions credit rating in order to avoid loss of funds.

The Council's Commercial Investment Strategy (CIS)

The Commercial Investment Strategy commenced in 2015/16. Indicators relating to the investments that have occurred in the first half of 2016/17 and those investments made in 2015/16 are shown in **Appendix E.**

Major purchases during the first half of 2016/17, include Wilbury Way Hitchin, and Shawlands Retail Park Sudbury. Both of these asset purchases have met the criteria to achieve a return between 6% and 9%. The return for Wilbury Way is **7.6%** and Shawlands Retail Park is **6.9%**.

The returns from the CIS portfolio represent a higher return than those from financial institutions and in addition offer a less risky investment as they are backed by a physical asset.

So far the CIS purchases have been financed from the earmarked CIS Reserve. At the start of 2016/17 the balance on this reserve was £12.4m, it now stands at £3.2m, with decisions to be made about how future purchases should be financed, from the remainder of the reserve or from borrowing.

Recommendation:

The Cabinet is recommended to note the treasury management performance for the first 6 months of 2016/17 and to recommend the report to Council for consideration.

1. PURPOSE OF THE REPORT

1.1 The purpose of this report is to update Members on the Council's treasury management activity for the first 6 months of the year, including investment and borrowing activity and treasury performance.

2. BACKGROUND

2.1 It is regarded as best practice and prescribed treasury management practice, that Members are kept up to date in treasury management activity.

2.2 The Council approved the 2016/17 Treasury Management Strategy at its meeting on 24 February 2016.

2.3 All treasury management activity undertaken during the first half of 2016/17 complied with the CIPFA Code of Practice and relevant legislative provisions.

2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

3. ANALYSIS

Economic Review

3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A**. The main relevance to the Council is

- That since the vote to leave the EU, there have been indications that economic growth is likely to slow. With the result that the Council's trading operations may be adversely effected, and in addition as tax receipts fall, the government may be looking to raise taxes or reduce public funding.
- That lower economic growth rates will continue for longer, which is likely to entrench and increase any government action in relation to fiscal policy change.
- Low inflationary increases are likely in the short-term, reducing pressure on Council budgets as a result of price increases.
- The bank rate was cut to 0.25% in August 2016 by the Bank of England as a result plunging market confidence. As a consequence the Council's borrowing costs will remain low but the opportunities to make significant returns on financial investments remain limited.
- There have been strong market reactions to the EU exit vote, with bond yields declining to record lows. The consequence being that PWLB lending rates will also remain low.

Performance of Council Funds

3.2 The following table summarises the treasury management transactions undertaken during the first 6 months of 2016/17 financial year and the details of the investments and loans held as at 30 September 2016 are shown in detail in **Appendix B**.

	Principal Amount £m	Interest Rate %
Investments		
at 31st March 2016	5.3	0.78
less matured in year	-104.7	
plus arranged in year	+109.4	
at 30th September 2016	10.00	0.74
Average Investments to 30 Sept	**12.4**	**0.47**
Borrowing		
at 31st March 2016	13.4	3.63
less repaid in year	-6.1	
plus arranged in year	+7.9	
at 30th September 2016	15.2	2
Average Borrowing to 30 Sept	**14.6**	**3.57**

Note;
Interest rates above are as at dated apart from averages, where these are the average for the half year.

Investments

3.3 The Council's strategy for 2016/17 was based on all investments being managed in-house. The investments were of three types:

- Time deposits, these are deposits with financial institutions that are of a fixed term and mature on an agreed date. In the Council's case usually in 1 to 2 weeks.

- Liquidity (call) accounts, these are accounts held with banks where there is no fixed term and the money can be deposited or withdrawn on the day.

- Money Market Funds, these are funds where investor's deposits are aggregated together and invested across a large range of financial products, giving a high degree of diversification.

3.4 The average rate of interest on all investments was 0.47%, 0.32% above the 7 day LIBID (London Interbank Bid Rate) benchmark rate of 0.15%, this represents a return of over three times the bench-mark rate. This good performance was due to £1.154m of the investments being locked into higher rates before the year started together with the use of liquidity accounts with major banks and Money Market Funds.

3.5 When only short-term cash flow investment activity is considered, the rate of interest on investments was 0.20%, which is around 33% higher than the 7-day benchmark rate of 0.15%.

3.6 In September 2015 the Cabinet approved a loan facility of up to £5.5m to Luminus to finance the construction of an extra care facility at Langley Court St Ives. During 2015-16 the Council advanced to Luminus £2.250m. As construction work has proceeded the Council has advanced a further £1.875m in the first half of 2016-17. It is expected that the loan advances will be completed in November 2016, and that the Council will earn a marginal rate on this investment of 1.5%.

Borrowing

3.7 The Council's exposure to interest rate risk at the end of September was:

- £15.2m long term borrowing from the PWLB, at a weighted average rate of 3.57%.
- Short term borrowing at 30th September 2016 was nil.

3.8 The actual net investment interest (after deduction of interest receivable on loans) was £231,300 to 30 September 2016 against a forecast figure of £274,000 and the budget figure of £384,000.

3.9 During the first half of the year the Council has borrowed from the PWLB to finance the loans to Luminus, this is over a period of 31 years.

3.10 There was short-term borrowing of £6m during 2016-17, in order to meet the Council's cash flow requirements.

The Risk Environment

3.11 The changes to the environment in which investing takes place are detailed in **Appendix C** the main points to note are;

- Bail in legislation requiring investors to contribute to bank losses has replaced government bail outs. If a bank were to become insolvent then investors funds (including Councils), will be used to refinance the bank, in this circumstance the Council would lose a proportion of its investment. To mitigate this risk the Council's funds are invested for short periods, which means that funds can be withdrawn from that institution before it fails.

- The results and implications of the European Banking Authority stress tests. No bank has failed but Natwest, the Council's banker ratios had fallen (from a high base), for this reason only on-call investments are lodged with Natwest.

- Counter-party and credit rating updates, taking into account the implications of the UK's vote to leave the EU. The credit ratings of banks though now largely moved to a negative outlook have not changed post the EU exit vote.

Risk Management

3.12 The Council's primary objectives for the management of its investments are to give priority to the **security** and **liquidity** (how quickly cash can be accessed) of its funds before seeking the best rate of **return**.

3.13 The Council manages security by investing short-term with highly-rated banks and building societies, as well as investing with local authorities in the UK which are deemed to be intrinsically safe.

3.14 In addition to this the Council makes significant use of a number of Money Market Funds, where a large numbers of investors' funds, including the

Council's, are aggregated and spread across a wide range of investments. The Council is therefore able to access a spread of investments across a number of funds not available if it were to invest on its own.

3.15 In order to manage liquidity the Council invests funds in call accounts or Money Market Funds, which provide instant access to funds.

3.16 The Council's priority has been security and liquidity, over the return on investments, which resulted in investments during 2016/17 generally being of short duration (the majority on call). The result of low interest rates across the market is that the margin gained from the benefit of investing for longer period does not out-weigh the potential costs of failure of the investment.

Compliance with Regulations and Codes

3.17 All the treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and relevant legislation.

3.18 The Code requires the Council to approve both Treasury Management and Prudential Indicators. Those for 2016/17 were approved at the Council meeting on 24 February 2016. **Appendix D** shows the relevant prudential indicators and the actual or forecast for 30 September 2016, the table below is a summary of key indicators.

Prudential Management Indicators			
	2016/17 Estimate	**2016/17 Forecast**	**Impact on the Council**
Net capital expenditure	£9.5m	£9.5m	Expenditure less than estimated as a result of 2015/16 rephasings (£1.529m), potential rephasings to 2016/17 (£1.346m), underspends (£0.324m), and other variations (+0.152m).
Expenditure on interest and MRP (Minimum Revenue Provision)	10.2%	9.2%	As a result of underspends in 2015/16 the MRP is lower for 2016/17.
Capital Financing Requirement (CFR)	£46.4m	£44.9m	The CFR is lower due to reduced expenditure detailed above, in addition to a lower CFR in 2015-16.
	31/03/16	**30/09/16**	
Long-term borrowing total	£13.4m	£15.2m	Borrowing has increased to fund the series of loans to Luminus for the Langley Court development.
Treasury Management Indicators			
	2016/17 Limit	**2016/17 Actual**	
Authorised Limit for debt	£89.0m	£21.7m	The Council's debt has increased as a result of loans to finance the
Operational boundary for debt	£84.0m	£21.7m	

			Luminus loan, but is still within the approved limits
Borrowing fixed and variable interest	75%-100%	100%	All borrowing has been undertaken at a fixed rate to avoid the risk of interest rate increases in the future.
Borrowing repayment profile (10 years)	8%-100%	87%	The loan repayment profile is shortening compared to previous years as Luminus loans are repaid on an annual basis.
Investments longer than 364 days	£34.5m	£0m	Only short-term or instant access investments.

Commercial Investment Strategy (CIS)

3.19 The CIS business plan was approved in December 2015. The implementation of the CIS is a key part of the Council's strategy to generate additional income to assist in closing the Council's forecast gap in the revenue budget.

3.20 The initial CIS investments in 2015-16 were the purchase of a unit at Stonehill Huntingdon and an investment of £2.5m in the CCLA Property Fund.

3.21 Opportunities for investments are being sought and evaluated on an on-going basis. During the first half of 2016-17, 34 potential CIS purchases have been evaluated. The results of this analysis are shown in table 7 in Appendix E giving if rejected, the reason for rejection.

3.22 The two investments of those evaluated that were proceeded with were;

- 80 Wilbury Way, Hitchin – Office Block £2.31m
- Shawlands Retail Park, Sudbury - Retail Park, £6.89m

These two assets were purchased on the 8 August 2016 and the 13 September 2016 respectively. The two investments totalled £9.20m, the funding for which was taken from the CIS earmarked reserve. The balance remaining in this reserve is now £3.19m. The Council will need to now consider how to finance further CIS expenditure.

3.23 The yields from the CIS assets are shown in Appendix E, as well as the yield from the existing commercial estate. The CIS Business Plan targeted returns as a minimum for land and building investment of between 6% and 9%. This has been achieved and exceeded in the case of Stonehill, Huntingdon. The returns from these investments are key to closing the Council's revenue funding gap, and represent a significantly higher return than can be achieved on investments with financial institutions.

3.24 A number of the indicators shown in **Appendix E** will not be relevant until the CIS Reserve is fully applied and borrowing is required to continue to purchase assets. When borrowing commences, these indicators will be calculated.

4. COMMENTS OF OVERVIEW & SCRUTINY

4.1 The Overview and Scrutiny Panel (Performance and Customers) received the Treasury Management Six Month Performance Review at their meeting on 2 November 2016. Members had no comments to make on this report.

5. RISKS

5.1 The risks arising from treasury management activities are highlighted in the report and are measured by reference to the prudential indicators in **Appendix D**.

6. WHAT ACTIONS WILL BE TAKEN

6.1 Treasury management activities will continue to be monitored, in order to mitigate security and liquidity risks.

7. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

7.1 Treasury management activity is a corporate function of the Council and supports the achievement of the Councils three corporate priorities; consequently it is a key element in the budget setting and management process.

7.2 In addition, over the last year the Councils Treasury function directly contributed to the "Working with our communities" strategic theme (Corporate Plan 2014-2016) in that it provided loan finance to support an external partner (Luminus) to fund the construction of the Langley Court Extra Care Facility in St. Ives.

8. LEGAL IMPLICATIONS

8.1 No direct, legal implications arise out of this report.

9. RESOURCE IMPLICATIONS

9.1 The resource implications relating to the net interested due to the council is explained in paragraph 3.7.

10. REASONS FOR THE RECOMMENDED DECISIONS

10.1 The treasury management activity continues to be monitored, to ensure that risk arising are mitigated.

11. LIST OF APPENDICES INCLUDED

Appendix A – Economic review (Source: Arlingclose)
Appendix B – Borrowing and Investments as at 30th September 2016
Appendix C – Risk Environment 2016-17
Appendix D – CIPFA Prudential Indicators
Appendix E – Commercial Investment Strategy Indicators
Appendix F – Glossary

BACKGROUND PAPERS

Working papers in Resources
CIPFA Treasury Management Code of Practice

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APPENDIX A

Economic Review of 2016/17	
Economic Growth The preliminary estimate of quarter 2 2016 growth, showed reasonably strong growth as the economy grew by 0.7% quarter on quarter compared to 0.4% in quarter 1. Year on year growth was a healthy 2.2%. However the economic outlook has changed significantly since the result of the EU Referendum was announced. Forecasts have been revised downwards as 2016 has progressed. Business investment has decreased and as the risks of exit have become apparent there has been a sharp decline in household, business and investor confidence.	**Local Context** The slowdown in economic growth has already had an impact on interest rates with the BoE reducing the bank rate to 0.25% from 0.5%. The consequence of this is a lowering of rates across the market. The result of this is a reduction in the amount of interest earned on the Council's cash balances. A reduction in economic activity is likely to have an adverse effect on the Council's trading operations (e.g. Markets, Car Parks, Building Control, Development Control), resulting in reduced income. In addition there is likely to be fiscal tightening by Government due to reduced tax receipts, potentially resulting in a lowering in public sector funding.
Economic Growth – Longer Term Whilst uncertainty remains in relation to the trading relationship with the EU, there is likely to be a dampening effect on economic activity, and a reduction in business investment and a tightening of credit availability. This will lead to lower activity levels and potentially a rise in unemployment. The expectation is that this will reduce economic growth through the second half of 2016 and 2017.	**Local Context** The negotiations with the EU will continue for some time, as these proceed, there is likely to be good and bad news. The variability in the results of the negotiations will feed into volatility of the market, causing uncertainty, and thereby increasing the length of time that economic growth is subdued.
Inflation Inflation is expected to increase due to a rise in import prices (due to weakening sterling), with a consequent dampening on real wage growth. The BoE forecast a rise in CPI to 0.9% by the end of 2016, and thereafter a rise to 2% over the coming year.	**Local Context** The low rate of inflation in the short-term and moderately low in the longer term will reduce the need for inflationary increases to budgets, and in particular the need for pay increases.
UK Monetary Policy The plunge in confidence in economic growth were judged by the Bank of England (BoE) to be severe, prompting the Monetary Policy Committee (MPC) to initiate substantial monetary policy easing in an effort to mitigate the worst of the	**Local Context** Cuts to the bank rate will lead to a general reduction in market interest rates, lowering the rate at which the Council can invest. In addition further cheap funding for banks will reduce the need for funds from investors which will also have an

downside risks. This included a cut in the bank rate to 0.25%, further quantitative easing and cheap funding for banks to attempt to maintain supply of credit. The minutes of the MPC indicate that there was support for a larger cut to nearer zero. At this stage the BoE appears reluctant to do this.	adverse effect on interest rates. It is possible that further adverse economic news could push interest rates down further.
Market Reaction Bond markets reacted strongly to the BoE's action. Money market rates and bond yields declined to record new lows, as investors seek less risky investments. This action was re-enforced by the BoE view that the Bank Rate would remain extremely low for the foreseeable future. Government bond yields fell from 1.37% in June to 0.52% in August. Whereas there was a strong reaction in bond markets, share markets appear to have shrugged off the effects of the referendum vote, with shares values bouncing back despite warnings about the impact of "Brexit" on growth rates.	**Local Context** Whilst the Council has no direct investments in shares, movements on the stock exchange tend to have an effect on the economy as a whole. With share price increases tending to make investors more confident and consequently aiding economic growth and potentially mitigating some of the growth issues mentioned above. The reduction in gilts yields will have a direct effect on the Council if it wishes to borrow from the PWLB, as the rate of interest is set in relation to gilt yields. Lower yields mean lower borrowing rates.
Interest Rates Forecast The central forecast (most likely) for the period up to December 2019 is for the Bank Rate to remain at 0.25%. There is a possibility of a fall to zero measured at 40%. Government bond yield are expected to be broadly flat with short-term volatility.	**Local Context** Borrowing costs are likely to remain low for some time, but so are investing rates. Having a direct effect on the amount of interest the Council can earn from its investments. The longer the rates remain lower the rates become on investments as financial institutions strip out any margins.
Source of Data: Arlingclose Ltd	

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APPENDIX B

BORROWING AND INVESTMENTS AT 30 SEPTEMBER 2016

	Short-term Rating		**Date Invested/ Borrowed**	**Amount**		**Interest Rate**	**Year of Maturity**
	Fitch	**Moody's**		**£m**	**£m**		
Borrowing							
Short-term							
NIL							
Long-term							
PWLB			19/12/08	5.000		3.91%	2057/58
PWLB			19/12/08	5.000		3.90%	2058/59
PWLB			07/08/13	1.085		2.24%	2023/24
PWLB			25/11/15	0.743		3.28%	2046/47
PWLB			19/01/16	0.990		3.10%	2046/47
PWLB			21/03/16	0.495		2.91%	2046/47
PWLB			29/04/16	0.400		3.10%	2047/48
PWLB			02/06/16	0.325		2.92%	2047/48
PWLB			29/07/16	0.650		2.31%	2047/48
PWLB			23/09/16	0.500		2.18%	2047/48
Total Borrowing					**15.188**		
Investments In-House							
Investments							
NatWest Current	F2	P2	30/09/16	0.021m		0.00%	On-call
NatWest Liquidity	F2	P2	30/09/16	0.007m		0.25%	On-call
Cambridge Building Society	Not rated		30/09/16	0.100m		0.50%	On-call
Coventry Building Society	F1	P1	30/09/16	1.000m		0.21%	Fixed
Bank of Scotland	F1	P1	28/09/16	1.000m		0.20%	Fixed
Thurrock Borough Council			07/09/16	1.500m		0.18%	Fixed
Santander	F1	P1	30/09/16	0.500m		0.25%	On-call
Barclays	F1	P1	30/09/16	0.900m		0.45%	On-call
Blackrock		AAAmmf	30/09/16	0.800m		0.31%	On-call
CCLA	AAAmmf		30/09/16	0.500m		0.30%	On-call
Federated	AAAmmf		30/09/16	0.500m		0.32%	On-call
Insight	AAAmmf		30/09/16	0.700m		0.35%	On-call
Legal and General	AAAmmf		30/09/16	0.700m		0.36%	On-call
Standard Life	AAAmmf		30/09/16	0.600m		0.32%	On-call
Total Short Term Investments					**8.828**		
Loans to Other Organisations							
Huntingdon Regional College	Not rated			1.101m		3.34%	2023/24
Huntingdon Gym	Not rated			0.053m		5.13%	2023/24
					1.154		
Total Investments					**9.982**		
CCLA Property Fund			28/01/16		**2.500**		
Loans to Luminus							
Luminus	Not rated			0.750m		4.78%	2047/48
Luminus	Not rated			1.000m		4.60%	2047/48

Luminus	Not rated			0.500m		4.41%	2047/48
Luminus	Not rated			0.400m		4.41%	2047/48
Luminus	Not rated			0.325m		4.42%	2047/48
Luminus	Not rated			0.650m		4.42%	2047/48
Luminus	Not rated			0.500m		4.42%	2047/48
Total Loans					**4.125**		
Total Investments					**16.607**		
Net Investments					**1.419**		

Definition of Credit Ratings

Fitch	Rating	Definition
Short term	**F1**	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
	F2	Good rated intrinsic capacity for timely payment of financial commitments.
	F3	Fair rated intrinsic capacity for timely payment of financial commitments.
Long-term	**AAA**	Highest credit quality organisations, reliable and stable. 'AAA' ratings denote the **lowest expectation of default risk.** They are assigned only in cases of exceptionally strong capacity for payment of financial commitments.
	AA	Very high credit quality. 'AA' ratings denote **expectations of very low default risk.** They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
	AA-	
	A	High credit quality. 'A' ratings denote e**xpectations of low default risk**. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
	A-	
	BBB	Good credit quality. BBB ratings indicate **expectations of low default risk**. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
Notes The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.		

APPENDIX C

Risk Environment 2016/17	
Bail In The risk arises from banks failing, regulation places the burden of losses on the banks investors. This is as opposed to a government a bail-out which is what happened at the last financials crisis in 2008.	**Local Context** Some public bodies will carry higher levels of long-term cash, and as a result need to invest long-term, the Council generally has cash that will be needed in the short-term and as a result places funds where they are accessible in the short-term.
Bank Stress Tests The European Banking Authority released the results of its 2016 round of stress tests on the EU's largest banks on the 29th July. No bank was said to have failed the tests although the economic scenarios may now be more optimistic than previously thought. RBS made headlines as its ratios had fallen but from a relatively high base. Barclays Common Equity Tier 1 ratios were below 8%, as a result in a stressed scenario they would be required to raise more capital (equity).	**Local Context** The RBS includes NatWest which is the Council's transactional banker. In order to mitigate the risk of losing investments, the Council maintains a balance of less than £1m with NatWest and on the basis of it being instantly accessible.
Counterparty Update Some indicators of credit risk have reacted negatively to the vote to leave the EU. UK bank credit default swaps prices rose but only modestly. However bank share prices fell sharply on average by 20%. UK banks experienced the largest falls, non-UK banks also experienced falls in share price but not as severe as UK banks.	**Local Context** The Council does not invest in shares, in the main because of the volatility experienced in this market. Credit default swap rates are an indicator along with credit ratings that are used to monitor the financial health of an organisation. So whilst the markets have been fairly volatile it is good news that credit default swaps have only risen slightly in relation to those institutions that the Council is investing with.
Credit Ratings Both Fitch and Standard and Poor's downgraded the UK sovereign rating following the Brexit vote. In addition Standard and Poor's downgraded the rating of the EU, and the ratings of those Local Authorities with a rating. Moody's affirmed the rating of the nine UK banks, although changing the outlook to negative to those institutions more exposed to the leave vote.	**Local Context** The Council monitors credit ratings, these are used to make decision about which institutions to invest with, based on the parameters set within the Treasury Management strategy. The Council's investments are in the majority of short duration as a consequence, any adverse movements in credit ratings would be a signal to remove investments from those institutions.

APPENDIX D

CIPFA Prudential Indicators for Capital Finance in Local Authorities
Prudential Indications and Treasury Management Indications for 2016/17
Comparison of forecast results with limits.

PRUDENTIAL MANAGEMENT INDICATORS

1. Actual and Estimated Capital Expenditure.

	2016/17 Estimate £m	2016/17 Forecast £m
Gross	10.5	10.8
Net	9.5	9.5

2. The proportion of the budget financed from government grants and council tax that is spent on interest and the provision for debt repayment.

2016/17 Estimate %	2016/17 Actual %
10.2	9.2

3. The capital financing requirement.

This represents the estimated need for the Authority to borrow to finance capital expenditure less the estimated provision for redemption of debt (the MRP).

2016/17 Estimate £m	2016/17 Forecast £m
46.4	44.9

4. Net borrowing and the capital financing requirement.

Net external borrowing as at the 30th September 2016, was £15.2m, this is £29.6m less than the forecast capital financing requirement. Thereby confirming that the council has not borrowed for revenue purposes other than in the short-term for cash flow purposes.

5. The actual external long-term borrowing at 30th September 2016

£15.2m

6. Adoption of the CIPFA Code

The Council has adopted the 2011 edition of the CIPFA Treasury Management Code of Practice.

TREASURY MANAGEMENT INDICATORS

7. The authorised limit for external debt.

This is the maximum limit for borrowing and is based on a worst-case scenario.

	2016/17 Limit £m	2016/17 Actual £m
Short-Term	22.0	6.0
Long Term	47.0	10.0
Other long-term liabilities (leases)	5.0	0.5
Total	**74.0**	**16.5**
Long-term for loans to organisations	**15.0**	**5.2**
Total	**89.0**	**21.7**

8. The operational boundary for external debt.

This reflects a less extreme position. Although the figure can be exceeded without further approval, it represents an early warning monitoring device to ensure that the authorised limit (above) is not exceeded.

	2016/17 Limit £m	2016/17 Actual £m
Short-Term	17.0	6.0
Long Term	47.0	10.0
Other long-term liabilities (leases)	5.0	0.5
Total	**69.0**	**16.5**
Long-term for loans to organisations	**15.0**	**5.2**
Total	**84.0**	**21.7**

Both of these actual results reflect the fact that long term rates were not considered low enough to borrow in anticipation of need

9. Exposure to investments with fixed interest and variable interest.

These limits are given as a percentage of total investments. Investments of less than 12 months count as variable rate.

		Limits		Actual
		Max.	Min.	As at 30.9.16
Borrowing:				
longer than 1 year	Fixed	100%	75%	100%
	Variable	25%	0%	0%
Investments:				
longer than 1 year	Fixed	100%	100%	0%
	Variable	0%	0%	0%

10. Borrowing Repayment Profile

The proportion of 2015/16 borrowing that matured in successive periods.

Borrowing	Upper limit	Lower limit	Actual As at 30.9.16
Under 12 months	91%	0%	1%
12 months and within 24 months	91%	0%	2%
24 months and within 5 years	91%	0%	5%
5 years and within 10 years	92%	1%	5%
10 years and above	100%	8%	87%

11. Investment Repayment Profile

Limit on the value of investments that cannot be redeemed within 364 days.

	Limit £m	Actual £m
Limit on principal invested beyond year end (31 March 2016)	34.5	0

APPENDIX E

Commercial Investment Strategy Indicators

PRUDENTIAL MANAGEMENT INDICATORS

1. Actual and Estimated Capital Expenditure.

	2016/17 Estimate £m	2016/17 Forecast £m
Gross	20.0	9.2
Net	20.0	9.2

2. The proportion of the budget financed from government grants and council tax that is spent on interest and the provision for debt repayment.

2016/17 Estimate %	2016/17 Forecast %
4.7	0.0

3. The capital financing requirement.
This represents the estimated need for the Authority to borrow to finance capital expenditure less the estimated provision for redemption of debt (the MRP).

2016/17 Estimate £m	2016/17 Forecast £m
20.0	0.0

4. Asset Investment and Yields

	Investment £m	Yield %
Existing Commercial Estate	20.80	8.8
Stonehill, Huntingdon	1.36	9.2
Wilbury Way, Hitchin	2.31	7.6
Shawlands Retail Park, Sudbury	6.89	6.9
CCLA Property Fund	2.50	4.0

5. CIS Reserve Balance

	£m
Reserve Balance as at 31st March 2016	12.39
Investments	(9.20)
Balance at 30th September 2016	3.19

6. Loan to Value and Debt to Income Indicators
These indicators will be calculated when the CIS reserve has been exhausted and the CIS investment programme is financed by borrowing.

7. Analysis of Investment Propositions

Potential CIS investments are being continually investigated. The table below lists the 34 opportunities that were examined, and if they were not proceeded with, why.

Action	**No. of Cases**
Purchased	2
Rejected because;	
Already under offer	5
Yield too low	6
Leasehold and not freehold	2
Distance too great	3
Risk too high	4
Lack of diversity against current portfolio	1
Too management intensive	1
Concerns about condition	2
Concerns about flats above	1
Concerns about the tenant's business model	1
Too geographically diverse	4
Other	2
Total	**34**

APPENDIX F

GLOSSARY

Bail in Risk
Bail in risk arises from the failure of a bank. Bond-holders or investors in the bank would be expected to suffer losses on their investments, as opposed to the bank being bailed out by government.

Bank Equity Buffer
The mandatory capital that financial institutions are required to hold, in order to provide a cushion against financial downturns, to ensure the institution can continue to meet it liquidity requirements.

Bank Stress Tests
Tests carried out by the European Central Bank on 51 banks across the EU. The tests put banks under a number of scenarios and analyse how the bank's capital holds up under each of the scenarios. The scenarios includes, a sharp rise in bond yields, a low growth environment, rising debt, and adverse action in the unregulated financial sector.

Bonds
A bond is a form of loan, the holder of the bonder is entitled to a fixed rate of interest (coupon) at fixed intervals. The bond has a fixed life and can be traded.

Call Account
A bank account that offer a rate of return and the funds are available to withdraw on a daily basis.

Capital Financing Requirement (CFR)
The CFR is a measure of the capital expenditure incurred historically, but has yet to be financed, by for example capital receipts or grant funding.

Counterparty
Another organisation with which the Council has entered into a financial transaction with, for example, invested with or borrowed from.

Credit Default Swaps (CDS)
A financial agreement that the seller of the CDS will compensate the buyer in the event of a loan default. The seller insures the buyer against a loan defaulting.

Credit Ratings
A credit rating is the evaluation of a credit risk of a debtor, and predicting their ability to pay back the debt. The rating represents an evaluation of a credit rating agency of the qualitative and quantitative information, this result in a score, denoted usually by the letters A to D and including +/-.

Gilts
Bonds issued by the Government.

LIBOR
London Interbank Offered Rate, is the rate at which banks are willing to lend to each other.

LIBID
London Interbank Bid Rate, is the rate at which a bank is willing to borrow from other banks.

Liquidity
The degree to which an asset can be bought or sold quickly.

Minimum Revenue Provision (MRP)
An amount set aside to repay debt.

Money Market Funds
An open ended mutual fund that invests in short-term debt securities. A deposit will earn a rate of interest, whilst maintaining the net asset value of the investment. Deposits are generally available for withdrawal on the day.

Public Works Loans Board (PWLB)
The PWLB is an agency of the Treasury, it lends to public bodies at fixed rates for periods up to 50 years. Interest rates are determined by gilt yields.