Wiltshire Council

Cabinet

17 June 2014

Subject:	**Annual Report on Treasury Management 2013-14**
Cabinet member:	**Councillor Richard Tonge** **Finance, Performance, Risk, Procurement and Welfare Reform**
Key Decision:	**No**

Executive Summary

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) (the leading accountancy body for the public services) Prudential Code for Capital Finance in Local Authorities 2003 (The Prudential Code), the Council adopted a Treasury Management Strategy (TMS) for 2013-14, including a set of Prudential and Treasury Indicators (PrIs/TrIs) and an Annual Investment Strategy (AIS) at its meeting on 26 February 2013. The Strategy report can be found in the Cabinet meeting on 18 February 2013 agenda in the reports pack at the following link, http://cms.wiltshire.gov.uk/ieListDocuments.aspx?CId=141&MId=6131&Ver=4 Item 10, Page 75. This report shows how the Council has performed against the strategy.

The treasury strategy was adhered to in 2013-14; the average long term borrowing rate was 3.787%; and the return on investments was 0.50%.

Proposals

The Cabinet is asked to consider and note:

a) Prudential Indicators, Treasury Indicators and other treasury management strategies set for 2013-14 against actual positions resulting from actions within the year as detailed in Appendix A; and

c) investments during the year in the context of the Annual Investment Strategy as detailed in Appendix B.

Reasons for Proposals

To give members of the Cabinet an opportunity to consider the performance of the Council against the parameters set out in the approved Treasury Management Strategy for 2013-14.

This report is required by the Prudential Code for Capital Finance in Local Authorities and the CIPFA Code of Practice for Treasury Management in the Public Services.

Michael Hudson
Associate Director, Finance, Revenues & Benefits and Pensions

Wiltshire Council

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1. Background & Purpose of Report

1.1 In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) (the leading accountancy body for the public services) Prudential Code for Capital Finance in Local Authorities 2003 (The Prudential Code), the Council adopted a Treasury Management Strategy (TMS) for 2013-14, including a set of Prudential and Treasury Indicators (PrIs/TrIs) and an Annual Investment Strategy (AIS) at its meeting on 26 February 2013. The Strategy report is in the Cabinet 18 February 2013 agenda in the reports pack at the following link, http://cms.wiltshire.gov.uk/ieListDocuments.aspx?CId=141&MId=6131&Ver=4 Item 10, Page 75.

1.2 A quarterly report for the period from 1 April to 31 December 2013 was submitted to Cabinet on 18 March 2014. This report covers the whole financial year ended 31 March 2014.

2. Main Considerations for the Cabinet

2.1 This report reviews:

a) PrIs, TrIs and other treasury management strategies set for 2013-14 against actual positions resulting from actions within the year (see Appendix A); and

b) investments during the year in the context of the Annual Investment Strategy (see Appendix B).

2.2 There were no opportunities to restructure PWLB loans in 2013-14, mainly because of the continuing high level of premiums payable for early repayment, together with the availability of favourable interest rates at the appropriate maturity levels.

Review of Prudential and Treasury Indicators and Treasury Management Strategy for 2013-14

2.3 The detail of the review is given in Appendix A. The Cabinet is asked to note that:

a) all action has been within the approved PrIs and TrIs;

b) the Council has recovered a further £1.655 million from Icelandic banks during 2013-14. Total recoveries since the banks failed in 2008 now stand at approximately £10.2 million.

c) the average interest rate for long term debt has increased slightly (from 3.77%) to 3.787%, the very minor increase being due to the maturity of annuity loans. There has been no significant movement in the amount of loans outstanding between 1 April 2013 and 31 March 2014;

d) short term cash deficits and surpluses were managed through temporary loans and deposits with a return on investments of 0.50% (a decrease from 0.80% in 2012-13, reflecting overall decreases in the market during the year). This compares with the average market rate, based on the Average 3 Month LIBID Rate for 2013-14 (London Interbank Bid Rate, i.e. the rate at which banks are prepared to borrow from other banks) of 0.39% (0.56% for 2011-12); and

e) a mid/longer term "special tranche rate" investment was (renewed) placed with Lloyds Banking Group (in August 2013, at 1.01%), for 12 months, taking advantage of favourable (although reduced from previous rates available in 2012-13) rates, whilst ensuring security and liquidity.

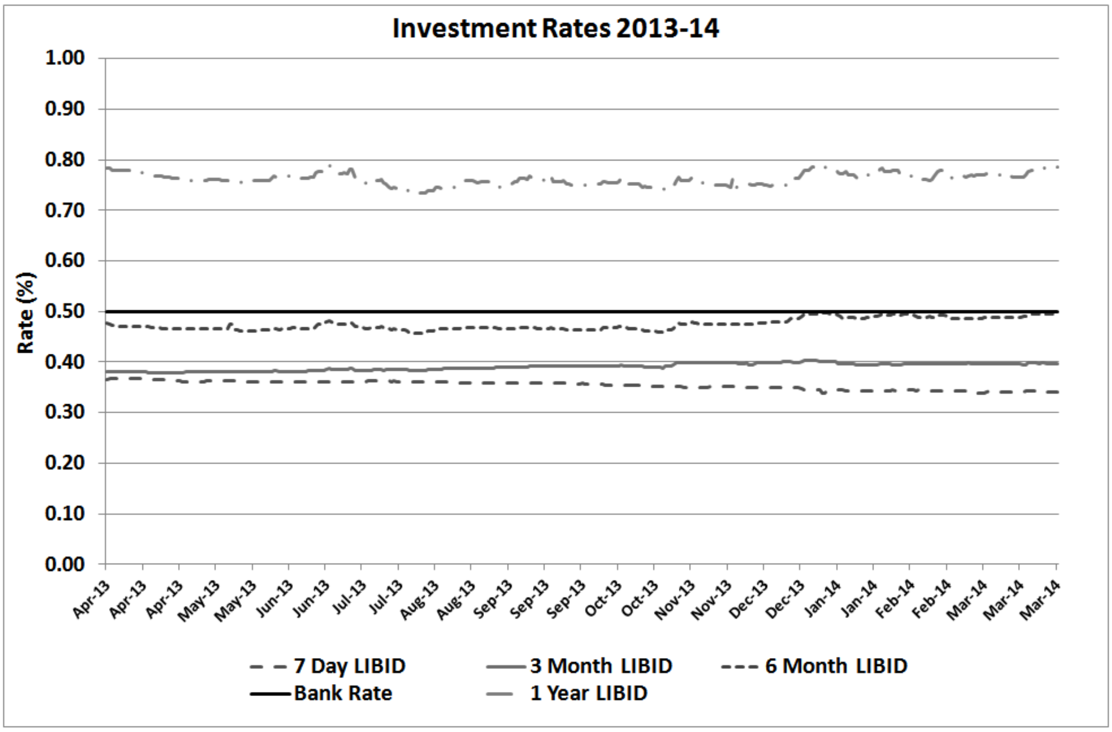
Review of Investment Strategy

2.4 This review is detailed in Appendix B. The Cabinet is asked to note that:

a) the financial year 2013-14 continued the challenging investment environment of previous years, namely low investment returns.

b) Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up almost unchanged (at around the end of 2014 / start of 2015). The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.

c) as can be seen from the chart below, interest (investment) rates remained low/flat during the financial year.



d) during the financial year the Council was able to take the opportunity presented by longer term (four to 12 months) investment rates to invest surplus cash balances at optimum rates, whilst maintaining its approved strategy, including security and liquidity and credit rating criteria.

3. Environmental and Climate Change Considerations

3.1 None have been identified as arising directly from this report.

4. Equalities Impact of the Proposal

4.1 None have been identified as arising directly from this report.

5. Risks Assessment and Financial Implications

5.1 The primary treasury management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of counterparties.

5.2 Investment counterparty[1] risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy. Appendix B of this report details action taken in 2013-14.

5.3 At 31 March 2014, the Council's average interest rate in respect of long term debt was 3.787%, which remains relatively low, in comparison with other local authorities.

[1] A Counterparty is a term most commonly used in the financial services industry to describe a legal entity, unincorporated entity or collection of entities (e.g. lender/borrower) to which an exposure to financial risk might exist.

5.4 It is also considered important to ensure that there is an even spread of loans to avoid the prospect of a number of high value loans maturing in any one year, which may need to be re-financed at a time when interest rates are high. A summary of the present loan maturity profile is shown in Appendix C (i).

5.5 Returns on short term investments have not moved significantly, mainly as a result of the volatility of the market following the 'credit crunch' starting in October 2008 and are likely to continue at near current levels for some time. The costs of borrowing for this Council have remained at similar levels because the loan profile is almost entirely at fixed maturity rates (despite the unexpected change of policy on PWLB lending arrangements in October 2010, when new borrowing rates increased by 0.75% to 0.85%, without an associated increase in early redemption rates). The investment rate of return for the year was 0.50%, against the average borrowing rate of 3.79%.

5.6 The latest forecast from Capita Asset Services anticipates that Bank Rate will not start to rise until quarter four of 2015 and move steadily further during 2016. PWLB rates are also expected to rise steadily over the next three years as the UK economy continues to improve.

6. Legal Implications

6.1 None have been identified as arising directly from this report.

7. Options Considered

7.1 Options for optimising returns were considered and Mid/longer term investment rates provided an opportunity to reinvest at special (attractive) deposit rates over four to 12 months.

8. Conclusion

8.1 Cabinet is asked to note the report.

Michael Hudson
Associate Director, Finance, Revenues & Benefits and Pensions

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Background Papers

The following unpublished documents have been relied on in the preparation of this Report: NONE

Appendices

Appendix A Review of Prudential and Treasury Indicators for 2013-14
Appendix B Review of Investment Strategy for 2013-14
Appendix C Summary of Long Term Loans, Temporary Loans and Deposits for 2013-14

REVIEW OF PRUDENTIAL AND TREASURY INDICATORS FOR 2013-14

1. Where appropriate the figures shown in this report are consistent with the PrI and TrI estimates in the Strategy for the next three years, as reviewed and reported as part of the 2013-14 budget process.

Prudential Indicators

PrI 1 - Capital Expenditure

2. The table below shows the original and revised estimate of capital expenditure against the actual for the year 2013-14:

	2013-14 Original Estimate £ million	**2013-14 Revised Estimate £ million**	**2013-14 Actual Outturn £ million**
General Fund	132.1	102.4	**84.5**
Housing Revenue Account	10.2	7.1	**6.2**

3. The actual capital spends (as highlighted) have increased from those reported in the December quarterly report because of additional capital expenditure incurred between the end of December 2013 and the end of March 2014.

4. The Capital Programme has been actively managed throughout the year and the revised capital budget (capital outturn position for 2013-14) is £113.0 million. Further breakdown of these figures will be presented in the capital outturn report, which will be taken to the Cabinet Capital Assets Committee at its meeting on 22 July 2014.

PrI 2 – Ratio of Financing Costs to Net Revenue Stream

5. PrI 2 expresses the net costs of financing as a percentage of the funding receivable from the Government and council tax payers (General Fund) and rents receivable (HRA). The net cost of financing includes interest and principal repayments for long and short term borrowing, as well as other credit-like arrangements, netted off by interest receivable from cash investments.

	2013-14 Original Estimate	**2013-14 Revised Estimate**	**2013-14 Actual**
General Fund	6.6%	6.3%	**6.2%**
Housing Revenue Account	18.7%	15.3%	15.3%

6. In terms of the General Fund slight differences between budgeted and actual costs led to a minor decrease in actual ratio when compared with the revised estimate. The actual ratio (as highlighted) is also slightly higher than the figure reported in the December 2013 quarterly report, reflecting a change in the anticipated level of investment income and a slight decrease in the minimum revenue provision required for capital expenditure.

PrI 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

7. This indicator is only relevant during budget setting, as it reflects the impact on the Band D Council Tax, or average weekly housing rents in respect of the HRA, caused by any agreed changes in the capital budget.

PrI 4 – Gross Borrowing and the Capital Financing Requirement

8. PrI 4 measures the so called "Golden Rule" which ensures that net borrowing is only for capital purposes. The table below shows the original and revised estimate for 2013-14 compared with the actual position at the year end.

	2013-14 Original Estimate £ million	**2013-14 Revised Estimate £ million**	**2013-14 Actual £ million**
CFR – General Fund	404.4	378.1	348.6
CFR – HRA	122.6	122.6	122.6
Gross Borrowing – Gen Fund	275.2	245.2	245.2
Gross Borrowing – HRA	118.8	118.8	118.8
CFR not funded by gross borrowing – Gen Fund	**129.2**	**132.9**	**103.4**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**3.8**

9. The Capital Financing Requirement (CFR) increases whenever capital expenditure is incurred. If resourced immediately (from capital receipts, direct revenue contributions or capital grant/contributions) the CFR will reduce at the same time that the capital expenditure is incurred, with no net increase in CFR.

10. Where capital expenditure is not resourced immediately, there is a net increase in CFR, represented by an underlying need to borrow for capital purposes, whether or not external borrowing actually occurs. The CFR may then reduce over time by future applications of capital receipts, capital grants/contributions or further charges to revenue.

11. This PrI is necessary, because under an integrated treasury management strategy (in accordance with best practice under the CIPFA Code of Practice on Treasury Management in the Public Services), borrowing is not associated with particular items or types of expenditure, whether revenue or capital

12. The difference between actual external (gross) borrowing (£245.2 million) and the CFR (CFR not funded by gross borrowing above) is capital expenditure met by internal borrowing, i.e. funded from the Council's own funds, such as reserves and balances and working capital (an accounting term for the difference, at a point in time, between what the Council owes and what is owed to it).

13. Internal borrowing is cheaper than external borrowing (see paragraph 5.5 of the main report), however, the ability to borrow internally will depend upon the sufficiency of reserves, balances and working capital. The sufficiency needs to be monitored and projections carried out to indicate where any adverse movements are expected, that could jeopardise the Council's cash flow position, making it necessary to replace internal with external borrowing.

PrI 5 – Compliance with CIPFA Code of Practice for Treasury Management in the Public Services ("The Code")

In the past year the Council was, and is expected to continue to be, fully compliant with the CIPFA Code of Practice for Treasury Management in the Public Services.

14. This Code of Practice has been complied with during 2013-14.

Treasury Management Indicators within the Prudential Code

TrI 1 – Authorised Limit for External Debt

Authorised Limit	**2013-14 £ million**	**2014-15 £ million**	**2015-16 £ million**	**2016-17 £ million**
Borrowing – General Fund	436.0	471.2	473.2	466.1
Borrowing – HRA	123.2	123.2	123.2	123.2
Total Borrowing	**559.2**	**594.4**	**596.4**	**589.3**
Other Long Term Liabilities	0.2	0.2	0.2	0.2
TOTAL	**559.4**	**594.6**	**596.6**	**589.5**

15. This Authorised Limit was not exceeded at any time during the year, as maximum borrowing was below the (lower) Operational Boundary.

TrI 2 – Operational Boundary for External Debt

Operational Boundary	**2013-14 £ million**	**2014-15 £ million**	**2015-16 £ million**	**2016-17 £ million**
Borrowing – General Fund	425.3	459.7	461.6	454.8
Borrowing – HRA	123.2	123.2	123.2	123.2
Total Borrowing	**548.5**	**582.9**	**584.8**	**578.0**
Other Long Term Liabilities	0.2	0.2	0.2	0.2
TOTAL	**548.7**	**583.1**	**585.0**	**578.2**

16. This TrI is for gross borrowing and was set at a limit that would allow the Council to take its entire financing requirement as loans if this was the most cost effective alternative. The limit on HRA borrowing is capped at £123.2 million. The limits, which have not been exceeded during the period covered by this report, are set to anticipate expected expenditure. The maximum gross borrowing during the year being £364.0 million (£245.2 million on General Fund and £118.8 on HRA) at 31 March 2014.

TrI 3 – External debt

	31/3/13 Actual £ million	31/3/14 Expected £ million	31/3/14 Actual £ million
Borrowing – General Fund	245.2	245.2	245.2
Borrowing – HRA	118.8	118.8	118.8
Total Borrowing	**364.0**	**364.0**	**364.0**
Other Long Term Liabilities	£0.2	0.2	£0.2
TOTAL	**364.2**	**364.2**	**364.2**

17. This TrI shows the gross External Debt outstanding at year end. The actual borrowing figure is outstanding long term borrowing as shown in Appendix C (i). Actual borrowing was as expected at the end of 2013-14.

18. There were no long term loans taken during the year.

Treasury Management Indicators within the Treasury Management Code

TrI 4a and 4b – Upper Limit on Fixed Interest Rate Exposures and Interest Rate Exposures, respectively

The Council's upper limit for fixed interest rate exposure for the period 2013-14 to 2016-17 is 100% of net outstanding principal sums.

The Council's upper limit for variable interest rate exposure is 35% for 2013-14, 50% for 2014-15, 50% for 2015-16 and 55% for 2016-17 of net outstanding principal sums.

19. All loans and investments are at fixed rates of interest.

TrI 5 – Maturity Structure of Borrowing

Limits on the Maturity Structure of Borrowing	**Upper Limit**	**Lower Limit**	**Actuals 31/3/14**
Maturing Period:			
- under 12 months	15%	0%	13.2%
- 12 months and within 24 months	15%	0%	10.2%
- 2 years and within 5 years	45%	0%	7.3%
- 5 years and within 10 years	75%	0%	11.0%
- 10 years and above	100%	0%	58.3%

20. In addition to the main maturity indicators it is considered prudent that no more than 15% of long term loans should fall due for repayment within any one financial year. The actual maximum percentage falling due for repayment in any one year is currently 13.2% (£48 million) in 2014-15. However, three quarters of this relates to LOBO loans, where, through call options, the lender has the right to change the interest rate at various points, in which case the Council will repay the loans and consider whether it needs to refinance them. In the current interest rate climate (where interest rates are expected to remain low for some time) they are extremely unlikely to be called. The average

interest rate on present long-term debt is 3.79%, which continues to be relatively low when compared with other local authority borrowing rates.

TrI 6 – Total Principal Sums invested for periods longer than 364 days

21. This TrI is covered by the Annual Investment Strategy, which is detailed in Appendix B.

Other Treasury Management issues

Short Term Cash Deficits and Surpluses

22. It was agreed, as per the approved Strategy, that temporary loans and deposits would be used to cover short term cash surpluses and deficits that arise during the year. Such borrowing or investments would be made to specific dates at fixed rates, with reference to cash flow requirements. Investments have also been placed in Money Market Funds during the year.

23. Any outstanding temporary loans and/or deposits are summarised in Appendix C (ii).

Icelandic Bank Deposits

24. During 2013-14 the Council received a significant interim dividend from the administrators of Heritable Bank, totalling just over £1.5 million and a further repayment of, circa, £0.150 million from the Landsbanki Winding-up Board.

25. Following the receipt of the last repayment, the Council has now received around £8.5 million, 94% (of the original investment of £9 million) from Heritable. This may be the last payment, although the final position has yet to be confirmed.

26. The Landsbanki Winding-up Board announced on March 9, 2012 that it anticipated recoveries in the administration of Landsbanki would exceed the book value of priority claims by around ISK 121bn (some 9% higher than the value of priority claims) taking account of the sale of its holding in Iceland Foods. It is now considered likely that, subject to foreign exchange rate fluctuations and the 'unwinding of' capital controls, local authorities will recover 100 per cent of their deposits. Latest indications suggest that it will be some time before the final repayment is received.

27. The deposits outstanding with Icelandic banks are shown in Appendix C (ii) at impaired value less repayments, impairment being calculated using the latest available guidance.

28. The initial investments in Icelandic banks amounted to a total of £12 million and total recoveries since the banks failed in 2008 now stand at approximately £10.2 million. Although it is difficult to estimate the final recoverable amount precisely, the best estimate for the final recoverable amount, based on the expected recovery rates, is just over £11.5 million (including some interest), leaving approximately £0.5 million (or, circa, 4%) irrecoverable overall.

Longer Term Cash Balances

29. The tight monetary conditions have continued through 2013-14 with a downward trend in the deposit rates for all types of investments (short/medium and long term). As a result opportunities for an increased return by longer term investment of the more permanent cash surpluses, such as reserves and balances have been limited.

30. However, there have been continuing opportunities for investment, within the Councils approved Treasury Management Strategy, in (UK 'Government backed') banks which have offered "special tranche rates" for twelve months.

31. A further "special tranche rate" investment was placed with Lloyds Banking Group (in August) for 12 months at 1.01%, further details of which is shown in Appendix C(ii).

APPENDIX B

REVIEW OF INVESTMENT STRATEGY FOR 2013-14

1. All investments of surplus cash balances were placed to ensure:

    a) the security of capital, deposits only being placed with financial institutions which met the **high credit ratings** laid down in the approved Strategy;

    b) the liquidity of investments, all deposits being placed for fixed periods at fixed rates of interest; and

    c) all such investments were in sterling and in "Specified Investments", as prescribed in the DCLG Guidance on Local Government Investments (the "Guidance").

2. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

3. As summarised in Appendix C (iii), 289 deposit transactions were processed during the year, with a gross value of £878.878 million. Of deposits placed, 130 were placed direct with HSBC Bank Treasury on the Council's overnight deposit account, 5 in call accounts, 126 through money market funds and 28 were placed with other counterparties via the money markets and direct dealing. The level of deposits in money market funds and call accounts reflects both counterparty downgrading and banks moving away from instant access call accounts to notice accounts, which are sometimes not always suitable for cash flow purposes.

4. Details of the deposits outstanding at the end of the year, totalling £76.327 million, are shown in Appendix C (ii). These deposits represent the Council's reserves both long term, such as the PFI and Insurance funds, and short term such as creditors or payments in advance and include the deposits that remain outstanding from Icelandic banks at impaired value less repayments.

5. The opportunity was taken to place a proportion of these deposits in longer term investments for 12 months, taking advantage of higher interest rates available for the longer maturity period. These are shown within general deposits in Appendix C (ii).

6. The Council contracts with a treasury adviser, regularly reviewing credit ratings of potential organisations and their respective country's ratings, together with other 'tools' used to assess the credit quality of institutions such as credit default swaps. The Council uses this information to assess institutions with which it may place deposits or from which it may borrow, including interest rate forecasts for both borrowing and investment, together with setting a 'benchmark' borrowing rate. The Council's investment policy is 'aimed' at the prudent investment of surplus cash balances to optimise returns whilst ensuring the security of capital and liquidity of investments. However, the Council, like any other organisation, can be exposed to financial risk, which is negated as far as possible by the foregoing measures.

SUMMARY OF LONG TERM BORROWING 1 APRIL - 31 MARCH 2014

Loans Raised During the Period

Date Raised	Lender	Amount (£m)	Type	Interest rate (%)	Maturity date	No. of years
No Loans were raised during the period						
	Total	0.000				

Average period to maturity (years) **0.00**

Average interest rate (%) **0.00**

* Loans taken to restucture ** Loans taken for purchases instead of leasing

Maturity Profile at 31 March 2014

Year	Amount (£m)					% age		Average rate (%)	
	PWLB	Market Loans (LOBO)		Total					
		Earliest Repay	Contracted Maturity	Earliest Repay	Contracted Maturity	Earliest Repay	Contracted Maturity	Earliest Repay	Contracted Maturity
	(A)	(B)	(C)	(A)+(B)	(A)+(C)				
1 to 5 years	50.842	61.000	-	111.842	50.842	30.7	14.0	3.890	3.336
6 to 15 years	90.123	-	-	90.123	90.123	24.8	24.8	3.013	3.013
16 to 25 years	87.500	-	-	87.500	87.500	24.0	24.0	3.872	3.872
26 to 50 years	74.500	-	45.000	74.500	119.500	20.5	32.8	4.497	4.449
Over 50 years	-	-	16.000	-	16.000	-	4.4	-	4.298
Totals	302.965	61.000	61.000	363.965	363.965	100.0	100.0	3.787	3.787

Average period to maturity (years) **15.53** **22.55**

CIPFAs Guidance Notes on Treasury Management in the Public Services recommends that the Treasury Management Strategy Reports include LOBO (Lender Option Borrower Option) loans at the earliest date on which the lender can require payment, deemed to be the next 'call date'. At that date the lender may choose to increase the interest rate and the borrower (the Council) may accept the new rate or repay the loan (under the current approved Treasury Management Strategy, the Council would repay the loan). Whether or not the lender chooses to exercise their right to alter the interest rate will depend on market conditions (interest rates). Current market conditions, where interest rates are predicted to remain low for some time, indicate that it is highly unlikely that lenders will call the loans in the immediate furture.

The alternative method of determining the maturity profile of LOBO loans, based on contracted maturity dates, is used in the 2013-14 year end outturn.

The table above includes the maturity profiles using both the earliest date on which the lender can require payment and the contracted maturity dates.

SUMMARY OF DEPOSITS 1 APRIL - 31 MARCH 2014

Deposits Outstanding at 31 March 2014

Borrower	Amount £m	Terms		Interest Rate	Sector Credit Rating at 31/03/2014
HSBC Bank Plc - Treasury	1.500	No fixed maturity date		0.20	Orange - 12 Months
Lloyds TSB Bank	5.000	Fixed to	11-Aug-14	1.01	Blue - 12 Months
Ulster Bank Ltd *	8.000	Fixed to	16-Sep-14	0.92	No Rating (rating suspended 13 March 2014)
DBS Bank Ltd.	8.000	Fixed to	11-Apr-14	0.47	Purple - 24 Months
Standard Chartered Bank	8.000	Fixed to	14-Apr-14	0.55	Red - 6 Months
Canadian Imperial Bank of Commerce	8.000	Fixed to	16-Jul-14	0.50	Orange - 12 Months
Svenska Handelsbanken AB	0.020	No fixed maturity date		0.55	Orange - 12 Months
BlackRock Money Market Fund	7.103	No fixed maturity date		0.31	AAA
J P Morgan Money Market Fund	0.005	No fixed maturity date		0.27	AAA
Prime Rate Money Market Fund	14.758	No fixed maturity date		0.40	AAA
Goldman Sachs	0.407	No fixed maturity date		0.37	AAA
Ignis Money Market Fund	14.375	No fixed maturity date		0.43	AAA
Heritable Bank	0.000	Est Recoverable Amount		6.00	N/A
Heritable Bank	0.000	Est Recoverable Amount		6.00	N/A
Heritable Bank	0.000	Est Recoverable Amount		6.00	N/A
Heritable Bank	0.000	Est Recoverable Amount		5.42	N/A
Landsbanki	1.138	Est Recoverable Amount		6.10	N/A
Landsbanki	0.021	Est Recoverable Amount		4.17	N/A
Total	**76.327**				

***The suggested duration associated with Ulster Bank was 12 months (Blue - Government backed as part of RBS Group) at the time the deposit was taken out. However, since that time, following a review, the banks credit rating has been downgraded by Moodys Rating Agency and Capita Asset Services suspended their rating on 13 March 2014, although they remain Government backed as part of the RBS Group and still retain parental support.**

Outstanding deposits with Icelandic Banks are shown at the estimated recoverable amount, which takes account of the latest estimated impairments and all repayments received to date (31 March 2014). Following the last (significant) repayment, the estimated recoverable amounts relating to the Heritable Bank investments have been reduced to nil, on the basis of current indications, that there may not be any further repayments, a recovery level of 94% having been attained. Apart from the final entry, the interest rates are the original rates. The last entry reflects the amount paid out in ISK (Icelandic Krona) which is being held in an interest bearing escrow account in Iceland and, as recommended by CIPFA, accounted for as a 'new' investment.

Investments held (as highlighted) have decreased by £43.085 million between the end of December 2013 as reported in the previous quarterly report, and the end of March 2014. This is because of changes in cash flows (e.g. decreased receipts/increased payments, particularly those associated with the new funding arrangements for Business Rates Retention) resulting in a reduction in cash available for investment.

SUMMARY OF TEMPORARY LOANS AND DEPOSITS 1 APRIL - 31 MARCH 2014

Transactions During the Period

Type	Balance 1 Apr 13 £m	Raised Value £m	Raised No.	Repaid Value £m	Repaid No.	Balance 31 March 14 £m	Interest Variance * High/Low(%)
Temporary loans							
- General	0.000	0.000	0	0.000	0	0.000	
Total	**0.000**	**0.000**	**0**	**0.000**	**0**	**0.000**	
Temporary deposits							
- General	47.242	213.100	28	222.183	29	38.159	1.01/0.47
- HSBC Overnight	0.000	337.250	130	335.750	126	1.500	0.20/0.20
- Call Accounts	0.017	7.023	5	7.020	1	0.020	0.80/0.55
- Money Market Funds	20.079	330.494	126	313.925	127	36.648	0.43/0.27
Total	**67.338**	**887.867**	**289**	**878.878**	**283**	**76.327**	

* Interest variance is the highest/lowest interest rate for transactions during the period.
* In terms of general deposits, the high of 1.01% was obtained in August 2013 on a 12 month deposit.

General deposits include impaired Icelandic investments less any repayments that have been received, to date.