Meeting: Audit Committee **Date: 20th January 2016**
Adjourned Council **11th February 2016**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2016/17 (incorporating the Annual Investment Strategy 2016/17 and the Minimum Revenue Provision Policy 2016/17)

Is the decision a key decision? No

When does the decision need to be implemented?

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1. Proposal and Introduction

1.1 The Strategy outlined in this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2016/17 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

1.2 The overall objectives of the Treasury Management Strategy are:

- To ensure sufficient funding is available for day-to-day activities and capital projects through effective cash flow management
- To seek to reduce the impact on the revenue account of net interest costs through optimal levels of borrowing and investment
- To prioritise control of risks in investing cash and to then achieve maximum returns from those investments commensurate with proper levels of security and liquidity.

2. Reason for Proposal

2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25th March 2010.

2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This sets out the

Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 Under CLG regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

2.5 At its meeting on 22nd October 2015 Council approved the diversification of a proportion of the investment portfolio into peer-to-peer lending. On review of the process and returns of the initial period the Chief Finance Officer is recommending a prudent increase to the maximum exposure limit.

3. Recommendation(s) / Proposed Decision

Audit Committee

3.1 **That the Treasury Management Strategy for 2016/17 set out in Appendix 1 to the submitted report be endorsed.**

Council

3.2 **That an increase to the maximum exposure to Peer to Peer Lending from £100,000 to £200,000 as set out within Appendix 6 of this report be approved.**

3.3 **That the Treasury Management Strategy for 2016/17 (incorporating the Annual Investment Strategy 2016/17) be approved;**

3.4 **That the Prudential and Treasury Indicators 2016/17 laid out in section 5 and Appendix 1 of the submitted report be approved;**

3.5 **That in line with the Council's Constitution and Financial Regulations:**

(i) the Chief Finance Officer be authorised to take any decisions on borrowing and investments. (Delegations to the Section 151 Officer, paragraph 3.1(a));

(ii) that the Chief Finance Officer be authorised to invest temporarily or utilise surplus monies of the Council; (Financial Regulations, paragraph 14.5); and

3.6 **That the Annual Minimum Revenue Provision Policy Statement for 2016/17 as shown in Annex 2 to the submitted report be approved.**

3.7 That the Chief Finance Officer be delegated authority to revise the approved 2015/16 Minimum Revenue Policy if beneficial to the Council.

4. Background

4.1 The Council defines its treasury management activities as:

"The management of the authority's investments and cash flows, it's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

4.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

4.3 In particular, Section 32 of the Act requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This report, together with the rolling Capital Investment Plan, forms an integrated strategy to ensure the affordability of capital projects.

4.4 The provisional 2016/17 budget for interest payments has therefore been set at a level which will cover the Council's borrowing requirements in the Capital Investment Plan together with cash flow costs arising from capital projects.

4.5 The core balances for which cash backing is required reflects the level of Council reserves, provisions, unapplied grants and contributions and working capital. This links to the Capital Investment Plan and Medium Term Resource Plan which form the basis of the Council's longer term strategic cash flow forecasts.

4.6 The proposed strategy for 2016/17 covers two main areas:

Capital issues

- Capital expenditure and the Capital Financing Requirement
- the minimum revenue provision (MRP) policy.

Treasury Management issues

- core funds and expected investment balances
- Prudential and Treasury Indicators;
- prospects for interest rates;
- Borrowing;
- the Annual Investment Strategy;
- policy on use of external service providers;
- reporting arrangements and management evaluation;
- other matters

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

5. Capital expenditure and the Capital Financing Requirement

5.1 The Council's capital expenditure plans are the key driver of treasury management activity and provide a guide to the borrowing need of the Council to ensure its capital spending obligations can be met. This long term cash flow management may involve arranging long or short term loans, or using long term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.2 The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

5.3 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	**20.4**	**29.9**	**40.0**	**23.7**	**5.5**

5.4 The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	**20.4**	**29.9**	**40.0**	**23.7**	**5.5**
Financed by:					
Capital receipts	0.1	0.9	1.8	0	0
Capital grants	13.0	14.2	20.4	11.2	4.2
Capital reserves	1.0	0.1	1.2	0.3	(0.4)
Revenue	0.8	0.9	0.2	0.1	0.1
Contributions	0.6	0.4	0.2	0	0

Net financing need for the year	**4.9**	**13.4**	**18.7**	**9.6**	**1.6**

5.5 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

The Capital Financing Requirement

5.6 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £40M of such schemes within the estimated CFR.

The Council is asked to approve the CFR projections below:

£m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement					
Total CFR	**135**	**174**	**187**	**191**	**187**
Movement in CFR	**(1)**	**39**	**13**	**4**	**(4)**

Movement in CFR represented by					
Net financing need for the year (above)	5	44*	19	10	11
Less MRP/VRP and other financing movements	(6)	(5)	(6)	(7)	(7)
Movement in CFR	**(1)**	**39**	**13**	**3**	**(4)**

*Includes 17% share of liabilities relating to the Energy from Waste facility in Plymouth

6. Minimum Revenue Provision (MRP) policy statement

6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

6.2 The recommended MRP Policy for 2016/17 is set out at Appendix 2 to this report.6.3 The Chief Finance Officer will be fully reviewing this MRP policy in the coming months. The review will consider alternative options, the assessment may result in proposed changes to the above 2016/17 policy. If the 2016/17 policy does need updating the amendments will be presented within the Treasury Management Mid-Year Review report in the autumn of 2016.

6.3 The Chief Finance Officer will be fully reviewing this MRP policy in the coming months. The review will consider alternative options, the assessment may result in proposed changes to the above 2016/17 policy. If the 2016/17 policy does need updating the amendments will be presented within the Treasury Management Mid-Year Review report in the autumn of 2016.

6.4 Subject to Council approval the Chief Finance Officer will also review the existing approved 2015/16 MRP policy if beneficial to the Council.

7. Core funds and expected investment balances

Year End Resources £m	***2014/15 Actual***	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Fund balances / reserves	*35*	29	24	20	20
Capital receipts	*3*	1	3	3	3
Provisions	*2*	2	2	2	2
Other	*9*	10	10	10	10
Total core funds	***49***	**42**	**39**	**35**	**35**
Working capital*	*11*	10	10	10	10

(Under)/over borrowing	*11*	3	(13)	(23)	(23)
Expected investments	***71***	**55**	**36**	**22**	**13**

7.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

*Working capital balances shown are estimated year end; these may be higher mid year

8. Prudential and Treasury Indicators

8.1 Local Authorities are required to set indicators to demonstrate they have fulfilled the objectives of the Prudential Code and CIPFA Code of Practice on Treasury Management. The indicators for 2016/17 and future years are set out at Appendix1.

9. Prospects for interest rates

9.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view with a more detailed analysis provided at Appendix 3.

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

9.2 An economic commentary provided by Capita Asset Services is provided at Appendix 4 for information.

10. Borrowing

10.1 The capital expenditure plans set out in Section 5 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

10.2 The Council's borrowing portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	*2014/15 Actual*	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
External Debt					
Debt at 1 April	*138*	138	138	138	134
Expected change in Debt	*0*	0	0	(4)	(2)
Other long-term liabilities (OLTL)	*8*	7	39	36	34
Expected change in OLTL	*(1)*	32	(3)	(2)	(2)
Actual gross debt at 31 March	***146***	**177**	**174**	**168**	**164**
The Capital Financing Requirement	***135***	**174**	**187**	**191**	**187**
(Under) /over borrowing	***11***	**3**	**(13)**	**(23)**	**(23)**

10.3 In recent years the Council has been in an over-borrowed position giving rise to a key strategy aim of early repaying existing loans. The situation will reverse in 2016/17 with borrowing levels falling below the requirement and the Council utilising its cash resources (internal borrowing) to fund the balance in the short term.

10.4 New Capital schemes will significantly increase the internal borrowing position beyond the level the CFO believes is prudent for the Council to successfully meet its future commitments. The level of external borrowing therefore needs to increase to close the gap to the CFR and the rate forecasts in section 9 indicate the optimum timing for borrowing to be in the short term prior to expected rate rises.

10.5 Consequently the borrowing strategy for 2016/17 will focus on taking new borrowing of up to £10million to restrict the projected internal borrowing position to a level of around £10M and retain sufficient cash to back core funds. The CFO will aim to borrow within a preferred maturity range of 10 to 25 years to lock into affordable rates over the life of new assets.

10.6 Consideration will also be given to forward refinancing of existing loans maturing in subsequent years if new rate projections forecast a significant rise in future borrowing levels.

10.7 The CFO will also continue to monitor for opportunities (sharp drop in rates) to reschedule existing loans with the aim of achieving revenue savings and/or reducing the average maturity structure of the debt portfolio.

10.8 The budget for payment of interest on debt for 2016/17, assuming new borrowing per para 10.5,is based on an overall borrowing rate of 4.34% (4.39% in 2015/16).

11. ANNUAL INVESTMENT STRATEGY

Investment policy

11.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice.

11.2 The Council's investment priorities, in line with CLG Guidance, are: -

the security of capital
the liquidity of its investments.

11.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

11.4 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

11.5 Appendix 5 to this report details the creditworthiness policy for selection of counterparties and management of investments to achieve the objectives of the Investment Policy.

11.6 A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

11.7 Investment instruments identified for use in the financial year are listed at Appendix 6 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

11.8 The Investment Strategy is based on current projected cash levels. If any significant changes occur to cash levels, then the Investment Strategy will need to be reviewed.

11.9 The Council does not adopt a specific Ethical Investments policy but officers will have regard to any questionable activity on the part of a counterparty or sovereign government before depositing funds.

Investment Strategy

11.10 Investment returns are likely to remain low in 2016/17 despite forecast rises in Bank rate (see section 9).

11.11 Expected investment levels at section 7 are subject to increasing risk. Counterparty pressure (lack of suitable risk institutions) have eased slightly but remains a significant limiting factor. Investment rates available to the Council continue to be influenced to the downside due to the effects of Quantitative Easing and Funding for Lending providing cheaper cash for Banks.

11.12 The perceived risks to the Bank Rate forecasts are to the downside (i.e. rate rises may be later than expected). This scenario justifies the continued use of longer term deposits to lock into higher rates and provide guarantee of return in the short term. A total of £12 million is currently locked out beyond 2016 and this will be increased subject to suitable opportunities and compliance with the Treasury Indicator for prudent amounts to be invested for over 364 days.

11.14 A proportion of funds will be held in business reserve and notice accounts to ensure appropriate liquidity is maintained for normal cash flow purposes and unexpected events and strategy transactions (eg repayment of loans prior to rescheduling).

11.16 The external Fund Manager's strategy and performance will be subject to continuous monitoring and the CFO will vary the size of the holding in line with the aims of the overall strategy and the expected reduction in cash balances.

11.17 The interest receipts budget for 2016/17 is based on an average investment balance of £55 million and an average investment rate of 1.17% (the estimate for 2015/16 was 0.94%).

11.18 The CFO will continue to monitor the market for new opportunities to increase investment return and will report to Council as appropriate.

11.19 In October 2015 Council approved the use of peer to peer lending as a new investment vehicle and a review on the early process and returns is included at Appendix 7 to this report. The initial period has been successful but too short a time to be fully confident of the risks at this stage. The CFO is therefore recommending only a limited increase in exposure up to £200,000 for 2016/17.

11.20 Council further approved exposure to the Local Authorities Property Fund. Officers have delayed any investment to investigate potential new opportunities from other Funds permitted within the list of approved instruments at Appendix 6. The CFO will aim to invest £5M to £10M in such a fund during 2016/17 in line with Council approval.

12. Treasury Management Consultants

12.1 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

12.2 The Council acknowledges that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

12.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

13. Reporting Arrangements and Management Evaluation

13.1 Members will receive the following reports for 2016/17 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy report (this report)
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

13.2 The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing/repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

13.3 The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit. Any such change will be reported to the next meeting of the Council.

13.4 The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

13.5 The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Executive Lead for Finance, relevant Director and Group Leaders
- Periodic meeting of the Treasury Manager/Chief Finance Officer to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Annual meetings with the Council's appointed Fund Managers
- Membership and participation in the Capita Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

14. Other Matters

14.1 **Loans to organisations**. The Council has provided loans or loan facilities to the following organisations. These are policy decisions and not part of the treasury management strategy except for identifying any impact on cash balances:

Organisation	Value of loan at 01/04/15	Full Term of Loan	Rate
Torbay Economic Development Company*	£575,000	25 years	Linked to Council borrowing Rate
Torbay Economic Development Company*	£1,455,000	25 years	Linked to Council borrowing Rate
Academy Schools	£213,000	3 to 7 years	Linked to Council borrowing Rate
Babbacombe Cliff Railway	£13,000	10 years	Linked to Council Borrowing Rate
Housing Loans	£2,000	No new loans issued. Term linked to individual mortgages	Linked to market mortgage rates
Sports Clubs	£30,000	20 years	Linked to Council Borrowing Rate
Sports Clubs	£5,000	10 years	Linked to Council Borrowing Rate
Suttons Seeds Ltd **	£1,500,000**	3 years	Market rate
Torbay Coast & Country side Trust	£900,000	45 years	Linked to Bank Base Rate

*Not fully drawn down as at 31st December 2015

**Original advance repaid and no further drawdowns on the facility to date

The current overall rate of interest on these loans will be reported at the meeting.

14.2 **Advancing cash**. If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

14.3 **Investing cash for Local Payment Scheme (LPS) Schools.** If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

14.4 **Soft Loans.** New Financial Instruments require the recognition of soft loans i.e. where a loan is made at a lower than ‘competitive’ rate the cost implicit in achieving the lower rate must be reflected in the Council’s accounts.

14.5 **Anti-Money Laundering.** The Council will comply with all relevant regulations.

14.6 **Intranet**. The Council’s treasury management procedures and other relevant documents can be accessed on the Council’s intranet site within the financial services pages.

Appendices

Appendix 1	Prudential and Treasury Management Indicators
Appendix 2	Policy on Minimum Revenue Provision for 2016/17
Appendix 3	Interest Rate Forecasts 2016 – 2019
Appendix 4	Economic Background
Appendix 5	Creditworthiness Policy
Appendix 6	Specified and Non-specified Investments
Appendix 7	Review of Peer to Peer Lending

Background Documents

Appendix 1

Prudential & Treasury Management Indicators 2016/17 – 2018/19

Affordability prudential indicators

Section 5 of the report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to 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.

%	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	9.11	11.55	11.98	12.73

The estimates of financing costs include current commitments and the proposals in this budget report.

Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

%	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax - band D	0.00	1.09	0.81	0.04

<u>Limits on Borrowing and Long-Term Liabilities</u>

***The Operational Boundary*.** This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	148	167	170	170
Long term liabilities	40	40	38	36
Total	188	207	208	206

The Authorised Limit for external borrowing and long-term liabilities**.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	167	194	202	209
Other long term liabilities	40	40	38	36
Total	207	234	240	245

Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits

Interest rate Exposures				
	2015/16 Upper %	**2016/17 Upper %**	**2017/18 Upper %**	**2018/19 Upper %**
Limits on fixed interest rates:				
• Debt	100	100	100	100
• Investments	80	80	80	80
Limits on variable interest rates:				
• Debt	30	30	30	30
• Investments	75	75	75	75

Maturity Structure of fixed interest rate borrowing 2016/17			
	Lower	**Upper**	**Projected 31/03/2017**
Up to 10 years	5%	50%	19%
10 to 20 years	5%	50%	19%
20 to 30 years	10%	60%	24%
30 to 40 years	10%	50%	27%
Over 40 years	0%	50%	11%

Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The limits below allow for the external Fund Manager holding along with 50% of the in-house total to be fixed longer term.

Maximum principal sums invested for over 364 days					
£m	**2014/15 Actual**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	27	51	28	16	12

Appendix 2

Policy on Minimum Revenue Provision for 2016/17

1. The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

2. The calculation of the provision is prescribed by legislation, which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

3. One of the aims of this legislation is to ensure that the repayment of principal owed for capital expenditure funded from unsupported borrowing is charged on a prudent basis. Central Government guidance says:

   > "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant."*

4. The provision for all assets, irrespective of asset life, for expenditure funded from supported borrowing and prudential borrowing prior to 2007/08 will continue to be charged at a minimum 4% per annum which is in line with central government's "support" for these costs within the Council's formula grant.

5. Torbay Council's Annual Minimum Revenue Provision Policy Statement states that the calculation of the MRP is as follows:

   i) The Council will budget as a minimum for a provision of 4% of its capital financing requirement calculated as at 31st March of the preceding financial year. The capital financing requirement (CFR) is a calculation of a Council's "need to borrow" which is, in summary, the total of expenditure funded from borrowing less any repayments or similar previously made.

   To calculate the 4% provision the Council will use the "regulatory method" as identified in the Department of Communities and Local Government's (DCLG) Informal Commentary on the legislation.

   This calculation allows for the adjustments of the following items:

   - Deducting any expenditure and revenue provision made in relation to unsupported borrowing after 2007/08. The charge for unsupported borrowing after 2007/08 is calculated separately as described in paragraph ii below.

   - "Adjustment A" which relates to a previous calculation change in 2004

- Adjustment of MRP to ensure no disadvantage results to Councils from the regulations compared to previous MRP regulations Adjustment of MRP to ensure no disadvantage results to Councils from the requirements for accounting for Finance Lease and Private Finance Initiative schemes

ii) For capital expenditure funded from unsupported borrowing, less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset.

The Council will use the “asset life method” for the calculation.

For 2016/17 unsupported borrowing will be further classified as either operational or investment, based on the expected use of the underlying asset.

The MRP for each operational asset will be calculated, as in previous years, using an annuity calculation based on the Council’s estimated pooled borrowing interest rate for the relevant year as detailed in the Treasury Management Strategy for that year. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes operational.

The MRP for each investment asset will be calculated on the equal instalment method over the estimated life of the asset up to 50 years. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet ready for service. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes available for rent.

6. Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.

7. The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) and, if an operational asset an annuity calculation or if an investment asset an equal instalment calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

8. In exceptional circumstances a Service may be allowed to extend the repayment period beyond the prudent asset life but this may be limited to the interest element. The increased revenue cost over the longer term will be a Service issue.

9. The Council will not change its existing “Adjustment A” calculation.

10. To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

11. Loans

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003. Regulation 25(1) (b) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003 No 3146).

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Option 3 linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. As this is a temporary arrangement and the expectation is that funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position will be reviewed on an annual basis.

12 The Chief Finance Officer will be fully reviewing this MRP policy in the coming months. The review will consider alternative options, the assessment may result in proposed changes to the above 2016/17 policy. If the 2016/17 policy does need updating the amendments will be presented within the Treasury Management Mid-Year Review report in the autumn of 2016.

Appendix 3

Interest Rate Forecasts 2016 – 2019

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective for new borrowingas of the 1st November 2012.

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.60%	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

Appendix 4

Economic Background (supplied by Capita asset Services, 21/12/2015)

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Appendix 5

Creditworthiness policy

1. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

    - credit watches and credit outlooks from credit rating agencies;
    - CDS spreads to give early warning of likely changes in credit ratings;
    - sovereign ratings to select counterparties from only the most creditworthy countries.

2. This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands, illustrated below which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	**1.25**	**1.5**	**2**	**3**	**4**	**5**	**6**	**7**
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 2yrs	up to 1yr	up to 6mths	up to 100days	no colour

3. A specific creditworthiness colour band has been created for UK part-nationalised Banks which is based upon the implicit sovereign government guarantee in these institutions in place of their individual credit ratings. (This band is now effectively limited to the Royal Bank of Scotland Group.)

4. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

5. All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service and the CFO will vary the approved lending list as appropriate to these changes.

    - if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
    - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

6. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ and also have banks operating in sterling markets. The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		**AA+**
Australia	Netherlands	United Kingdom
Canada	Singapore	
Denmark	Sweden	
Finland	Switzerland	
Germany	USA	

6. Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on government support for banks and the credit ratings of that government support.

7. The Council uses an external fund manager to manage a proportion of the investment portfolio available to offset the borrowing requirement. The use of an external fund manager allows the Council to spread its treasury risk in relation to type of investment, investment counterparties and manager opinion.

8. The external fund manager will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines and duration and other limits in order to contain and control risk.

9. The fund manager mandate allows for additional amounts to be placed and the CFO will exercise this option if this is deemed to be in the best interests of the Council up to a limit of 50% of the total portfolio. As Council’s cash investment reduce it is likely the Fund Manager holding will be correspondingly decreased. The Council retains the right to withdraw all or part of the fund at seven days notice.

Appendix 6

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:
All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Creditworthiness system colour band green	In-house and Fund Manager
UK part nationalised banks	Creditworthiness system colour band blue	In-house and Fund Manager
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+	In-house and Fund Manager
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	* MMF rating AAA	In-house and Fund Managers
2. Money Market Funds	* MMF rating AAA	In-house and Fund Managers
3. Enhanced Money Market Funds with a credit score of 1.25	* MMF/bond fund rating	In-house and Fund Managers
4. Enhanced Money Market Funds with a credit score of 1.5	* MMF/bond fund rating AAA	In-house and Fund Managers
5. Bond Funds	* bond fund rating AAA	In-house and Fund Managers
6. Gilt Funds	* bond fund rating AAA	In-house and Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The maturity limits recomended will not be exceeded. Under the delegated powers the Chief Finance Officer can set limits that are lower based on the latest economic conditions and credit ratings.

Investment Type	Minimum Credit Criteria	Use	Max investment or % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Sovereign rating AA+	In-house and Fund Manager	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	--	In-house	50%	5 years
Term deposits (over one year) – banks and building societies	Creditworthiness system colour band "Purple"	In-house and Fund Manager	75%	2 years
Collateralised deposit	See note 1	In-house	20%	5 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band "Green"	In-house and Fund Manager	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band "Purple"	In-house and Fund Manager	50%	1 year
UK Government Gilts/Treasury Bills	Sovereign rating AA+	In-house and Fund Manager	100%	5 years
Bonds issued by multilateral development banks	AA+	In-house and Fund Manager	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	In-house and Fund Manager	50%	5 years
Structured Deposits	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	In-House	25%	2 years
Commercial paper issuance by UK banks covered by UK Government guarantee	Sovereign rating AA+	Fund Manager	35%	5 years
Commercial paper other	Creditworthiness system colour band "Red"	Fund Manager	35%	5 years
Floating Rate Notes	Long-term AA	In-house and Fund Manager	35%	5 years
Property Fund: *the use of these investments would normally constitute capital expenditure*	--	In-house and Fund Manager	£10million	5 years

Investment Type	Minimum Credit Criteria	Use	Max investment or % of total investments	Max. maturity period *
Property Fund: *not classified as capital expenditure*	--	In-house	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1.Bond Funds 2.Gilt Funds	AAA	Fund Manager	35%	5 years
Corporate Bonds	AA	In-house and Fund Manager	35%	5 years
Other debt issuance by UK Banks covered by UK Government guarantee	Sovereign rating AA+	In-house and Fund Manager	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	In-House	£200,000	5 years

*Of which in any class of investment:

- 10% maximum 3 years (or over)
- 25% maximum 2 to 3 years

Notes

1. As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.

Appendix 7

Review of Peer to Peer Lending (as at 23rd December 2015)

At its meeting on 22nd October 2015 Council approved:

"that the Annual Investment Strategy be varied to allow diversification of the investment portfolio into higher risk investments, initially on an experimental basis, and approve investment in one or both of the following instruments:

- peer to peer lending – with overall investment of £100,000; maximum individual loan amount of £1,000; maximum loan term of five years; and limited to credit ratings 'A+', 'A' and 'B'; and
- The Local Authorities Property Fund."

In response Officers have registered the Council with Funding Circle, one of the leading peer to peer providers and to date have applied an investment sum of £60,000 (in tranches of £10,000)

Of this sum:

- £59k has been applied to active loans spread over 105 businesses
- £1k is currently bid on 2 loans yet to be applied.

The Council's contributions represent a small element of each overall loan. Loan amounts generally range from £200 to £1000 maximum. This maximum has only been applied to secured loans such as property related loans where investors have a first charge over the assets. The proportion of secure/unsecured loans is:

Secured Loans	37%
Unsecured loans	63%

The maximum exposure to any one business is 1.7% of the overall investment.

The proportion of loans by risk rating is:

A+	75%
A	16%
B	9%

The proportion of loans by duration rating is:

Up to 1 year	19%
1 to 2 years	25%
2 to 3 years	13%
Over 5 years	43%

The **gross return** on active loans stands at **8.9%**
The expected **net yield**, after charges and assumed bad debt, is **6.8%**

Earnings to date are:

	£
Interest	215.66
Promotions	245.20
Less: charges	(25.82)
Net income	435.04

There have been no defaults on any Council backed loan so far.

Loan repayments are received on the month anniversary of each loan part consisting of principal and interest (interest only on property related loans), net of a fee of 1%.

Reliance is placed on the Funding Circle's evaluation of Business's and its risk ratings for loan selection. Officers have viewed individual loan requests during this experimental period but separate assessment will not be practical given the high volume of loan bids and available resources.

While loan selection will therefore be "one-click" process, the CFO has ruled that the use of the automated bidding system is not appropriate for Council funds and Officers will continue to "have sight" of each loan by manual selection.