<table>
<tr><td colspan="2">Open</td><td colspan="3" rowspan="2">Would any decisions proposed :

(a) Be entirely within Audit Committee’s powers to decide YES

(b) Need to be recommendations to Council/Cabinet NO

(c) Be partly for recommendations to Council NO
and partly within Cabinets powers –</td></tr>
<tr><td colspan="2">Any especially affected Wards

None</td></tr>
<tr><td colspan="3" rowspan="2">Lead Member: Brian Long,
E-mail: cllr.Brian.Long@West-Norfolk.gov.uk</td><td colspan="2">Other Cabinet Members consulted: None</td></tr>
<tr><td colspan="2">Other Members consulted: None</td></tr>
<tr><td colspan="3">Lead Officer: Toby Cowper
E-mail: toby.cowper@west-norfolk.gov.uk
Direct Dial: 01553 616523</td><td colspan="2">Other Officers consulted: Lorraine Gore, Management Team</td></tr>
<tr><td>Financial Implications NO</td><td>Policy/Personnel Implications NO</td><td>Statutory Implications (incl S.17) YES</td><td>Equal Opportunities Implications NO</td><td>Risk Management Implications NO</td></tr>
</table>

Date of meeting: 4 September 2017

ANNUAL TREASURY OUTTURN REPORT 2016/2017

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2016/2017 and covers:

1. The 2016/2016 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 - Investments as at 31st March 2017
Appendix 2 - Borrowing as at 31st March 2017
Appendix 3 - Prudential Indicators
Appendix 4 - Treasury Benchmarking Group
Appendix 5 - The Economy 2016/2017

The Council’s Treasury Policy Statement 2016/2017 and annual Treasury Strategy Statement 2016/2017 was approved by Cabinet on the 1 March 2016.
A copy of which can be found here: Documents for Cabinet 1 March, 2016

Recommendations
Audit Committee is asked to note the actual treasury outturn 2016/2017.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The 2016/2017 Treasury Outturn

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management require that the Audit Committee consider an Annual Treasury Outturn Report.

1.2 During the year the Council maintained a cautious approach to investment and management of debt.

1.3 The Councils portfolio position as at 31 March 2017 was:

	31 March 2016 Actual £million	31 March 2017 Actual £million
Borrowing	17.20	13.00
Investments	(28.30)	(27.26)
Net Position	**(11.10)**	**(14.26)**

1.4 During the last quarter of 2016/2017 investments returned at an average return of 0.84%. This exceeding the benchmark rate which was 0.69%.

Details of the 'Treasury Benchmarking Group' can be found in *Appendix 4*

Budgeted Interest Receivable	Actual Interest Received
(£302,820)	(£428,449)

The positive variance is mostly due to an additional £75,000 of internal capital projects interest credited to the interest received account at year end.

1.5 During 2016/2017 interest on external debt was paid at an average rate of 2.72%.

Budgeted Interest Payable	Actual Interest Paid
£480,000	£468,014

Details of the investment portfolio as at the 31 March 2016 can be found in *Appendix 1*

Details of the borrowing portfolio as at the 31 March 2016 can be found in *Appendix 2*

2. Compliance with Treasury Limits

2.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement 2016/2017 and annual Treasury Strategy Statement 2016/2017. The outturn for the Prudential Indicators is shown in *Appendix 3*.

3. Outturn Summary - In summary the Council:

3.1 Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties.

3.2 Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported in monthly monitoring reports as necessary.

3.3 Ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

3.4 Undertook benchmarking with other local Councils to ensure that experiences were shared and investment instruments were consistent, while maintaining good credit quality and security.

APPENDIX 1 - Investments as at 31st March 2017:

Institution	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	3,000,000	N/A	N/A	0.20	AAA
Natwest (RBS)	2,500,000	22/05/2015	22/05/2017	1.33	A
Santander	3,000,000	03/12/2017	31/05/2017	1.15	A
Qatar NB	3,000,000	01/06/2016	01/06/2017	1.05	AA-
Fife Council	3,000,000	12/11/2015	13/11/2017	0.95	A
Cheshire West & Chester Council	2,000,000	20/01/2016	19/01/2018	0.99	AAA
Great Yarmouth Borough Council	5,000,000	28/03/2017	27/03/2018	0.55	AAA
Bury Metro Borough Council	3,000,000	21/04/2016	23/04/2018	1.00	AAA
Gaywood Community Centre	10,200	20/07/2016	01/08/2021	1.00	
Total Investments	**24,510,200**				
Norfolk & Waveney Enterprise Services (LEP)*	2,750,000	Various	30/11/2018	1.80	
Total NWES Investments	**2,750,000**			**1.80**	
Total Overall Investments	**27,260,200**				

*see also Appendix 2 borrowings from Suffolk County Council

APPENDIX 2 - Borrowing as at 31st March 2017:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
			0	N/A		
Total Short Term			**0**			
22.03.07	21.03.77	5888	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term – fixed for initial 10 year period, and option to change every 5 years thereafter
12.04.07	11.04.77	5887	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term - fixed for initial 10 year period, and option to change every 5 years thereafter
15.09.09	14.09.19	495951	500,000	PWLB	2.92%	Long Term – fixed for 10 years
27.03.14	30.11.18	3789	2,500,000	Suffolk County Council (LEP)	1.80%	**see note below
Total Long Term			**13,000,000**			
Total Borrowing			**13,000,000**			

**A loan was taken out, on behalf of Norfolk and Waveney Enterprise Services Ltd (NWES), with Suffolk County Council for the Local Enterprise Partnership. A corresponding investment is shown in Appendix 1 with NWES at the same rate of interest (£500,000 drawn down in 2013/2014, a further £274,275 followed in 2014/2015, with the remainder in 2015/2016).

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2015/2016 Actual £'000	2016/2017 Actual £'000
Capital Expenditure	11,218	19,469
Ratio of financing costs to net revenue stream	2.24%	1.94%
Net borrowing		
brought forward 1 April	13,400	17,200
carried forward 31 March	17,200	13,000
Change in year	3,800	(4,200)
Net Investment		
brought forward 1 April	(26,625)	(28,300)
carried forward 31 March	(28,300)	(27,260)
Change in year	(1,675)	1,040

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2016/2017 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources

CFR	31 March 2016 Actual £000's	31 March 2017 Actual £000's
Opening Balance	18,590	17,988
Add unfinanced capital expenditure	582	10,803
Less MRP	(306)	(320)
Less voluntary/additional MRP	(863)	(925)
Less finance lease repayments (where the Council is the lessor)	(15)	(15)
Closing CFR	**17,988**	**27,531**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2016/2017 plus the expected changes to the CFR over 2017/18 and 2018/19. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2016/2017. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2016 Actual £million	31 March 2017 Actual £million
Borrowing	17.20	13.00
Investments	(28.30)	(27.26)
Net Position	**(11.10)**	**(14.26)**
Closing CFR	**17.99**	**27.53**

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

	2016/2017
Authorised limit	£35m
Maximum gross borrowing position	18.2%
Operational boundary	£30m
Average gross borrowing position	14.2%
Financing costs as a proportion of net revenue stream	1.94%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2015/2016 £'000	2015/2017 £'000
Authorised limit for external debt -		
Borrowing	35,000	35,000
Operational boundary for external debt -		
Borrowing	30,000	30,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	35,000	35,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	25,000	20,000

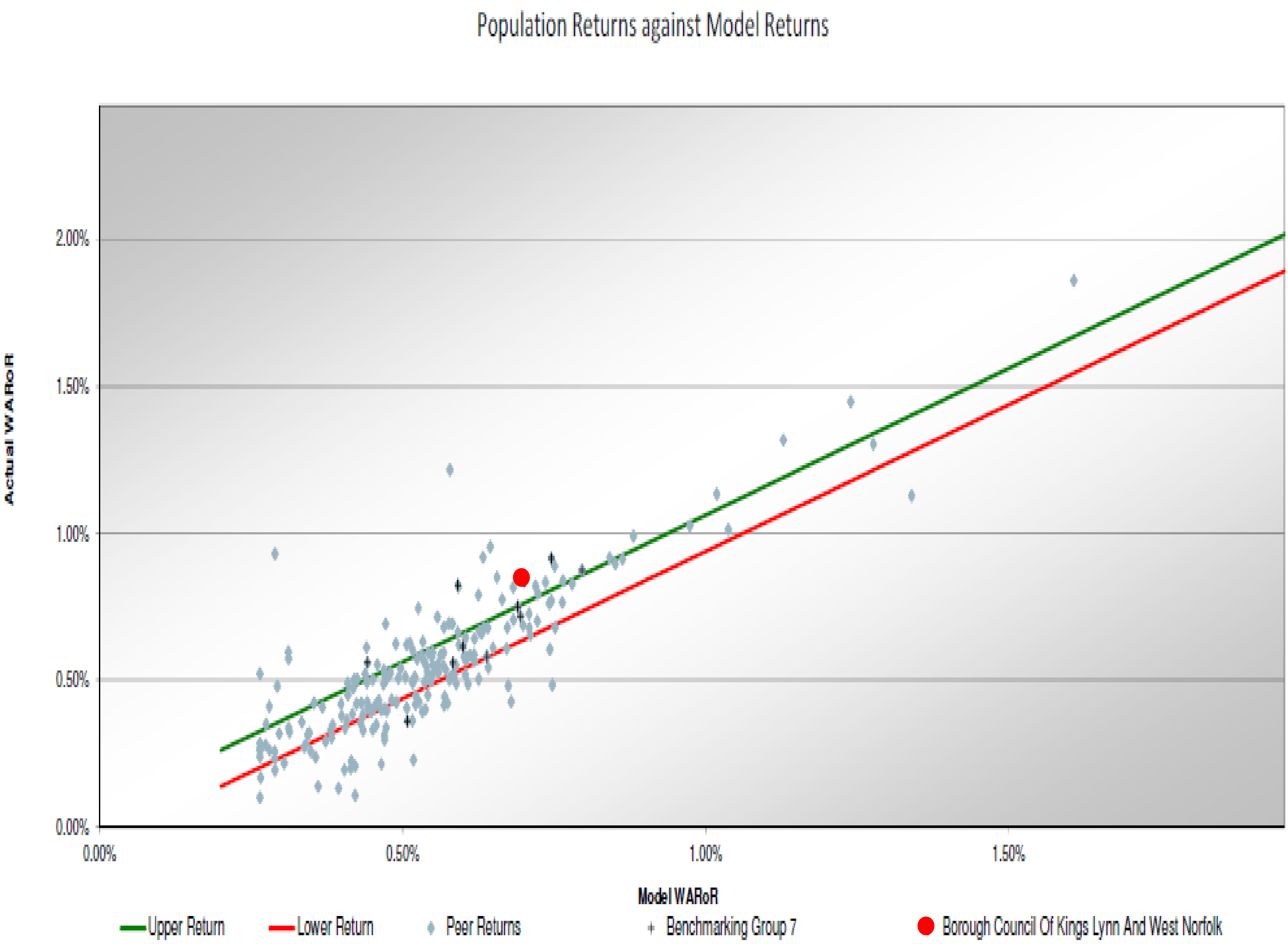
Maturity structure of fixed rate borrowing during 2016/2017	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 4: Treasury Benchmarking Group

The Council is also a member of a Treasury Benchmarking Group, where Capita Treasury clients from neighbouring authorities (including those in Norfolk, Suffolk and Cambridgeshire) meet to discuss treasury instruments relevant to their authority and discuss ideas for borrowing and investments.

All authorities want to try to maximise their returns, whilst maintaining good credit quality and security during the difficult financial climate. In addition to this, percentage rate returns are disclosed at each quarterly meeting.

As at the 31/03/2017 Councils return of 0.84% is higher than the average return for the group of 0.69%.



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Borough Council Of Kings Lynn And West Norfolk	0.84%	0.70%	0.14%	0.64%	0.76%	Above

APPENDIX 5: The Economy 2016/2017 and Investment Rates

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

USA. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

EU. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken by the ECB has resulted in economic growth improving significantly in the eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

China and emerging market counties. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

Equity markets. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.