Agenda Item No. 9

Audit Committee – 26 June 2017

Treasury Management Annual Report 2016/17

1. Summary of report

1.1 This report sets out Walsall council's treasury management annual report for 2016/17 as required by the CIPFA Code of Practice (Appendix A).

2. Recommendations

2.1. Audit Committee are asked to endorse and recommend to Council for approval the treasury management annual report for 2016/17 (Appendix A).

3. Background information

3.1 Treasury Management Annual Report

The annual report is detailed at Appendix A and includes:

- Annual treasury management strategy
- Economic review, operational treasury management and interest rates
- Review of 2016/17activities
- Borrowing and investments
- Compliance with treasury limits
- Prudential and local indicator performance

The report is presented to Audit Committee with a recommendation for referral to Council for approval.

3.2 Highlights of TM Annual report

The following key points of interest have been extracted from the report:

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- The annual report meets the requirement of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

- Capital expenditure was £80.847m of which £10.951m was funded from approved borrowing (Table 2, Appendix A).

- The council made a repayment of £10m of long term debt. The council's average rate on its borrowing was reduced from 4.43% to 3.80%.

- All prudential indicators were complied with; the main variation was on capital expenditure which was significantly lower than expected due to higher carry forwards for externally funded schemes.

- The banking environment has continued to be one of the low interest returns with some improved confidence in counter party risk. Expected increases in interest rates did not materialise, and the in year reduction in rates, following the UK EU referendum, further dampened investment rates offered.

- This situation, along with the movement of a large proportion of the Council's cash to short term investments toward the end of the year (which offer lower rates of return)in preparation for a three year upfront pension payment to the West Midlands Metropolitan Authorities Pension Fund in April 2017, had a significant impact on average investment performance which reduced to 0.89% in 2016/17, compared to 1.08% in 2015/16.

4. Risk Management

4.1 Treasury management activity takes place within a robust risk management environment which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. Treasury management practices approved by Council provide the governance framework specifically TMP 1 which details the risk management arrangements in place.

5. Financial Implications

5.1 Treasury management activity forms part of the council's financial framework and supports delivery of the medium term financial strategy.

6. Legal Implications

6.1 The Council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the Council should comply with the CIPFA Code of Practice for Treasury Management. The Council complies fully.

7. Property implications

7.1 None directly relating to this report.

8. Health and wellbeing implications

8.1 None directly relating to this report.

9. Staffing implications

9.1 None directly relating to this report.

10. Equality Implications

10.1 None directly relating to this report.

11. Consultation

11.1 The report has been approved by the finance Treasury Management Panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Senior Finance Manager.

Background Papers

- Various financial working papers
- Annual Review of Treasury Management Policies and mid-year position statement 2016/17– Audit Committee 21 November 2016
- Corporate budget plan and treasury management and investment strategy 2016/17 – Council 25 February 2016

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5 June 2017

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Appendix A

Annual Treasury Management Report 2016/17

Walsall Council
June 2017

Annual Treasury Management Report 2016/17

Purpose

This council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicator performance. This document therefore reports this position for 2016/17 financial year. 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 following reports were produced:

- an annual treasury strategy in advance of the year (Council 25/02/2016)
- a mid-year (minimum) treasury update report (Audit Committee 21/11/2016)
- an annual review of treasury management policies (Audit Committee 21/11/2016)
- an annual report following the year describing the activity compared to the strategy (this report to Audit Committee)

In addition, this council's treasury management panel has received regular treasury management update reports.

The regulatory environment places an onus on members for the review and scrutiny of treasury management policy and activities. This report is 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 prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. In order to support members' scrutiny role annual member training on treasury management issues was undertaken during February 2017.

Summary

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:

Table 1 **Actual prudential and treasury indicators**	**2015/16 Actual £m**	**2016/17 Original £m**	**2016/17 Revised £m**	**2016/17 Actual £m**
Actual capital expenditure	88.904	71.966	89.780	80.847
Capital Financing Requirement:				
Including PFI and finance leases	328.018	325.077	As Original	335.150
Excluding PFI and finance leases	320.488	316.787	As Original	324.130
External Borrowing	232.790	225.810	As Original	266.890
Investments	129.799	131.799	As Original	152.230
Net borrowing	102.990	94.011	As Original	114.660

The capital programme was updated (revised column) during the year from that originally approved by Council on 25 February 2016 (original column) for capital carry forwards and re-profiling of spend from 2015/16, and additional grants received during the year.

Other prudential and treasury indicators are to be found in the main body of this report. The Assistant Director of Finance confirms that borrowing was only undertaken for a capital purpose.

The challenging environment of low investment returns and uncertainty of counterparty risk has continued in 2016/17.

1. Introduction and background

To set the context of the treasury management environment it is first necessary to provide a review of the economy and interest rates.

In 2016/17 the challenging investment environment of previous years' continued, namely low investment returns, although levels of counterparty risk has continued to subside. The interest rate forecast was that the low interest rate environment would continue throughout 2016/17 and thus the target for investment returns was reduced. An economic summary is given at the beginning of the borrowing and investment sections.

2. 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 resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The amount to be funded from borrowing in 2016/17 was £10.951m. It shows an increase in capital expenditure funded from grants, this is mainly due to Growth Fund Projects, for which Walsall is the accountable body for all the Black Country Districts.

Table 2	2015/16 Actual £m	2016/17 Original £m	2016/17 Actual £m
Total capital expenditure	**88.904**	**71.966**	**80.847**
Resourced by:			
• Capital receipts	0.790	1.500	2.016
• Capital grants	56.620	60.225	64.762
• Capital Reserves and Revenue	6.052	3.305	3.118
• Approved Borrowing	25.442	6.936	10.951
	88.904	**71.966**	**80.847**

3. 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 debt position. The CFR results from the capital activity of the council and which resources have been used to pay for the capital spend. It represents the 2016/17 capital expenditure funded by borrowing (see table 2), 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 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 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 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 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).

In 2014/15 the MRP policy was reviewed, updated and approved by Council. Following a further review in 2015/16 council on 26 February 2016 amended the implementation date of these changes from 1st April 2014 to 1st April 2008. The effect of this is a smoothing of the MRP charge. Rather than having a high MRP charge in initial years that reduces over time, the council will now pay a charge that is more consistent throughout a shorter time period. This will result in a lower MRP charge up to 2035/36 and then a higher MRP charge from 2036/37 to 2064/65. Overall the initial lower MRP charge is offset by the later higher MRP charge, although this increase will be lower in real terms because money loses value over time. The policy change supports the strategy of maintaining the level of current capital financing costs as a proportion of council tax revenue. A further outcome of the review of the MRP policy was a restatement of the Capital Financing Requirement (CFR) as at 31st March 2015. This was due to the review also highlighting the opportunity to apply consistently accounting practices from 2008 to 2015.

The council's CFR for the year 2016/17 is shown below in Table 3, and represents a key prudential indicator (PrI4). It includes Private Finance Initiative (PFI) and leasing schemes from the balance sheet which increase the council's borrowing need – although no borrowing is normally required against these schemes as a borrowing facility is included in the contract (if applicable). It shows that in 2016/17 the council's CFR has increased by £7.131m from £328.019m to £335.150m.

Table 3 CFR (£m)	31 March 2016 Actual £m	31 March 2017 Actual £m
Opening balance	**310.335**	**328.019**
Add capital expenditure funded from approved borrowing (as above)	25.442	10.951
Add adjustment to CFR	Cr 0.057	Cr 0.000
Less MRP	Cr 7.701	Cr 3.820
Closing balance	**328.019**	**335.150**

The 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 the council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR. Table 4 below highlights the council's net borrowing position (£114.660m) against the CFR excluding PFIs and Finance leases (£324.130m) because the debt liability for these are not in the net borrowing position of the council. The council has complied with this prudential indicator.

Table 4	31 March 2016 Actual £m	31 March 2017 Actual £m
Gross Borrowing	**239.475**	**266.890**
Net borrowing position	**102.991**	**114.660**
CFR – excluding PFIs and Finance Leases	**320.488**	**324.130**
Long term Assets	**534.528**	**573.716**
Net Borrowing % of Long term Assets	**19%**	**20%**

Another measure of prudency is the proportion of net to fixed assets. Table 4 shows that the net borrowing position of the council as at 31/03/17 is £114.660m this is 20% of the value of the council's long term assets which are valued on the council's balance sheet at 31/03/2017 (by comparison, the average position for our statistical neighbours was 25% at 31/03/16 – this data is not currently available for 31/03/17).

Other key Prudential Indicators are shown in Table 5 below:

Table 5 Prudential and Borrowing Limits	2015/16 £m	2016/17 £m
1. Authorised limit	**357.585**	**360.965**
2. Maximum gross borrowing in year	**252.797**	**266.890**
3. Operational boundary	**320.488**	**328.150**
4. Average gross borrowing	**238.838**	**249.840**
5. Financing costs as proportion of net revenue stream	**6.41%**	**5.50%**

1. **The authorised limit** - the authorised limit is the "affordable borrowing limit" set by the council as required by section 3 of the Local Government Act 2003. The council does not have the power to borrow above this level without the prior approval of full Council. Table 5 demonstrates that during 2016/17 the council's maximum gross borrowing was within its authorised limit.

2. **Maximum Gross borrowing** – is the peak level of borrowing in year.

3. **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. In 2016/17 the council's average borrowing position was less than the operational boundary.

4. **Average Gross Borrowing** – is an estimate of the borrowing level in the year see Table 7 for analysis of Borrowing.

5. **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. Net revenue stream is defined as Net Council Tax Requirement + Standard Spending Assessment (previously Formula Grant).

4. Prudential Indicators

The following tables show performance against statutorily required prudential and local indicators.

Table 6 – Prudential Indicators		Actual 2015/16 £m	Target 2016/17 £m	Position 31-Mar-17 £m	Variance to target	
PrI 1	Capital Expenditure	88.935	71.966	78.230	Dr £6.264m	9%
PrI 2	Ratio of financing costs to net revenue stream	6.41%	10.50%	5.50%	Cr5.00%	-48%
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£30.33	£7.98	£7.98		0%
PrI 4	Capital Financing Requirement	328.018	322.971	335.150	Dr £12.179 m	4%
PrI 5	Authorised Limit for external debt	357.585	360.965	360.965		0%
PrI 6	Operational Limit for external debt	320.488	328.150	328.150		0%

Ref	Prudential Indicator	Actual 2015/16 £m	Target 2016/17 £m	Position 31-Mar-17 £m
PrI 7	Gross Borrowing exceeds capital financing requirement	No	No	No
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	Yes
PrI 9	Total principle sums invested for longer than 364 days must not exceed	10.5	25.0	5.0

Ref	Prudential Indicator	Upper Limit	Lower Limit	Actual 2016/17	Position 31-Mar-17
PrI 10	Fixed Interest Rate Exposure	95%	40%	**83%**	**93%**
PrI 11	Variable Interest Rate Exposure	45%	0%	**17%**	**7%**
PrI 12	***Maturity Structure of Borrowing:***				
	Under 12 months	25%	0%	**25%**	**22%**
	12 months and within 24 months	25%	0%	**15%**	**13%**
	24 months and within 5 years	40%	0%	**13%**	**19%**
	5 years and within 10 years	50%	5%	**16%**	**12%**
	10 years and above	85%	30%	**31%**	**34%**

All Prudential indicators were complied with, and the reasons for any key variances are set out below:-

Prl 1 Total capital expenditure - variation of £6.264m

The £71.966m target for 2016/17 was based on the figure for the 2016/17 capital programme reported in the budget report presented to full council on the 25th February 2016. In addition to this there were £16.183m of carry forwards from 2015/16 and an in year budget adjustment of £1.266m which is mainly a result of changes in capital grant allocations during the year. This therefore led to a final budgeted capital programme for 2016/17 of £89.415m. Actual expenditure for the year was £78.230m (£80.847m shown in table 2 on page 4 above, less £2.617m of costs relating to finance leases included in the total capital expenditure figure which are excluded from the Prl 1 calculation). This resulted in an underspend against the revised budget of £11.185m which is a result of capital programme slippages which will be carried forward to 2017/18 and are forecast to be fully utilised.

Prl 2 Estimates of the ratio of financing costs to the net revenue stream variation of 48%

Walsall's ratio of capital financing to total revenue costs is low, which demonstrated good performance. This is favourably less than target due to a prudency review of MRP during the year.

Prl 4 Capital Financing Requirement variation of 4%

Increase in actual Capital investment being financed from borrowing was higher than capital expenditure target in Prl1 for 2016/17.

Prl 12 Maturity Structure of Borrowing

For the purpose of the maturity profile indicator the next call date on a LOBO loan is assumed; as it is the right of the lender to require repayment. However due to the low interest rate environment it is unlikely that in the medium term that any of the LOBO's will be called.

5. Treasury Position at 31st March 2017

The council's debt and investment position is organised by the treasury management team 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 position was as shown below in **Table 7**:

Table 7 Loans and Investments	Opening Balance £m	Average Rate At 31/03/16 %	Movement in Year £m	Closing Balance £m	Average Rate At 31/03/17 %
PWLB loans	106.621	4.55%	(9.966)	96.655	5.04%
Market Loans	102.000	4.64%	0.000	102.000	4.43%
Bonds	0.629	1.60%	(0.117)	0.512	2.60%
Total excluding WMCC debt	209.250	4.43%	(10.083)	199.167	4.02%
WMCC Debt	20.877	6.37%	(1.310)	19.567	6.24%
Total Borrowing over 12 months	230.127		(21.476)	218.734	
Temporary Loans	9.349	1.12%	45.248	54.597	0.79%
Gross Borrowing	239.476	4.60%	33.855	273.331	3.82%
Waste Disposal & Cannock Chase Debtor	6.686	6.85%	0.475	6.211	6.24%
Borrowing	232.790	4.54%	33.380	267.110	4.22%
CFR less PFI finance & leases	320.488		4.302	324.130	
Under Borrowing	87.698			57.020	
Debt as % of CFR	73%			73%	
Call Accounts	7.799	0.50%	2.431	10.230	0.30%
Short Term Investments	111.500	1.30%	25.500	137.000	0.90%
Long Term Investments	10.500	1.84%	5.500	5.000	1.56%
Total Investments	129.799	1.29%	22.431	152.230	0.89%
Net Borrowing Position	102.991		11.889	114.880	

The under borrowing position the council has represents additional external borrowing the council could choose to take if required, however this has currently been financed by internal borrowing – utilising the Council's accumulated cash reserves rather than taking out new external borrowing. This position will continue to be monitored and additional external borrowing may be undertaken if required for cash flow purposes.

6. The Borrowing Strategy for 2016/17 and Economic Context

The expectation for interest rates within the treasury management strategy for 2016/17 anticipated a low but rising Bank Rate during 2016/17 (starting in quarter 1 of 2017), 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.

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 23 June and the election of President Trump in the USA on 9 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 4 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.

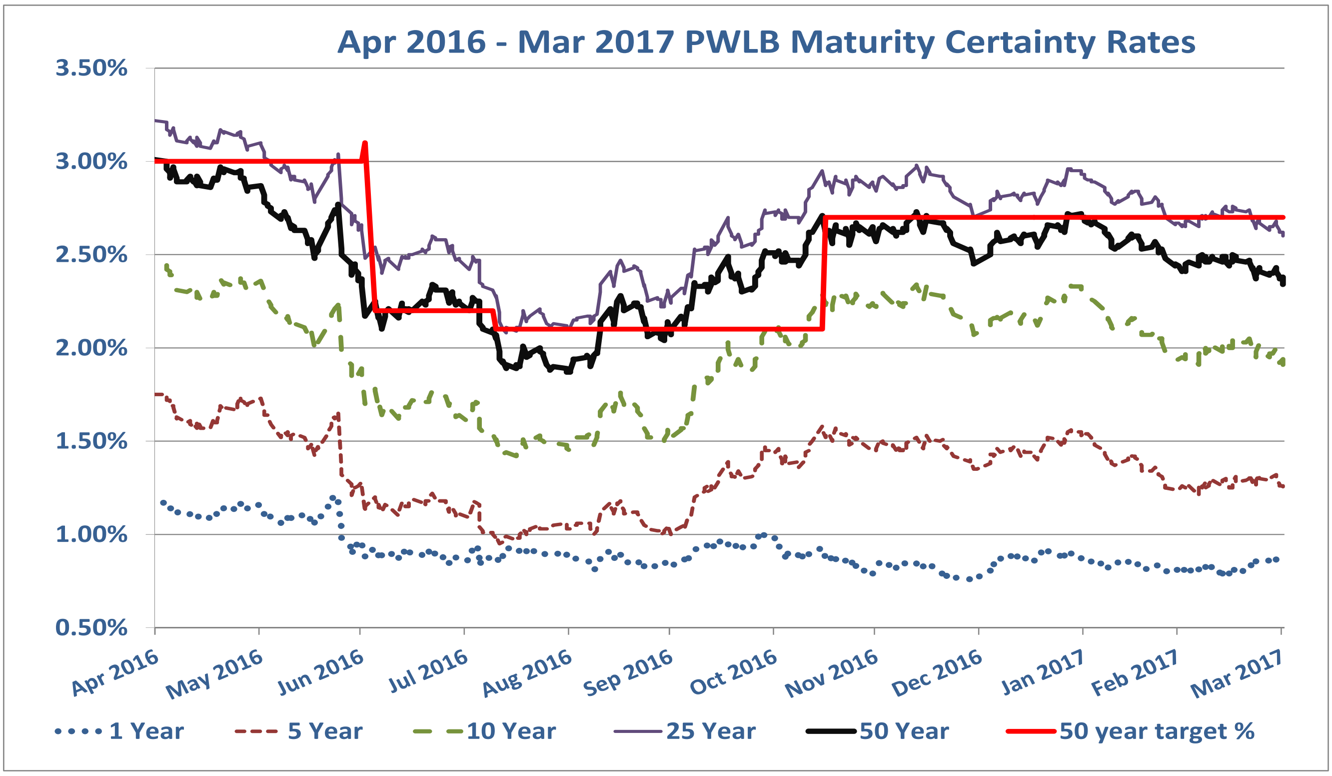
Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, 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 counties. 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.

PWLB borrowing rates. 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. Graph 1 shows PWLB certainty rates 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.

Graph 1 :- PWLB rates 2016/17



7. Borrowing Outturn for 2016/17

The council's long term borrowing (over 12 months in length) has decreased in the year from £230m to £219m, in the main due to a planned repayment in year of a £10m PWLB loan.

8. Investments in 2016/17 and Economic Context

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 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 4 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.

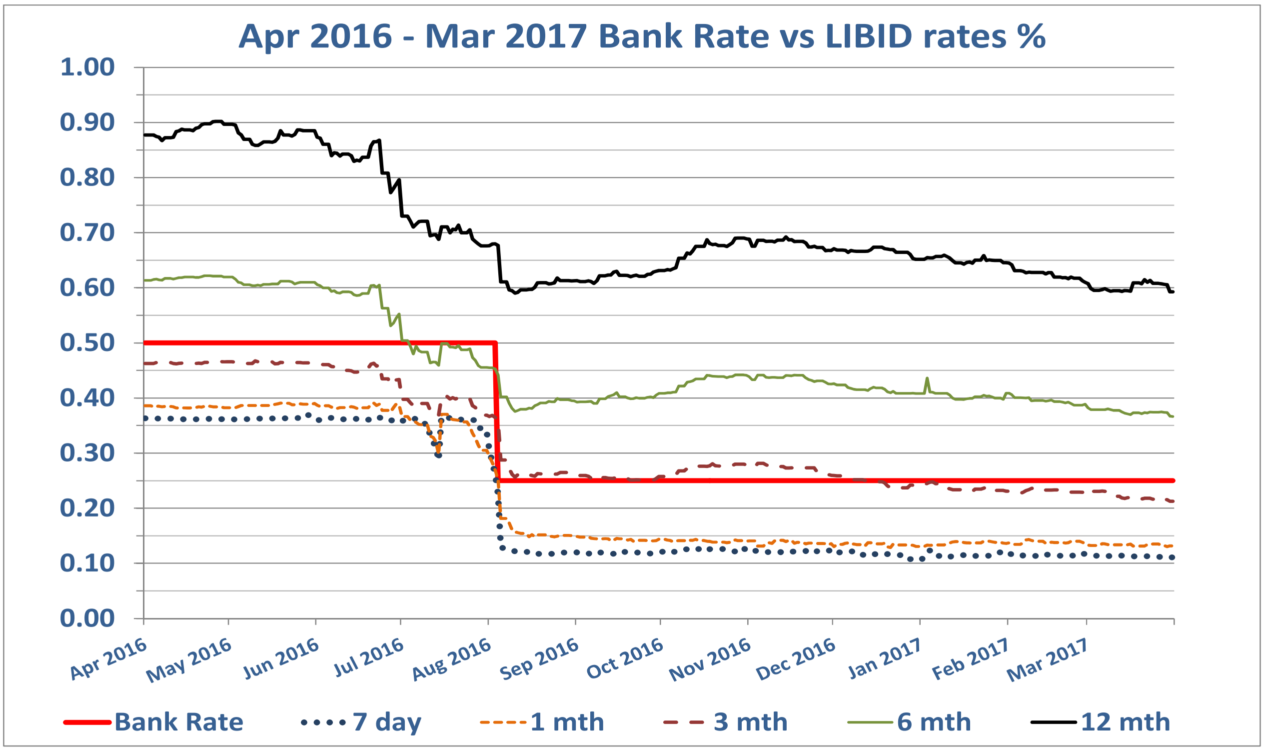


Table 9, on page 15 details our investment by call, short and long term. The 7 day rate above (average of 0.2004% across the year) is a fair comparator for at-call and the 12 month LIBID (average of 0.703% across the year) for short term investments.

Resources – the council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

Investment Policy – the council's investment policy is governed by Central Government guidance, which was implemented in the Annual Investment Strategy approved by Council on 25 February 2016. This policy set out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by KPMG survey of Building Societies. The investment activity during the year conformed to the approved Strategy, and the council had no liquidity difficulties.

At the end of 2016/17 Walsall's investment balance was £24.431m higher than that at the start of the year. **Table 8** below shows an age profile of the investments.

Table 8: Changes in Investments during 2016/17	Opening Balance £m	Closing Balance £m	Movement in Year £m
At Call accounts	7.799	10.230	Dr 2.431
Between 1 week and 12 months	111.500	137.000	Dr 25.500
Over 12 months	10.500	7.000	Cr 3.500
Total	**129.799**	**154.230**	**Dr 24.431**

Investments held by the council - the council maintained an average balance of £142m of internally managed funds. The internally managed funds earned an average rate of return of 0.86%. A comparable performance indicator is the average 12-month LIBID rate (which was 0.703%).

Recognising the continuation of the stresses on the world banking system, enhanced priority has continued to be given to security and liquidity. To reduce counterparty risk to the maximum possible extent the investment portfolio was spread across a range of appropriately credit rated institutions. **Table 9** shows the outturn on investment income in 2016/17.

Table 9 Investments Interest – Gross Income	2016/17 Approved Cash Limit £m	Outturn at 31 March 2017 £m	Over /(under) achieved cash limit £m	% Target Rate	% Average Rate achieved
Call Account investments	0.060	0.098	0.038	0.40%	0.30%
Short Term Investments	0.885	1.085	0.200	0.90%	0.90%
Long Term Investments	0.360	0.246	(0.114)	1.80%	1.56%
Total	**1.305**	**1.429**	**0.124**	**1.10%**	**0.89%**

9. Performance Measurement

One of the key requirements in the CIPFA Code of Practice on Treasury Management is the formal introduction of performance measurements relating to investments, debt and capital financing activities. The **Table 10** below shows that Walsall has consistently achieved a higher average return on it's investments and has reduced it's average rate it pays for its borrowing. The figures for 2011/12 to 2014/15 are dervied from the the CIPFA treasury management benchmarking club. For 2015/16, as a number of authorities no longer participate in this benchmarking exercise, the figures set out are based on a review of reports issued by the authorities statistical neighbours. Comparative figures for 2016/17 are not yet available.

Table 10 Comparison of Walsall with other councils Average Interest Rates	Walsall Rate Received %	Average Rate Received %	Walsall Rate Paid %	Average Rate Paid %
2011/12	1.80	1.20	4.53	4.53
2012/13	2.14	1.11	4.47	4.52
2013/14	1.29	0.85	4.51	4.26
2014/15	1.09	0.77	4.61	4.14
2015/16	1.08	0.76	4.54	4.18
2016/17	**0.86**		**3.94**	

Council approved the following local performance indicators, all of which were complied with during the year, **Table 11** provides the indicators for March 2017.

Table 11 - Local Indicators		Actual 2015/16 £m	Target 2016/17 £m	Position 31-Mar-17 £m	Variance to target	Met
L1	Full compliance with Prudential Code.	YES	YES	YES		Y
L2	Average length of debt.	15	15 to 25 years	15.37		Y
L3a	Net borrowing costs as % of net council tax requirement.	18.27%	25.00%	17.74%	-7.26%	Y
3b	Net borrowing costs as % of Tax Revenue.	10.67%	13.50%	10.88%	-2.62%	Y
L4	Net actual debt vs. operational debt.	73%	65%-80%	81.00%		Y
L5	Average interest rate of external debt outstanding excluding OLA.	4.43%	4.61%	3.80%	-0.81%	Y
L6	Average interest rate of external debt outstanding including OLA.	4.54%	4.72%	3.94%	-0.78%	Y
L7	Gearing effect of 1% increase in interest rate.	3.51%	5.00%	1.80%	-3.20%	Y
L8	Average interest rate received on STI vs. 7 day LIBID rate.	0.89%	0.50%	0.75%	0.25%	Y
L9	Average interest rate received:					
L9a	At Call investments.	0.50%	0.40%	0.30%	-0.10%	Y
L9b	Short Term Investments.	1.30%	0.90%	0.90%	0.00%	Y
L9c	Long Term Investments.	1.84%	1.80%	1.56%	-0.24%	Y
L10	Average interest rate on all ST investments (ST and At Call).	1.25%	0.80%	0.86%	0.06%	Y
L11	Average rate on all investments.	1.08%	1.10%	0.89%	-0.21%	Y
L12	% daily bank balances within target range.	100%	98.00%	100%	2.00%	Y

Local Authority Mortgage Scheme.

Under this scheme the council placed funds of £2m with Lloyds for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified investment categories. At 31st March 2017, 86 mortgages have been supported through the LAMs scheme using £1,787,415 of the indemnity cover. No further applications are now expected as the scheme has now closed to new applications and the authority is due to receive its £2m funds back in March 2018.