# Treasury Management Performance to September 2017


*Service Manager:* *Catherine Hood - Finance*
*Lead Officer:* *Karen Gubbins, Principal Accountant*
*Contact Details:* *Karen.gubbins@southsomerset.gov.uk or (01935) 462456*


## Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the six months ended 30th September 2017.

## Recommendations

2. The Audit Committee are asked to:
   - Note the Treasury Management Activity for the six-month period ended 30th September 2017.
   - Note the position of the individual prudential indicators for the six-month period ended 30th September 2017.

## The Investment Strategy for 2017/18

3. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.

4. Treasury management in this context is defined as:
   *"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".*

5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

6. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

7. The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits.

## Interest Rates 2017/18

8. The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e

after inflation) struggles in the face of higher inflation.

| | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| **Arlingclose Central Case** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** | **0.25** |
| Downside risk | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |

9. Base rate began the financial year at 0.25% but this has been increased to 0.50% in November.

**Credit Background**

10. There were a few credit rating changes during the last quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. The agency downgraded long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

11. S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

12. Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

13. The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

**Investment Portfolio**

14. The table below shows the Council's overall investments as at 30th September 2017:

| | **Value of Investments at 01.04.17 £** | **Value of Investments at 30.09.17 £** | **Fixed/ Variable Rate** |
|---|---|---|---|
| **Investments advised by Arlingclose** | | | |
| Money Market Fund (Variable Net Asset Value) | 1,004,326 | 1,004,326 | Variable |

| | | | |
|---|---|---|---|
| Property Fund | 5,349,196 | 5,465,659 | Variable |
| Total | **6,353,522** | **6,469,985** | |
| **Internal Investments** | | | |
| Certificates of Deposit | 4,020,207 | 2,500,284 | Fixed |
| Corporate Bonds | 8,693,672 | 10,519,414 | Fixed |
| Floating Rate Notes (FRNs) | 10,018,545 | 5,005,540 | Variable |
| Treasury Bills | 0 | 1,999,325 | Variable |
| Long Term Deposits (Other LAs) | 3,000,000 | 3,000,000 | Fixed |
| Short Term Deposits (Banks/Building Societies) | 6,000,000 | 12,000,000 | Variable |
| Short Term Deposits (Other LAs) | 14,000,000 | 8,000,000 | Variable |
| Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts | 1,000,000 | 2,200,000 | Variable |
| Total | **46,732,424** | **45,224,563** | |
| **TOTAL INVESTMENTS** | **53,085,946** | **51,694,548** | |

**Returns for 2017/18**

15. The returns to 30th September 2017 are shown in the table below:

| | **Actual Income £'000** | **% Rate of Return** |
|---|---|---|
| **Investments advised by Arlingclose** | | |
| Payden Money Market Fund (VNAV) | 3 | |
| Property Fund (CCLA) | 134 | |
| Total | **137** | **4.56** |
| **Internal Investments** | | |
| Certificates of Deposit (CD's) | 7 | |
| Corporate Bonds | 45 | |
| Floating Rate Notes (FRNs) | 28 | |
| Fixed Term Deposits | 73 | |
| Money Market Funds (CNAV) & Business Reserve Accounts | 5 | |
| Total | **158** | **0.69** |
| **Other Interest** | | |
| Miscellaneous Loans | 18 | |
| Total | **18** | |
| **TOTAL INCOME TO 30$^{TH}$ SEPTEMBER 2017** | **313** | |
| **PROFILED BUDGETED INCOME** | **239** | |

16. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £477,820. We currently estimate that we are on target to achieve the budget by year end. This is assuming SSDC receive a dividend of 3p per unit each quarter for its investment in the property fund. See also paragraph below – we are reviewing our range of

investments with a view to increasing the rate of return, which should have a positive impact on our investment income performance against budget.

17. We currently hold £5m nominal value in the CCLA fund, this converts to 1,884,515 units and £1m in Payden which converts to 98,990.299 shares.

18. The outturn position is affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of capital expenditure and the collection of council tax and business rates.

**Investments**

19. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.

20. The graph shown in Appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 30th September 2017 in comparison to all other clients of Arlingclose.

21. The graph shows that SSDC is in a satisfactory position in terms of the risk taken against the return on investments.

22. As part of the Council's updated Financial Strategy approved by District Executive in September, the Treasury team is exploring opportunities – with advice from Arlingclose – to increase investment returns. As shown in this report our approach is 'low risk' in terms of preserving capital cash values, however this value is not keeping pace with inflation and as such is diminishing in value in real terms. It is therefore prudent to review the blend of investments and the risk/reward balance to seek a better return, whilst continuing to follow the principles of the Code and our own TMSS. It is anticipated we will start to see an uplift in investment returns during the second half of this financial year.

**Borrowing**

23. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30$^{th}$ September 2017 the Council had no external borrowing.

**Breakdown of investments as at 30th September 2017**

| Date Lent | Counterparty | Principal Amount | Rate | Maturity Date |
|---|---|---|---|---|
| 9 Mar 16 | United Overseas Bank Ltd | 2,000,000 | 0.55 | 7 Mar 18 |
| 28 Feb 17 | Bank of Scotland | 1,000,000 | 0.90 | 28 Feb 18 |
| 13 Dec 16 | North Tyneside Council | 2,000,000 | 0.48 | 12 Dec 17 |
| 24 Mar 17 | Bank of Scotland | 1,000,000 | 0.80 | 23 Mar 18 |
| 11 Nov 16 | Northumberland County Council | 1,000,000 | 1.00 | 11 Nov 20 |
| 9 Feb 17 | Liverpool City Council | 2,000,000 | 0.92 | 11 Nov 19 |
| 28 Jul 17 | IPA SCB TD Incoming (Santander) | 1,000,000 | 0.45 | 26 Jan 18 |
| 28 Feb 17 | Monmouthshire County Council | 1,000,000 | 0.50 | 27 Feb 18 |
| 14 Jul 17 | Goldman Sachs International Bank | 2,000,000 | 0.34 | 20 Oct 17 |
| 19 Apr 17 | Bank of Scotland | 1,000,000 | 0.80 | 19 Apr 18 |
| 21 Apr 17 | United Overseas Bank Ltd | 1,000,000 | 0.38 | 23 Oct 17 |
| 23 May 17 | Commonwealth Bank of Australia | 1,000,000 | 0.32 | 23 Nov 17 |
| 1 Jun 17 | Nationwide Building Society | 1,000,000 | 0.35 | 24 Nov 17 |
| 4 Sep 17 | Reading Borough Council | 3,000,000 | 0.30 | 19 Mar 18 |
| 14 Sep 17 | Nationwide Building Society | 1,000,000 | 0.29 | 5 Mar 18 |
| 28 Sep 17 | Police & Crime Commissioner for South Yorkshire | 2,000,000 | 0.23 | 5 Oct 17 |
| | **Corporate Bonds/Eurobonds** | | | |
| 4 Aug 14 | Leeds Building Society (Covered) | 500,000 | 2.13 | 17 Dec 18 |
| 22 Oct 14 | Yorkshire Building Society (Covered) | 1,500,000 | 1.56 | 12 Apr 18 |
| 20 Oct 16 | Santander UK Plc (Covered) | 1,000,000 | 1.04 | 14 Apr 21 |
| 20 Oct 16 | Coventry Building Society (Covered) | 500,000 | 0.62 | 19 Apr 18 |
| 17 Nov 16 | BMW Finance | 1,000,000 | 0.63 | 2 Oct 17 |
| 25 Nov 16 | Daimler AG | 1,000,000 | 0.72 | 1 Dec 17 |
| 10 Nov 16 | National Australia Bank (Covered) | 1,000,000 | 1.10 | 10 Nov 21 |
| 27 Mar 17 | Cooperative Rabobank UA | 675,000 | 0.52 | 1 Nov 17 |
| 5 May 17 | Prudential Plc | 1,000,000 | 0.50 | 19 Jan 18 |
| 26 Sep 17 | European Investment Bank | 2,000,000 | 0.22 | 7 Dec 17 |
| | **Certificates of Deposit (CDs)** | | | |
| 11 Oct 16 | Canadian Imperial Bank of Commerce | 1,000,000 | 0.53 | 10 Oct 17 |
| 18 Oct 16 | Canadian Imperial Bank of Commerce | 500,000 | 0.61 | 18 Oct 17 |
| 5 Jul 17 | Nordea AB | 1,000,000 | 0.21 | 5 Oct 17 |
| | **Floating Rate Notes (FRNs)** | | | |
| 29 Apr 15 | Toronto Dominion *Covered* | 1,000,000 | 0.66 | 20 Nov 17 |
| 7 Mar 16 | Commonwealth Bank of Australia *Covered* | 1,000,000 | 0.87 | 24 Jan 18 |
| 16 May 16 | Bank of Nova Scotia | 1,000,000 | 0.82 | 2 Nov 17 |
| 16 Jan 17 | Lloyds Bank Plc (Covered) | 1,600,000 | 0.63 | 16 Jan 20 |
| 16 Jan 17 | Lloyds Bank Plc (Covered) | 400,000 | 0.62 | 16 Jan 20 |
| | **Treasury Bills** | | | |
| 18 Sep 17 | UK Treasury Bill | 2,000,000 | 0.16 | 4 Dec 17 |
| | **Pooled Finds & Money Market Funds** | | | |
| | Payden Fund VNAV | 1,000,000 | 0.65 | |
| | CCLA Property Fund | 5,000,000 | 5.34 | |
| | Federated | 500,000 | 0.22 | |
| | Invesco Aim | 500,000 | 0.23 | |
| | Ignis | 1,200,000 | 0.19 | |
| | **TOTAL** | **50,875,000** | | |

*Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate*

**<u>Prudential Indicators – Quarter 2 monitoring</u>**

**Background:**

24. In February 2017, Full Council approved the indicators for 2017/18, as required by the Prudential Code for Capital Finance in Local Authorities. These were then revised within the Mid-year review of the strategy by Full Council in November 2017. The Local Government Act 2003 allowed local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

**Prudential Indicator 1 - Capital Expenditure:**

25. The capital expenditure to be incurred for the current year compared to the revised estimates are:

| | **2017/18 Revised Estimate £'000** | **Expected Outturn £'000** | **2017/18 Variance £'000** | **Reason for Variance** |
|---|---|---|---|---|
| Approved capital schemes | 19,589 | 14,825 | (4,764) | Allocation of money to the reserve instead of the main programme. |
| Reserves | 4,023 | 7,508 | 3,485 | Reprofiling of reserves into future years and an allocation to the Investment in Land, Property & Renewables reserve of £7,351k |
| **Total Expenditure** | **23,612** | **22,333** | **(1,279)** | |

26. The above table shows that the overall estimate for capital expenditure.

**Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:**

27. A comparison needs to be made of financing capital costs compared to the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

| **Portfolio** | **2017/18 Revised Estimate £'000** | **Expected Outturn £'000** | **2017/18 Variance £'000** | **Reason for Variance** |
|---|---|---|---|---|
| Financing Costs* | (52) | (254) | (202) | MRP is smaller due to the use of internal loans reserve fund |
| Net Revenue Stream | 17,793 | 17,656 | (137) | |
| **%*** | **(0.3)** | **(1.4)** | | |

*figures in brackets denote income through receipts and reserves

28. The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for SSDC but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

**Prudential Indicator 3 - Capital Financing Requirement:**

29. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

| | 2017/18 Revised Estimate £'000 | Expected Outturn £'000 | 2017/18 Variance £'000 | Reason for Variance |
|---|---|---|---|---|
| Opening CFR | 9,249 | 9,339 | 90 | 2016/17 closing position not known when writing the original Treasury Management Strategy Statement |
| Capital Expenditure | 19,903 | 17,922 | (1,981) | See explanation for Prudential Indicator 1 above |
| Capital Receipts* | (4,589) | (14,825) | (10,236) | The S151 Officer has delegated authority to determine most effective financing of approved commercial property investment, which may result in less use of capital receipts and an increase in the CFR |
| Grants/Contributions* | (314) | (3,097) | (2,783) | |
| Minimum Revenue Position (MRP) | (224) | (224) | 0 | |
| **Closing CFR** | **24,025** | **9,115** | **(14,910)** | Internal borrowing is being used to finance the capital expenditure with the option of externalising the borrowing in the future |

*Figures in brackets denote income through receipts or reserves.

**Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:**

30. The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the gross external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period. This is a key indicator of prudence.

| | 2017/18 Revised Estimate £'000 | 2017/18 Qtr 2 Actual £'000 | 2017/18 Variance £'000 | Reason for Variance |
|---|---|---|---|---|
| Borrowing | 15,000 | 0 | 0 | Used internal borrowing |
| Finance Leases | 136 | 227 | 91 | Additional finance |

| | | | | |
|---|---|---|---|---|
| | | | | leases taken out on vehicles |
| **Total Debt** | **15,136** | **227** | **91** | |

31. Total debt is expected to remain below the CFR.

**Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:**

32. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

| | **2017/18 % Limit** | **2017/18 Qtr 2 Actual %** | **2017/18 Variance %** | **Reason for Variance** |
|---|---|---|---|---|
| Fixed | 80 | 11 | (69) | Within limit |
| Variable | 100 | 89 | (11) | Within limit |

33. The Council must also set limits to reflect any borrowing we may undertake.

| | **2017/18 % Limit** | **2017/18 Qtr 2 Actual %** | **2017/18 Variance %** | **Reason for Variance** |
|---|---|---|---|---|
| Fixed | 100 | 0 | 100 | SSDC currently has no borrowing |
| Variable | 100 | 0 | 100 | SSDC currently has no borrowing |

34. The indicator has been set at 100% to maximise opportunities for future debt as they arise.

**Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:**

35. SSDC must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that SSDC, at any time, has sufficient liquidity to meet all of its financial commitments.

| **Upper Limit for total principal sums invested over 364 days** | **2017/18 Maximum Limit £'000** | **2017/18 Qtr 2 Actual (Principal amount) £'000** | **Reason for Variance** |
|---|---|---|---|
| Between 1-2 years | 25,000 | 500 | Within limit |
| Between 2-3 years | 20,000 | 4,000 | Within limit |
| Between 3-4 years | 10,000 | 2,000 | Within limit |
| Between 4-5 years | 10,000 | 1,000 | Within limit |
| Over 5 years | 5,000 | 0 | Within limit |

36. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

**Prudential Indicator 7 – Credit Risk:**

37. The Council considers security, liquidity and yield, in that order, when making investment decisions.

38. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

39. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

40. The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

**Prudential Indicator 8 - Actual External Debt:**

41. This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

| **Actual External Debt as at 31/03/2017** | **£'000** |
|---|---:|
| Borrowing | 0 |
| Liabilities arising from finance leases | 227 |
| **Total** | **227** |

**Prudential Indicator 9 - Authorised Limit for External Debt:**

42. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy. Borrowing will arise as a consequence of all the financial transactions of the Council not just arising from capital spending.

43. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £27 million was set to allow flexibility to support new capital projects over and above the identified borrowing requirement.

| | **2017/18 Revised Estimate £'000** | **2017/18 Qtr 2 Actual £'000** | **2017/18 Variance £'000** | **Reason for Variance** |
|---|---:|---:|---:|---|
| Borrowing | 26,000 | 0 | (26,000) | SSDC currently has no |

| | | | | |
|---|---|---|---|---|
| | | | | external borrowing |
| Other Long-term Liabilities (Finance Leases) | 1,000 | 153 | (847) | Within limit |
| **Total** | **27,000** | **153** | **(26,847)** | |

**Prudential Indicator 10 – Operational Boundary for External Debt:**

44. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.

| | **2017/18 Revised Estimate £'000** | **2017/18 Qtr 2 Actual £'000** | **2017/18 Variance £'000** | **Reason for Variance** |
|---|---|---|---|---|
| Borrowing | 24,200 | 0 | (24,200) | SSDC currently has no external borrowing |
| Other Long-term Liabilities (Finance Leases) | 800 | 153 | (647) | Within limit |
| **Total** | **25,000** | **153** | **(24,847)** | |

**Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:**

45. This indicator is relevant to highlight the existence of any large concentrations of fixed rated debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest changes in any one period. When we borrow we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

| **Maturity structure of fixed rate borrowing** | **2016/17 Actual %** | **2017/18 Qtr 2 Actual %** | **Lower Limit %** | **Upper Limit %** |
|---|---|---|---|---|
| Under 12 months | 0 | 0 | 0 | 100 |
| 12 months and within 24 months | 0 | 0 | 0 | 100 |
| 24 months and within 5 years | 0 | 0 | 0 | 100 |
| 5 years and within 10 years | 0 | 0 | 0 | 100 |
| 10 years and within 20 years | 0 | 0 | 0 | 100 |
| 20 years and within 30 years | 0 | 0 | 0 | 100 |
| 30 years and within 40 years | 0 | 0 | 0 | 100 |
| 40 years and within 50 years | 0 | 0 | 0 | 100 |
| 50 years and above | 0 | 0 | 0 | 100 |

As the council doesn't have any fixed rate external borrowing at present the above upper and lower limits have been set to allow flexibility.

**Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:**

46. SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figure below actually shows the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

| **Incremental Impact of Capital Investment Decisions** | **2017/18 Estimate £** | **2018/19 Estimate £** | **2019/20 Estimate £** |
|---|---|---|---|
| Decrease in Band D Council Tax | 0.15 | 0.17 | 0.01 |

**Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:**

47. This indicator demonstrates that the Council has adopted the principles of best practice.

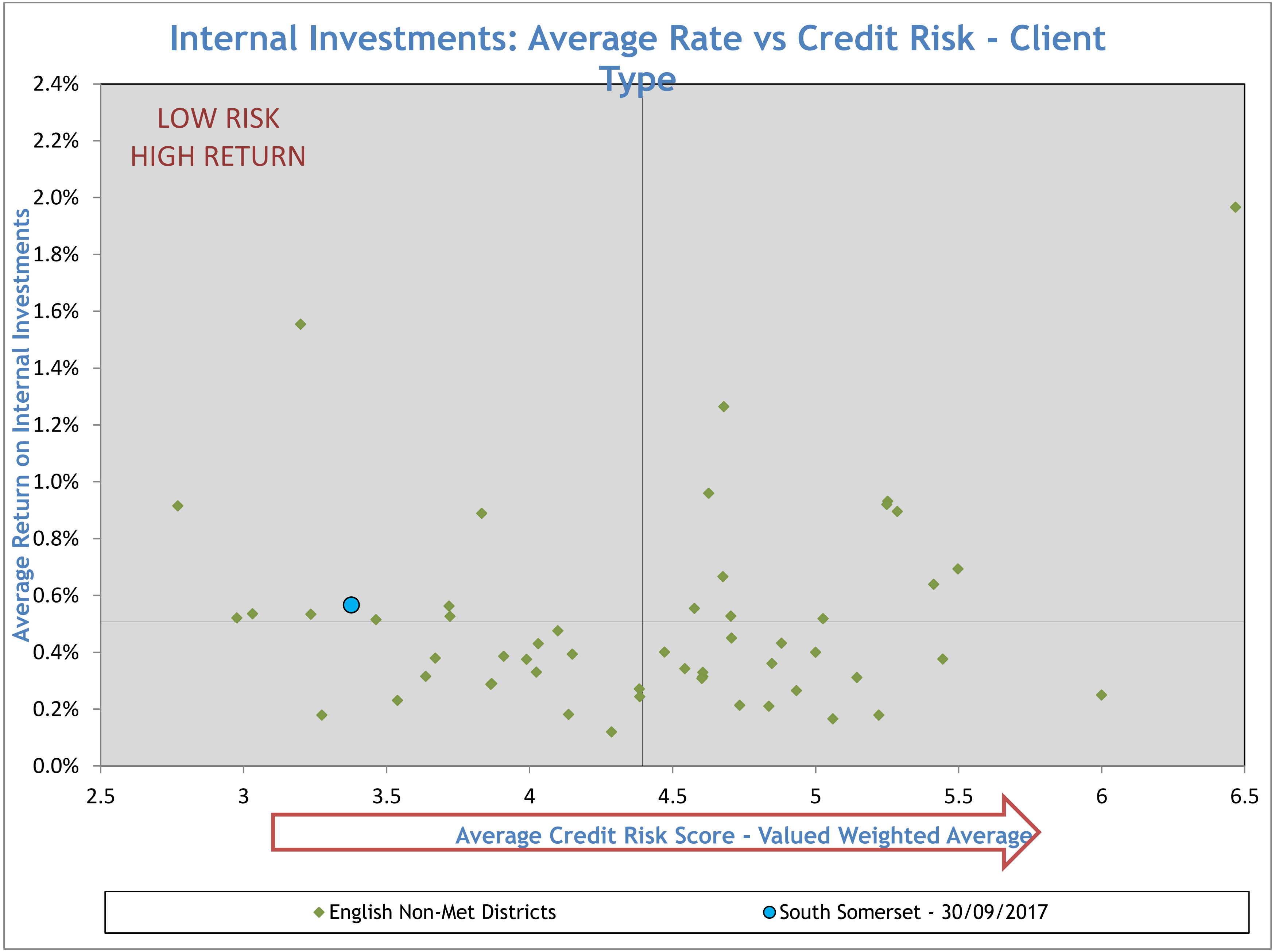
| Adoption of the CIPFA Code of Practice in Treasury Management |
|---|
| The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18th April 2002. |

**Conclusion**

48. The council is currently within all of the Prudential Indicators and is not forecast to exceed them.

Background Papers: Prudential Indicators Working Paper, Treasury Management Strategy Statement 2017/18, Quarter 2 2017/18 Capital Programme.

Appendix A


Internal Investments: Average Rate vs Credit Risk - Client Type
LOW RISK
HIGH RETURN
Average Return on Internal Investments
2.4%
2.2%
2.0%
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2.5
3
3.5
4
4.5
5
5.5
6
6.5
Average Credit Risk Score - Valued Weighted Average
English Non-Met Districts
South Somerset - 30/09/2017