Public Document Pack

Shropshire Council

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| Date: | Thursday, 30 November 2017 |
| Time: | 1.30 pm |
| Venue: | Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND |
| Contact: | Michelle Dulson, Committee Officer<br>Tel: 01743 257719<br>Email: michelle.dulson@shropshire.gov.uk |

# AUDIT COMMITTEE

# TO FOLLOW REPORT (S)

**9 Management Report: Treasury Strategy Mid-Year Report 2017/18** (Pages 1 - 22)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is to follow.

Contact: James Walton (01743) 258915

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| Committee and Date | Item |
|---|---|
| Audit Committee<br>30 November 2017<br><br>Cabinet<br>6 December 2017<br><br>Council<br>14 December 2017 | <br><br><br><br><br><br><br>Public |

# TREASURY STRATEGY 2017/18 – MID YEAR REVIEW

**Responsible Officer** James Walton
e-mail: james.walton@shropshire.gov.uk Tel: (01743) 258915

## 1. Summary

1.1 This mid year Treasury Strategy report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management 2011 and covers the following:-

- An economic update for the first six months of 2017/18
- A review of the Treasury Strategy 2017/18 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2017/18
- A review of the Council's borrowing strategy for 2017/18
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2017/18

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.44% on the Council's cash balances outperforming the benchmark by 0.33%. This amounts to additional income of £265,650 for the first six months of the year which is included within the Council's projected outturn position.

- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

## 2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

2.2 Members note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.(See paragraph 10.3).

# REPORT

## 3. Risk Assessment and Opportunities Appraisal

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

## 4. Financial Implications

4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

4.2 The six monthly performance is above benchmark and has delivered additional income of £265,650 which will be reflected in the Period 6 Revenue Monitor.

4.3 The Council currently has £150m held in investments as detailed in Appendix A and borrowing of £318m at fixed interest rates.

## 5. Background

5.1 The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council for the first six months of the financial year.

5.2 The CIPFA Code of Practice on Treasury Management 2011 was adopted by Council in February 2012 and the primary requirements of the Code were outlined in the Treasury Strategy 2012/13.

## 6. Economic update

6.1 **Global Economy** – Growth in the US economy has been volatile in 2015 and 2016 and 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Federal Reserve has started on a gradual upswing in rates with three increases since December 2016 and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018.

6.2 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property. Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

6.3 Economic growth in the EU has been lack lustre for several years after the financial crisis despite the European Central Bank eventually cutting its main rate to minus 0.4% and embarking on a massive programme of Quantitative Easing. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 and 0.6% in quarter 2. However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely that rates will start to rise until possibly 2019.

6.4 **UK Economy** – After the UK economy's strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only 0.3% and quarter 2 was 0.3% which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

6.5 However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

6.6 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 2.9% in August, and so the Bank revised its forecast for the peak to over 3% at the 14 September MPC meeting.

6.7 This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

6.8 With so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

## 7 Economic Forecast

7.1 The Council receives its treasury advice from Capita Asset Services. Their latest interest rate forecasts are shown below:

| | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
|---|---|---|---|---|---|---|---|---|---|
| Bank Rate | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% |
| 5 Year PWLB | 1.50% | 1.60% | 1.60% | 1.70% | 1.80% | 1.80% | 1.90% | 1.90% | 2.00% |
| 10 Year PWLB | 2.10% | 2.20% | 2.30% | 2.40% | 2.40% | 2.50% | 2.60% | 2.60% | 2.70% |
| 25 Year PWLB | 2.80% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% |
| 50 Year PWLB | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% |

7.2. In November there were two major developments :-

- The MPC voted 7-2 to remove the post EU referendum emergency monetary stimulus implemented in August 2016 by reversing the cut in Bank Rate at that time from 0.5% to 0.25%.
- The MPC also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1% by 2020. In effect increases are likely to be gradual and to a limited extent.

7.3. Capita Asset Services undertook its last review of interest rate forecasts on 7 November following the announcement of the Monetary Policy Committee on the 2 November to increase the Bank rate to 0.50%, the first increase since 2007. The next Bank rate increase to 0.75% is not expected until December 2018 with a further increase to 1% expected in December 2019.

7.4. Long term PWLB rates are expected to rise to 2.7% in June 2018 before steadily increasing over time to reach 3.1% by December 2019.

7.5. The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

7.6. As the threat of potential risks from a number of sources still remains, caution must be exercised in respect of all interest rate forecasts at the current time. Economic forecasting remains difficult with so many influences weighing on the UK. Capita's bank rate forecasts will be liable to further amendment in 2017/18 depending on how economic data transpires.

## 8. Treasury Strategy update

8.1 The Treasury Management Strategy (TMS) for 2017/18 was approved by Full Council on 23 February 2017. This Treasury Strategy does not require updating as there are no changes required at the current time to the prudential and treasury indicators previously approved. Any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.

## 9. Annual Investment Strategy

9.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As outlined in paragraph 6 & 7 above it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low. In this context it is considered that the Annual Investment Strategy approved on 23 February 2017 is still fit for purpose in the current economic climate.

9.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

9.3 In the first six months of 2017/18 the internal treasury team outperformed its benchmark by 0.33%. The investment return was 0.44% compared to the benchmark of 0.11%. This amounts to additional income of £265,650 during the first six months which is included within the Council's projected outturn position.

9.4 A full list of investments held as at 30 September 2017, compared to Capita's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2017/18 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

9.5 As illustrated in the economic background section above, investment rates available in the market were at an historical low point during the first six months of 2017/18. The average level of funds available for investment purposes in the first six months of 2017/18 was £160 million.

9.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £1.487 million as reported in the monthly revenue monitoring reports due to no long term borrowing being undertaken and investment returns achieved being higher than anticipated.

## 10. Borrowing

10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**. The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.

10.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2017/18 and have not been previously breached.

10.3 The Council has put in place a Capital Investment Board, which is an officer group to oversee a revision of the Capital programme with greater focus on investment to deliver financial returns to the Council. The three key areas of focus of the Capital Investment Board and return on investment, cost reduction and social value. Proposals considered by the Capital Investment Board are formulated into reports with appropriate recommendations that then flow through to Cabinet and, where necessary, Council. No new external borrowing is currently required for future years, although discussions are currently being held at the Capital Investment Board where outline business cases are being considered. The schemes being considered are already within the current authorised borrowing limits in place. In the event the authorised borrowing limits need to be amended, this will be reported to Council for approval. The table below illustrates the low and high points across different maturity bands for borrowing rates for the first six months of the financial year.

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| Low | 0.80% | 1.14% | 1.78% | 2.52% | 2.25% |
| Date | 03/05/2017 | 15/06/2017 | 15/06/2017 | 08/09/2017 | 08/09/2017 |
| High | 1.16% | 1.62% | 2.22% | 2.83% | 2.57% |
| Date | 15/09/2017 | 28/09/2017 | 28/09/2017 | 07/07/2017 | 07/07/2017 |
| Average | 0.94% | 1.30% | 1.95% | 2.65% | 2.39% |

## 11. Debt Rescheduling

11.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year no debt rescheduling was undertaken.

| |
|---|
| **List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**<br>Council,  23 February 2017, Treasury Strategy 2017/18 |
| **Cabinet Member:**<br>Peter Nutting, Leader of the Council |
| **Local Member**<br>N/A |
| **Appendices**<br>A. Investment Report as at 30th September 2017<br>B. Prudential Limits<br>C. Prudential Borrowing Schedule |

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CAPITA

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Asset Services

# Shropshire Council

## Monthly Investment Analysis Review

September 2017

# Monthly Economic Summary

## General Economy

Changing interest rate expectations were to the fore in September, with investors reining in their expectations following the Bank of England's Monetary Policy Committee (MPC) meeting. This suggested that a rate hike could be appropriate in the coming months, possibly as soon as November.

The month started with the release of the Markit/CIPS Manufacturing Purchasing Manager's Index (PMI), which defied expectations of a small fall to 55.0 and instead rose to 56.3 for August from the 55.3 figure reported for July. The headline reading was supported by increases in both the output and new orders balance, suggesting the recent strength of the survey will be maintained. This raised expectation that, after a disappointing start to the year, the sector could provide a decent boost to GDP in the second half of the year. A rise in the number of total new orders reflected stronger domestic demand as the export orders balance edged down – suggesting we might start to see import growth ease as UK firms and consumers substitute domestic goods for imports.

However, August's Services PMI suggests the economy is struggling to pick up much pace in the third quarter. The headline business activity index fell to 52.3 from 53.8 in July, a greater fall than expected. Adding to that, the UK Construction PMI continued last month's disappointment and fell further to a twelve month low of 51.1. While still indicating "expansion", it is drifting close to the 50 dividing line between growth and contraction. Retail sales, on the other hand, brought good news and suggested consumers are faring well and showing resilience in the face of the real pay squeeze. Volumes rose by a hefty 1.0% for August – beating the consensus expectation of a 0.2% rise – along with July's figure being upwardly revised to 0.6% from 0.3%. While retail sales are very volatile on a month-by-month basis, and high-street spending growth has eased this year, the latest data suggests households are continuing to provide some support to the overall economy.

Inflation day brought something of a surprise with the Consumer Price Index (CPI) hitting its joint highest (with May) figure in more than 5 years of 2.9% for August as households paid more for fuel and clothing, which jumped by 4.6% y/y. Wage growth, however, yielded a 2.1% y/y rise, giving little change from previous month's growth rates. The stagnant wage growth paired with both higher than expected inflation and low unemployment – which unexpectedly fell further this month to its lowest since 1975 during the three months to July at 4.3% – came just ahead of the Bank of England's MPC meeting.

Whilst the MPC voted 7-2 in favour of keeping policy unchanged in September, the minutes stated that *"some withdrawal of monetary stimulus is likely to be appropriate over the coming months"*. The day after the meeting, the 'arch dove' of the MPC, Gertjan Vlieghe, gave a surprise at the annual conference of the Society of Business Economists in London by adding his voice to the calls for an end to a decade of historically low interest rates. He paired the rise in inflation with the tightening labour market and remarked *"…we are approaching the moment when the Bank Rate may need to rise"*. These further comments caused the pound to leap above the $1.36 mark as traders and investors positioned themselves in anticipation of a potential interest rate rise at the MPC's next meeting in November. Markets currently price the probability of a rate rise in November at around 70%.

Moving on to the public finances, the UK posted its smallest budget deficit for any August since 2007 – boosted by record sales tax revenues for the month. The deficit was reported at £5.7bn, down 18% compared with August 2016. Forecasts had expected a much larger deficit of £7.1bn. August's surprisingly strong performance followed July's unexpected budget surplus – a benefit for Chancellor Philip Hammond who is under pressure to relax austerity measures when he announces budget plans in November.

The final reading of second quarter growth figures saw the annual rate revised down to 1.5% from the 1.7% previously recorded, resulting in the weakest y/y growth since 2013. However, some analysts were quick to point out that the revision was due to an uplift in 2016 growth, rather than a weakening in more recent times. The quarterly growth figure remained unchanged at 0.3%. There was also a bit of positive news in terms of the composition of growth in the second quarter, which showed bigger contributions from business investment and exports than previously thought.

On the other side of “the pond”, the US non-farm payrolls increased by a softer 165,000 last month, marginally below the consensus forecast of 179,000. Additionally, the gains in the preceding two months were revised down modestly and the unemployment rate edged back up to 4.4% from 4.3%. Even though the hurricane season did cause some temporary disruption, third quarter GDP growth is still predicted to be between 2.5%-3.0% annualised, with the final estimate for Q2 GDP revised marginally upwards to 3.1% from 3.0%. August showed consumer prices accelerated amid a jump in the cost of gasoline and rents. The month-on-month figure rose to 0.4%, while the annual rate increased from 1.7% to 1.9%. This sign of firming inflation provided further evidence that the Federal Reserve may tighten policy rates again before the year is out. This view gained more credence on the back of the actual policy meeting, where the updated individual economic and interest rate projections saw 11 out of 16 members expecting one more rate hike before the year is out. In addition, the central bank announced its plans for trimming its balance sheet. The plan was that, come October, it would begin to reduce its $4.2 trillion in holdings of US treasury bonds and mortgage backed securities by cutting $10 billion each month from the amount of maturing securities it reinvests. This level would then increase by $10bn per quarter until it reached $50bn in October 2018.

A little closer to home, the European Central Bank said it expects key interest rates to remain at their present levels for an extended period of time, and they confirmed asset purchases of €60bn per month are set to run until the end of this year or beyond, if necessary. However, the Bank is widely expected to announce its own plans for tapering its purchase programme at its next meeting in late October. On the data front, Eurozone Q2 GDP growth was confirmed at 0.6%, with annual growth revised upward to 2.3% from 2.2%. Unemployment is currently at 9.1%, with the Czech Republic having the lowest rate at 2.9% followed by Germany with 3.6%.



## Housing

Nationwide reported that house prices in London have fallen for the first time since 2009, whilst prices across Britain overall rose at their slowest pace in more than four years for the month of September. Annually, house prices in London fell by 0.6% whilst nationally house prices rose by 2.0%, only a slightly weaker figure than the 2.1% growth reported for August. This national figure is, however, still the weakest figure since June 2013. Conversely, Halifax reported monthly house prices hit an eight month high in August of 1.1%, adding to signs the housing market has regained some strength after its post-Brexit slow down. Annual house price growth picked up to 2.6% from 2.1% in July. The Bank of England also commented that mortgage approvals were much stronger than expected in July.

## Forecast

Capita Asset Services (CAS) has not changed their forecasts this month. While market interest rate expectations have changed sharply through September, the Interest Rate Strategy Group are awaiting the outcome of the next MPC meeting on 2nd November before making any changes to its current view. Key here is whether the Bank signals that any move is a one off reversal of the emergency action in August 2016, or the start of a more sustained, albeit gradual shift higher. Capital Economics (CE), however, have changed their forecast. They now expect the Bank Rate to increase to 0.5% in Q4 2017, with further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

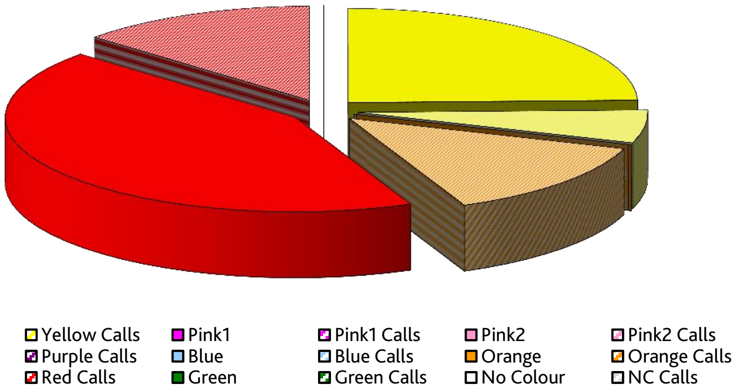
| Bank Rate | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|
| Capita Asset Services | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% |
| Capital Economics | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% |

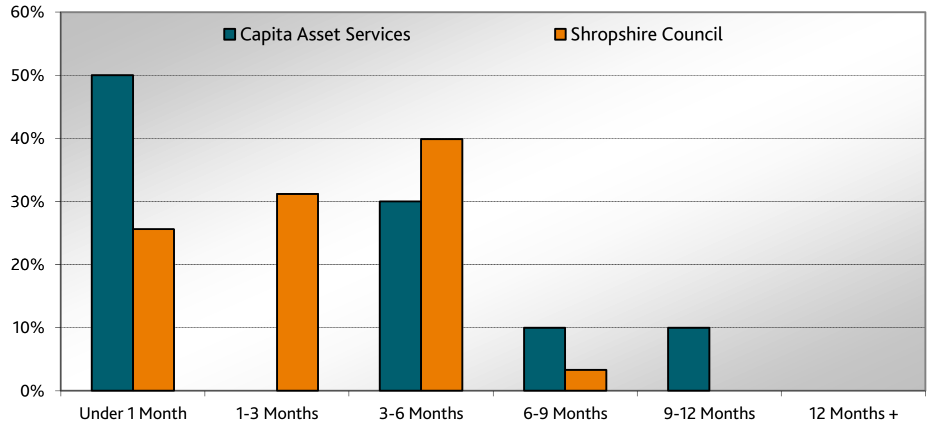
# Shropshire Council

## Current Investment List

| Borrower | Principal (£) | Interest Rate | Start Date | Maturity Date | Lowest Long Term Rating | Historic Risk of Default |
|---|---|---|---|---|---|---|
| HSBC Bank Plc | 20,000,000 | 0.55% | | Call | AA- | 0.000% |
| MMF Standard Life | 7,620,000 | 0.21% | | MMF | AAA | 0.000% |
| MMF Insight | 850,000 | 0.19% | | MMF | AAA | 0.000% |
| Slough Borough Council | 5,000,000 | 0.28% | 21/07/2017 | 23/10/2017 | AA | 0.001% |
| Lloyds Bank Plc | 5,000,000 | 0.55% | 28/04/2017 | 27/10/2017 | A | 0.004% |
| Barclays Bank Plc | 5,000,000 | 0.32% | | Call32 | A- | 0.005% |
| Lloyds Bank Plc | 3,500,000 | 0.55% | 08/05/2017 | 08/11/2017 | A | 0.006% |
| Glasgow City Council | 5,000,000 | 0.25% | 04/08/2017 | 08/11/2017 | AA | 0.002% |
| Lloyds Bank Plc | 3,680,000 | 0.55% | 09/05/2017 | 09/11/2017 | A | 0.006% |
| Lloyds Bank Plc | 1,400,000 | 0.55% | 11/05/2017 | 10/11/2017 | A | 0.006% |
| Goldman Sachs International Bank | 5,000,000 | 0.65% | 07/06/2017 | 07/12/2017 | A | 0.010% |
| Lloyds Bank Plc | 5,000,000 | 0.55% | 07/06/2017 | 07/12/2017 | A | 0.010% |
| Lloyds Bank Plc | 8,100,000 | 0.55% | 14/06/2017 | 14/12/2017 | A | 0.012% |
| Lloyds Bank Plc | 2,420,000 | 0.55% | 16/06/2017 | 15/12/2017 | A | 0.012% |
| North Tyneside Metropolitan Borough Council | 7,000,000 | 0.50% | 20/12/2016 | 19/12/2017 | AA | 0.005% |
| Lloyds Bank Plc | 900,000 | 0.36% | 21/06/2017 | 21/12/2017 | A | 0.013% |
| Santander UK Plc | 15,000,000 | 0.40% | | Call95 | A | 0.015% |
| Barclays Bank Plc | 2,800,000 | 0.34% | 13/07/2017 | 15/01/2018 | A- | 0.017% |
| Barclays Bank Plc | 5,450,000 | 0.34% | 14/07/2017 | 15/01/2018 | A- | 0.017% |
| Barclays Bank Plc | 1,750,000 | 0.34% | 17/07/2017 | 17/01/2018 | A- | 0.017% |
| Coventry Building Society | 5,000,000 | 0.30% | 17/07/2017 | 17/01/2018 | A | 0.017% |
| Nationwide Building Society | 5,000,000 | 0.32% | 17/07/2017 | 17/01/2018 | A | 0.017% |
| Dundee City Council | 5,000,000 | 0.50% | 23/01/2017 | 22/01/2018 | AA | 0.007% |
| Nationwide Building Society | 5,000,000 | 0.32% | 28/07/2017 | 26/01/2018 | A | 0.018% |
| Fife Council | 5,000,000 | 0.35% | 03/08/2017 | 02/02/2018 | AA | 0.008% |
| Goldman Sachs International Bank | 5,000,000 | 0.58% | 08/08/2017 | 08/02/2018 | A | 0.020% |
| Northamptonshire County Council | 5,000,000 | 0.35% | 15/08/2017 | 15/02/2018 | AA | 0.009% |
| Lancashire County Council | 5,000,000 | 0.61% | 15/05/2017 | 14/05/2018 | AA | 0.014% |
| **Total Investments** | **£150,470,000** | **0.44%** | | | | 0.009% |

## Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



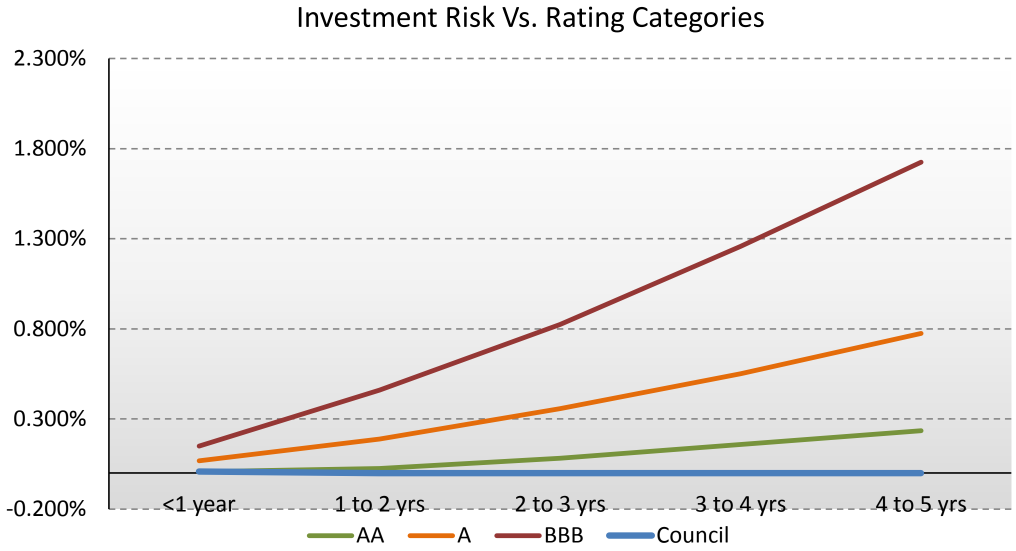

| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
|---|---|---|---|---|---|---|---|---|
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

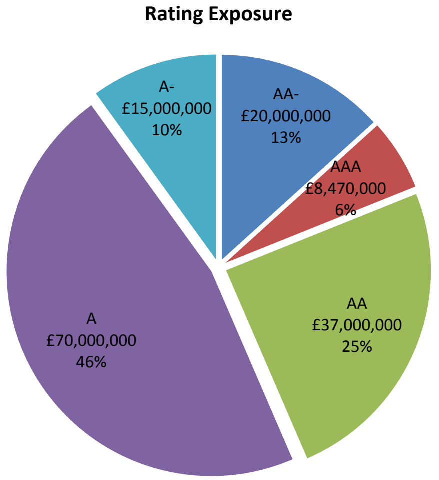
**Portfolios weighted average risk number = 3.66**

WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

| | % of Portfolio | Amount | % of Colour in Calls | Amount of Colour in Calls | % of Call in Portfolio | WARoR | WAM | WAM at Execution | Excluding Calls/MMFs/USDBFs WAM | Excluding Calls/MMFs/USDBFs WAM at Execution |
|---|---|---|---|---|---|---|---|---|---|---|
| **Yellow** | 30.22% | £45,470,000 | 18.63% | £8,470,000 | 5.63% | 0.37% | 85 | 197 | 105 | 243 |
| **Pink1** | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| **Pink2** | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| **Purple** | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| **Blue** | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| **Orange** | 13.29% | £20,000,000 | 100.00% | £20,000,000 | 13.29% | 0.55% | 0 | 0 | 0 | 0 |
| **Red** | 56.49% | £85,000,000 | 23.53% | £20,000,000 | 13.29% | 0.45% | 83 | 159 | 84 | 183 |
| **Green** | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| **No Colour** | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| | **100.00%** | **£150,470,000** | **32.21%** | **£48,470,000** | **32.21%** | **0.44%** | **72** | **149** | **91** | **205** |

# Investment Risk and Rating Exposure




Historic Risk of Default

| Rating/Years | <1 year | 1 to 2 yrs | 2 to 3 yrs | 3 to 4 yrs | 4 to 5 yrs |
|---|---|---|---|---|---|
| AA | 0.007% | 0.024% | 0.081% | 0.158% | 0.234% |
| A | 0.067% | 0.189% | 0.356% | 0.551% | 0.775% |
| BBB | 0.150% | 0.460% | 0.824% | 1.257% | 1.726% |
| Council | 0.009% | 0.000% | 0.000% | 0.000% | 0.000% |

**Historic Risk of Default**

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

**Chart Relative Risk**

This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

**Rating Exposures**

This pie chart provides a clear view of your investment exposures to particular ratings.

Shropshire Council

## Monthly Credit Rating Changes

**FITCH**

| Date | Update Number | Institution | Country | Rating Action |
|---|---|---|---|---|
| 04/09/2017 | 1549 | Co-operative Bank Plc | UK | Long Term Rating was affirmed at 'B-', Outlook changed to Stable and was removed from Evolving Watch. Short Term Rating was affirmed at 'B', removed from Negative Watch. Viability Rating downgraded to 'f' from 'c'. |
| 07/09/2017 | 1551 | Clydesdale Bank | UK | Long Term Rating affirmed at 'BBB+', removed from Negative Watch and placed on Stable Outlook. Short Term Rating was affirmed at 'F2'. |
| 08/09/2017 | 1552 | Co-operative Bank Plc | UK | Long Term Rating affirmed at 'B-', Stable Outlook. Short Term Rating affirmed at 'B'. Viability Rating upgraded to 'b-' from 'f'. |
| 29/09/2017 | 1560 | Barclays Bank Plc | UK | Long Term Rating 'A', removed from Stable Outlook and placed on Positive Watch. Short Term Rating was affirmed at 'F1'. |
| 29/09/2017 | 1561 | Deutsche Bank AG | Germany | Long Term Rating downgraded to 'BBB+' from 'A-', Outlook changed to Stable from Negative. Short Term Rating downgraded to 'F2' from 'F1'. Viability Rating downgraded to 'bbb+' from 'a-'. |
| 29/09/2017 | 1562 | National Westminster Bank Plc | UK | Long Term Rating 'BBB+', removed from Stable Outlook and placed on Positive Watch. Short Term Rating affirmed at 'F2' and Viability Rating affirmed at 'bbb+'. |
| 29/09/2017 | 1562 | The Royal Bank of Scotland | UK | Long Term Rating affirmed at 'BBB+', Stable Outlook. Support Rating was placed on Positive Watch and at the same time all other ratings were affirmed. |

## Monthly Credit Rating Changes

### MOODY'S

| Date | Update Number | Institution | Country | Rating Action |
|---|---|---|---|---|
| 07/09/2017 | 1550 | Co-operative Bank Plc | UK | Long Term Rating affirmed at 'Caa2', Short Term Rating affirmed at 'NP'. Outlook changed to Positive from Evolving Watch. |
| 13/09/2017 | 1554 | Bank of America, N.A. | USA | Long Term Rating 'A1', removed from Positive Outlook and placed on Positive Watch. Short Term Rating affirmed at 'P-1'. |
| 18/09/2017 | 1556 | Clydesdale Bank | UK | Long Term Rating 'Baa2', removed from Stable Outlook and placed on Positive Watch. Short Term Rating 'P-2', placed on Positive Watch. |
| 25/09/2017 | 1557 | United Kingdom Sovereign | UK | Sovereign Rating downgraded to 'Aa2' from 'Aa1', Outlook changed to Stable from Negative. |
| 28/09/2017 | 1558 | Bank of Scotland Plc | UK | Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'. |
| 28/09/2017 | 1558 | HSBC Bank Plc | UK | Long Term Rating downgraded to 'Aa3' from 'Aa2', Negative Outlook. Short Term Rating was affirmed at 'P-1'. |
| 28/09/2017 | 1558 | Lloyds Bank Plc | UK | Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'. |
| 28/09/2017 | 1558 | National Westminister Bank Plc | UK | Long Term Rating affirmed at 'A2', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-1'. |
| 28/09/2017 | 1558 | The Royal Bank of Scotland | UK | Long Term Rating affirmed at 'A2', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'P-1'. |
| 28/09/2017 | 1559 | BNP Paribas | France | Long Term Rating upgraded to 'Aa3' from 'A1', Stable Outlook. Short Term Rating affirmed at 'P-1'. |
| 28/09/2017 | 1559 | ING Bank NV | France | Long Term Rating upgraded to 'Aa3' from 'A1', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'P-1'. |

# Monthly Credit Rating Changes

## S&P

| Date | Update Number | Institution | Country | Rating Action |
|---|---|---|---|---|
| 12/09/20117 | 1553 | Qatar National Bank | Qatar | Affirmed at 'A', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch. |
| 18/09/2017 | 1555 | ABN AMRO Bank N.V. | Netherlands | Long Term Rating affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'. |
| 18/09/2017 | 1555 | Cooperative Rabobank U.A. | Netherlands | Long Term Rating affirmed at 'A+', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'. |

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**Appendix B**

Prudential Indicators – Quarter 2 2017/18

| Prudential Indicator | 2017/18 Indicator £m | Quarter 1 – Actual £m | Quarter 2 – Actual £m | Quarter 3 – Actual £m | Quarter 4 – Actual £m |
|---|---|---|---|---|---|
| Non HRA Capital Financing Requirement (CFR) | 254 | 255 | 255 | | |
| HRA CFR | 85 | 85 | 85 | | |
| Gross borrowing | 318 | 324 | 318 | | |
| Investments | 160 | 151 | 150 | | |
| Net borrowing | 158 | 173 | 168 | | |
| Authorised limit for external debt | 463 | 324 | 318 | | |
| Operational boundary for external debt | 400 | 324 | 318 | | |
| Limit of fixed interest rates (borrowing) | 463 | 324 | 318 | | |
| HRA debt Limit | 96 | 85 | 85 | | |
| Limit of variable interest rates (borrowing) | 232 | 0 | 0 | | |
| Principal sums invested > 364 days | 40 | 0 | 0 | | |
| Maturity structure of borrowing limits | % | % | % | | |
| Under 12 months | 15 | 2 | 2 | | |
| 12 months to 2 years | 15 | 2 | 1 | | |
| 2 years to 5 years | 45 | 6 | 5 | | |
| 5 years to 10 years | 75 | 2 | 2 | | |
| 10 years to 20 years | 100 | 32 | 33 | | |
| 20 years to 30 years | 100 | 24 | 24 | | |
| 30 years to 40 years | 100 | 17 | 17 | | |
| 40 years to 50 years | 100 | 7 | 7 | | |
| 50 years and above | 100 | 8 | 9 | | |

* Based on period 6 Capital Monitoring report

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**Capital Financing 2017/18 - Period 6**

| Prudential Borrowing Approvals | Date Approved | Amount Approved £ | Applied (Spent) 2006/07 £ | Applied (Spent) 2007/08 £ | Applied Outturn 08/09 2008/09 £ | Applied Outturn 09/10 2009/10 £ | Applied Outturn 10/11 2010/11 £ | Applied Outturn 11/12 2011/12 £ | Applied Outturn 12/13 2012/13 £ | Applied Outturn 13/14 2013/14 £ | Applied Outturn 14/15 2014/15 £ | Applied Outturn 15/16 2015/16 £ | Applied Outturn 16/17 2016/17 £ | Budgeted Period 6 17/18 2017/18 £ | First year MRP Charged | Asset Life | Final year MRP Charged |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Monkmoor Campus | 24/02/2006 | 3,580,000 | | | | | | | | | | | | | | | |
| Capital Receipts Shortfall -Cashflow | 24/02/2006 | 5,000,000 | | | | | | | | | | | | | | | |
| Applied: | | | | | | | | | | | | | | | | | |
| Monkmoor Campus | | | 3,000,000 | | 0 | | | | | | | | | | 2007/08 | 25 | 2031/32 |
| William Brooks | | | | | 0 | | 3,580,000 | | | | | | | | 2011/12 | 25 | 2035/36 |
| Tern Valley | | | | | 2,000,000 | | | | | | | | | | 2010/11 | 35 | 2044/45 |
| | | **8,580,000** | **3,000,000** | **0** | **2,000,000** | **0** | **3,580,000** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | | | |
| Highways | 24/02/2006 | 2,000,000 | 2,000,000 | | | | | | | | | | | | 2007/08 | 20 | 2026/27 |
| Accommodation Changes | 24/02/2006 | 650,000 | 410,200 | 39,800 | | | | | | | | | | | 2007/08 | 6 | 2012/13 |
| Accommodation Changes - Saving | 31/03/2007 | (200,000) | | | | | | | | | | | | | | | |
| | | **450,000** | **410,200** | **39,800** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | | | |
| The Ptarmigan Building | 05/11/2009 | 3,744,000 | | | | 3,744,000 | | | | | | | | | 2010/11 | 25 | 2034/35 |
| The Mount McKinley Building | 05/11/2009 | 2,782,000 | | | | 2,782,000 | | | | | | | | | 2011/12 | 25 | 2035/36 |
| The Mount McKinley Building | 05/11/2009 | 0 | | | | | - | | | | | | | | 2011/12 | 5 | 2015/16 |
| Capital Strategy Schemes - Potential Capital Receipts shortfall | 25/02/2010 | 187,600 | | | | | - | - | - | 0 | - | - | - | - | | 25 | |
| - Desktop Virtualisation | | | | | | 187,600 | - | | | | | | | | 2010/11 | 5 | 2014/15 |
| Carbon Efficiency Schemes/Self Financing | 25/02/2010 | 1,512,442 | | | | | 115,656 | 1,312,810 | 83,976 | - | - | - | - | - | 2011/12 | 5 | 2017/18 |
| Transformation schemes | | 92,635 | | | | | | 92,635 | - | - | | | | | 2012/13 | 3 | 2014/15 |
| Renewables - Biomass - Self Financing | 14/09/2011 | 92,996 | | | | | | 82,408 | 98,258 | (87,670) | - | | | | 2014/15 | 25 | 2038/39 |
| Solar PV Council Buildings - Self Financing | 11/05/2011 | 56,342 | | | | | | 1,283,959 | 124,584 | (1,352,202) | - | | | | 2013/14 | 25 | 2038/39 |
| Depot Redevelopment - Self Financing | 23/02/2012 | 0 | | | | | | | - | - | - | | | | 2014/15 | 10 | 2023/24 |
| Oswestry Leisure Centre Equipment - Self Financing | 04/04/2012 | 124,521 | | | | | | 124,521 | | | | | | | 2012/13 | 5 | 2016/17 |
| Leisure Services - Self Financing | 01/08/2012 | 711,197 | | | | | | | 711,197 | | | | | | 2013/14 | 5 | 2016/17 |
| Mardol House Acqusition | 26/02/2015 | 4,160,000 | | | | | | | | | 4,160,000 | - | | | 2015/16 | 25 | 2039/40 |
| Mardol House Adaptation and Refit | 26/02/2015 | 3,340,000 | | | | | | | | | 167,640.84 | 3,172,358.86 | - | - | 2016/17 | 25 | 2041/41 |
| Oswestry Leisure Centre Equipment - Self Financing | 01/08/2012 | 300,000 | | | | | | | | | | | | 300,000 | 2018/19 | 5 | 2022/23 |
| Previous NSDC Borrowing | | 955,595 | | | 821,138 | 134,457 | | | | | | | | | 2009/10 | 5/25 | |
| | | **29,089,327** | **5,410,200** | **39,800** | **2,821,138** | **6,848,057** | **3,695,656** | **2,896,333** | **1,018,015.37** | **(1,439,872)** | **4,327,641** | **3,172,359** | **0** | **300,000** | | | |
| | | | | - | - | | | () | () | () | () | () | () | | | | |

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