Report to Council

Treasury Management Half Year Review 2016/17

Portfolio Holder: Councillor Jabbar, Deputy Leader and Cabinet Member for Finance and HR

Officer Contact: Anne Ryans, Director of Finance

Report Author: Andy Moran, Assistant Director of Finance
Ext. 4467

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Reason for Decision

The report advises Council of the performance of the Treasury Management function of the Council for the first half of 2016/17, and provides a comparison of performance against the 2016/17 Treasury Management Strategy and Prudential Indicators.

Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Revised Code of Practice. This report therefore sets out the key Treasury Management issues for Members' information and review and outlines:

- An economic update for the first six months of 2016/17;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- Why there has been no debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

The Treasury Management Half Year Review 2016/17 was presented to and approved by Cabinet on 5 December 2016. Cabinet also commended the report to Council. It will also be presented to the Audit Committee for consideration at its meeting on 15 December 2016.

Recommendations

Council is recommended to:

1) Approve the:

   a) Treasury Management activity for the first half of the financial year 2016/17 and the projected outturn position

   b) Amendments to both Authorised and Operational Boundary for external debt as set out in the table at Section 2.4.5 of the report.

   c) Amendments to the Capital Financing Requirement (CFR) as set out in table at section 2.4.5

   d) Inclusion of Green Energy Bonds as an alternative investment, detailed in 2.5.21 and 2.5.22

2) Note the purchase of LEP Loan Notes included within 2.5.23-24 of the report

Council **14 December 2016**

Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2016/17

1 Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 As a consequence treasury management is defined as:

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

2 Current Position

2.1 Requirements of the Treasury Management Code of Practice

2.1.1 The Council adopted the revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) on 23rd February 2011.

2.1.2 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives

c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Director of Finance.

e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

2.1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2016/17;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- Why there has been no debt rescheduling undertaken during 2016/17;
- A review of the compliance with Treasury and Prudential Limits for 2016/17;

2.2 Economic Performance for the First Six Months of the Year

2.2.1 The UK economy cannot be considered in isolation and the impact of the financial and economic performance of other countries and groups of countries has a significant influence on the global economic position as well as that of the UK. This section of the report therefore sets out key issues relating to the UK and other key regions.

The United Kingdom (UK) Economic and Financial Position

2.2.2 UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% year on year) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% year on year) in quarter 2.

2.2.3 During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

2.2.4 The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

2.2.5 The Bank of England meeting on August 4 addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that action from the Bank alone could not resolve all the challenges and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation).

2.2.6 The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased. This was confirmed in the Autumn Statement on November 23.

2.2.7 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. Consumer Price Index (CPI) has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the Monetary Policy Committee (MPC) is expected to look at this as a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

United States of America (USA)

2.2.8 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis, while quarter 2 improved, but only to +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016.

2.2.9 The Federal Reserve (Fed.) embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Eurozone (EZ)

2.2.10 In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting.

2.2.11 At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn.

2.2.12 These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% year on year) but slowed to +0.3% (+1.6% year on year) in quarter 2.

2.2.13 This has added to comments from many forecasters that central banks around the world are running out of ways to stimulate economic growth and to boost inflation. They stress that national Governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

China & Japan

2.2.14 Japan is still experiencing weak growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

2.3 **Interest Rate Forecast**

2.3.1 The Council's treasury advisor, Capita Asset Services, has provided the following bank rate and Public Works Loan Board (PWLB) interest rate forecast covering the period from the last quarter of 2016 to the third quarter of 2019:

Interest Rate Forecasts for the period ending 31/12/16 to 31/6/19

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

2.3.2 Capita Asset Services undertook a quarterly review of its interest rate forecasts after the Monetary Policy Committee (MPC) meeting of 4 August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut the Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later.

2.3.3 The Governor of the Bank of England has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

2.3.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, there has been exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most Authorities since 1st November 2012.

2.3.5 The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK’s main trading partners - the EU and US.

2.3.6 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

2.4 **Treasury Management Strategy Statement and Annual Investment Strategy Update**

2.4.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Oldham Council on 24 February 2016. The underlying TMSS approved previously now requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out in the next sections of this report.

2.4.2 A decrease is required to both the overall Authorised Limit (the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 above which the Council does not have the power to borrow) and Operational Boundary (the expected borrowing position of the Council during the year) for external debt. This indicator is made up of external borrowing and other long term liabilities, Private Finance Initiatives (PFI) and Finance Leases. The revision to the limits aligns to the reduction in the Capital Financing Requirement (£8.832m) as outlined at paragraph 2.4.4 below.

2.4.3 The Council has the following PFI and Public Private Partnership (PPP) Schemes each contributing to the Other Long Term Liabilities element of the Authorised Limit and the Operational Boundary:

- Gallery Oldham and Library
- Sheltered Housing (PFI2)
- Radclyffe and Failsworth Secondary Schools
- Chadderton Health & Well Being Centre
- Street Lighting
- Housing (PFI4)
- Blessed John Henry Newman RC College (Building Schools for the Future)

2.4.4 It will be necessary to decrease the Capital Financing Requirement (CFR) by £8.832m. Whilst approved capital expenditure/ funding carry forwards from 2015/16 (£3.596m) caused an initial increase, this is more than offset by estimated slippage and other anticipated adjustments in the 2016/17 capital programme resulting in the reduced CFR.

2.4.5 Members are therefore requested to approve the key changes to the 2016/17 prudential indicators as set out in the table below which show the original and recommended revised figures:

Prudential Indicator 2016/17	Original £'000	Recommended Revised Prudential Indicator £'000
Authorised Limit	605,000	600,000
Operational Boundary	575,000	570,000
Capital Financing Requirement	558,377	549,545

2.5 **The Council's Capital Position (Prudential Indicators)**

2.5.1 This section of the report presents the Council's capital expenditure plans and their financing, the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow together with compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

2.5.2 The table below shows the half year position and the revised budget for capital expenditure (as per table 2 of the month 6 Capital Investment Programme monitoring report). It therefore highlights the changes that have taken place and are forecast since the capital programme was agreed at the Council meeting on 24 February 2016.

Capital Expenditure by Service	2016/17 Original Estimate £'000	2016/17 Current Position £'000	2016/17 Forecast Estimate £'000
Cooperatives and Neighbourhoods	11,888	-	-
Corporate and Commercial Services	1,055	4,156	4,156
Economy and Skills	59,431	-	-
Health and Wellbeing	2,655	3,922	3,922
Funds yet to be allocated	5,402	4,533	4,533
Economy, Skills and Neighbourhoods		55,485	55,485
General Fund Services	**80,431**	**68,096**	**68,096**
Housing Revenue Account	114	1,501	1,501
Total	**80,545**	**69,597**	**69,597**

2.5.3 The above table shows a decrease in the capital programme of £10.948m to the month 6 budgeted position and forecast spend of £69.597m. The original estimate was initially increased by slippage of £3.596m brought forward into the 2016/17 programme from the previous year. This has been offset by anticipated reprofiling in 2016/17, project deletions and other movements resulting in a net decrease in the programme in the first 6 months of the year.

Changes to the Financing of the Capital Programme

2.5.4 The table below draws together the main strategy elements of the capital expenditure plans (above) highlighting the original supported (£44.035m) and unsupported elements i.e. requiring borrowing (£36.510m) of the capital programme, and the expected financing (revised position) arrangements of this capital expenditure. The borrowing need element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.5.5 The overall net reduction in the capital programme has resulted in a change in the mix of funding sources required in 2016/17; an increased reliance on capital receipts is offset by a reduced reliance on capital grants, revenue contribution, reducing the forecast borrowing need by £8.808m from £36.510m to £27.702m.

Capital Expenditure	2016/17 Original Estimate £'000	2016/17 Current / Forecast Position £'000
General Fund Services	80,431	68,096
Housing Revenue Account	114	1,501
Total spend	**80,545**	**69,597**
Financed by:		
Capital receipts	(12,099)	(17,002)
Capital grants	(24,785)	(20,861)
Revenue	(7,151)	(4,032)
Total financing	(44,035)	(41,895)
Borrowing need	**36,510**	**27,702**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

2.5.6 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. As previously mentioned in paragraph 2.4.4 the CFR needs to decrease by £8.832m. It also shows the expected debt position over the period (the Operational Boundary). This indicator has decreased to reflect the revisions to the forecast year end position of the capital programme.

	2016/17 Original Estimate £'000	2016/17 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	558,377	549,545
CFR – housing	0	0
Total CFR	**558,377**	**549,545**
Net movement in CFR		**(8,832)**
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	310,000	305,000
Other long term liabilities	265,000	265,000
Total debt 31 March	**575,000**	**570,000**

Limits to Borrowing Activity

2.5.7 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.

2.5.8 Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

2.5.9 The CFR calculation is shown in the table below and the Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator as there is £135.974m headroom between total debt and the CFR.

	2016/17 Original Estimate £'000	2016/17 Revised Estimate £'000
Gross borrowing	214,117	154,959
Plus other long term liabilities*	264,053	258,612
Total Debt	**478,170**	**413,571**
CFR* (year end position)	558,377	549,545
Headroom	**80,207**	**135,974**

* - Includes on balance sheet PFI schemes and finance leases.

2.5.10 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. Presented in the table below is the original and the revised Authorised Limit.

Authorised limit for external debt	2016/17 Original Indicator	2016/17 Revised Indicator
Borrowing	330,000	325,000
Other long term liabilities*	275,000	275,000
Total	**605,000**	**600,000**

* - Includes on balance sheet PFI schemes and finance leases.

Investment Portfolio 2016/17

2.5.11 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2.3, 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

0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk and shorter term strategy. Given this risk environment, investment returns are likely to remain low.

2.5.12 The Council held £84.1m of investments, including property funds as at 30 September 2016 (£74.1m at 31 March 2016). A full list of investments as at 30 September is included in Appendix 1. A summary of investments by type is included in the table below.

2.5.13 The Council ensures enough funds are kept in either instant access accounts and/ or on-call accounts to meet its short term liquidity requirements. As at 30 September the Council held £26.6m in such accounts (Notice Accounts and Money Market Funds).

Investment Type	Total at 30th September 2016
Property	5,000
Fixed (Term Deposits) Bank / Building Society	38,500
Fixed (Term Deposits) LA's / Public Bodies	10,500
Certificates of Deposit	3,500
Notice Accounts	2,000
Money Market Funds	24,600
TOTAL	**84,100**

2.5.14 The Council's investment strategy looks to achieve a return on its investment of London Interbank Bid Rate (LIBID) plus a 5% mark up. The Council will maintain sufficient cash reserves to give it its necessary liquidity and may place investments up to 5 years if the cash flow forecast allows and the credit rating criteria is met. Performance against this benchmark was as follows:

Benchmark	Benchmark Return LIBID +5%	Investment Interest Earned	Council Performance
7 days	0.29%	55,410	0.51%
3 months	0.40%	52,193	0.78%
6 months	0.55%	103,318	0.63%
1 year	0.80%	137,561	0.82%
Interest Earned first 6 months		**348,483**	
Return first 6 months			**0.68%**

2.5.15 The Council's performance on its cash investments exceeded its target on all benchmarks as can be seen in the table above.

2.5.16 The cash investments have generated £348k of income in the first 6 months of the financial year. Furthermore The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

Property Fund

2.5.17 In the first six months of the year the Councils investment within the CCLA property fund has generated £111k, (4.93%) and it is anticipated that this revenue return will continue throughout the year. As advised within the TMSS, due to the anticipated fluctuations in price this is an investment with a minimum time horizon of 5 years.

2.5.18 Following the Brexit decision, property funds in general have seen a small decline in the value due mainly to valuer caution rather than any significant increase in pressure to sell properties. In contrast, occupier trends continued to strengthen. The CCLA property fund has also seen 5 new additional investments during the period since the Brexit vote.

Investment Counterparty Criteria

2.5.19 The Council currently has investment criteria and limits and these are set out in the table below. This shows the colour banding into which each of the counterparties are categorised, depending on their credit rating, and for each colour banding, the maximum duration of the investment and the maximum principal that can be invested. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Capita Colour Band	Maximum Duration	Maximum Principal Invested £
Yellow (Note 1)	5 Years	£10m
Dark Pink (Note 2)	5 Years	£10m
Light Pink (Note 3)	5 Years	£10m
Purple	2 Years	£20m
Blue (Note 4)	1 Year	£20m
Orange (Note 5)	1 Year	£15m
Red	6 months	£10m
Green	100 days	£10m
No Colour	Not to be used	Not to be used

Note 1 – Includes Public Sector Bodies

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 - Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 – Blue Institutions only applies to nationalised or semi nationalised UK Banks, which are currently:

- Lloyds Banking Group – Lloyds and Bank of Scotland.
- RBS Group – Royal Bank of Scotland, Natwest Bank and Ulster Bank.

Note 5 - Includes the Council's banking provider, if it currently falls into category below this colour band.

Bonds

2.5.20 The current TMSS gives theoretical approval to the use of bonds as an alternative investment instrument. The Authority does not currently hold any such investments but it is however aware of the emerging popularity of bonds within the sector and may consider investing in bonds in the current financial year. Consideration would therefore be given as to the type/ category of bond e.g. corporate, Government, financial institution, the rating of the issuer and the maturity duration before any such decision was made.

Green Energy Bonds

2.5.21 A new Green Energy Bond has recently been launched to the Local Authority Market that has a 2 – 5 year investment horizon. Renewable energy assets (Bonds) offer attractive and reliable yields, and allow investment that positively impacts the environment.

2.5.22 The current strategy as mentioned in 2.5.20 allows for investments in Bonds that are AAA rated or with a financial institution that falls within the rating colour bands within paragraph 2.5.19. The Green Energy Bond is currently unrated, however given the Council is supportive of green energy efficiency initiatives it is suggested to widen the investment criteria for Green Energy Bonds / Investments to include those that are unrated, with a maximum investment of £5m. Internal Due Diligence taking account of external factors would be completed prior to any decisions being made to invest.

LEP Loan Notes

2.5.23 As advised in the Treasury Management Strategy Statement 2016/17, the Council reviews opportunities for alternative investment products that become available. During the first half of 2016/17 loan notes became available to purchase in relation to the Oldham Building Schools for the Future (BSF). Following financial close of the BSF project in 2010 90% of the loan notes in the LEP were held by a third party and 10% held by Oldham Council, with a return payable of a minimum of 10.3%. Recently, the 90% held by a third party became available to purchase.

2.5.24 Based on the rate of return and to maximise Councils position and thereby avoid any complication of an unknown third party holding loan notes, the 90% of loan notes available were purchased by the Council, at a value of £302k.

2.6 Borrowing

PWLB

2.6.1 It is proposed in this report that the Council's CFR for 2016/17 is revised to £549.545m and this denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

2.6.2 The table within paragraph 2.5.9 shows the Council has borrowings of £413.571m and has utilised £135.974m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

2.6.3 The Council has not undertaken any borrowing in the first half of the year, and did not undertake any debt rescheduling during the first half of 2016/17. Due to current cash balances it is not anticipated that any borrowing will be undertaken in the rest of 2016/17, unless there is a further decline in interest rates attached to borrowing.

2.6.4 Current PWLB certainty rates are set out in the following table and show for a selection of maturity periods over the first half of 2016/17, the range (high and low points) in rates and the average rates over the period. In addition, Appendix 2 tracks the movement in the PWLB certainty rate over the period April to September 2016 across the same range of loan terms as is used in the table below.

Maturity Rates	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/09/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/16	10/08/16	10/08/16	12/08/16	30/08/16
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/16	27/04/16	27/04/16	27/04/16	27/04/16
Average	0.99%	1.33%	1.92%	2.69%	2.46%

Municipal Bonds Agency (MBA)

2.6.5 The Local Government Association (LGA) has implemented the setting up of the Municipal Bonds Agency (MBA) the aim of which is to seek to provide Councils with a cheaper source of long term borrowing and to introduce sector owned diversity into the Local Government lending market. The Council has invested a total sum of £100k in the equity of the MBA.

2.6.6 The Council has undertaken this investment to access a potentially cheaper source of long term borrowing and any other beneficial financing arrangements that may become available. The agency has indicated that the first bond could possibly be issued during the latter end of 2016/17. Whilst this may be not be the opportune timing for Oldham the Council will keep under review the availability and cost of funds from the MBA as an alternative source of finance with a view to borrowing at an appropriate time if terms are preferential. As an investor, the Council would expect to benefit from any profits generated by the MBA.

Lender Option Borrower Option (LOBO's) Loans

2.6.7 The Council holds £125.5m of borrowing with a number of financial institutions that had previously been classed as LOBO's. Of this £125.5m, £40m was held with Barclays Bank. In July of this year Barclays informed the Council that they would be waiving their right to exercise the option facility of the loans, therefore these loans would become standard fixed loans. The balance of LOBO loans has now reduced to £85.5m.

2.6.8 Following the 2015/16 approval of the Council's Financial Statements the Council has been made aware of a number of objections / queries that some Local Authorities have received in relation to the LOBO's that they hold. The Council has not received any objections or queries in relation to its LOBO's but this will continue to be monitored by Council officers.

2.7 Debt Rescheduling

2.7.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year and none is expected over the remainder of the financial year

2.8 Minimum Revenue Provision Policy

2.8.1 Members will recall that the Council, at its meeting of 7 September 2016, approved a report which revised the Minimum Revenue Provision (MRP) Policy for 2016/17. This replaced Section 2.3 of the 2016/17 Treasury Management Strategy Statement approved by Council on 24 February 2016. The MRP calculations now reflect the revised policy and this has enabled the Council to generate a saving which is being used to support financial position of the Council and lower the base budget requirement for future financial years.

2.9 Overall Position at the Mid –Year 2016/17

2.9.1 The position at the mid-year 2016/17 shows that the Council is continuing to follow recommended practice and manage its treasury affairs in a prudent manner.

3 **Options/Alternatives**

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore no options/alternatives have been presented.

4 **Preferred Option**

4.1 As stated above the preferred option is that the contents of the report are approved

5 **Consultation**

5.1 Consultation has taken place with Capita Asset Services (the Councils Treasury Management Advisors), and senior officers. The Treasury Management Half Year Review 2016/17 was presented to Cabinet on 5 December 2016. It will also be presented to the Audit Committee at its meeting on 15 December 2016.

6 **Financial Implications**

6.1 All included in the report.

7 **Legal Services Comments**

7.1 None

8 **Cooperative Agenda**

8.1 The Council ensures that any Treasury Management decisions comply as far as possible with the ethos of the Cooperative Council.

9 **Human Resources Comments**

9.1 None

10 **Risk Assessments**

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which have previously been acknowledged in the External Auditors' Annual Governance Report presented to the Audit Committee.

11 **IT Implications**

11.1 None

12 **Property Implications**

12.1 None

13 **Procurement Implications**

13.1 None

14 **Environmental and Health & Safety Implications**

14.1 None

15 **Equality, community cohesion and crime implications**

15.1 None

16 **Equality Impact Assessment Completed?**

16.1 No

17 **Key Decision**

17.1 Yes

18 **Forward Plan Reference**

18.1 CFHR-11-16

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are contained within Appendices 1 and 2.
Officer Name: Anne Ryans
Contact No: 0161 770 4902

20 **Appendices**

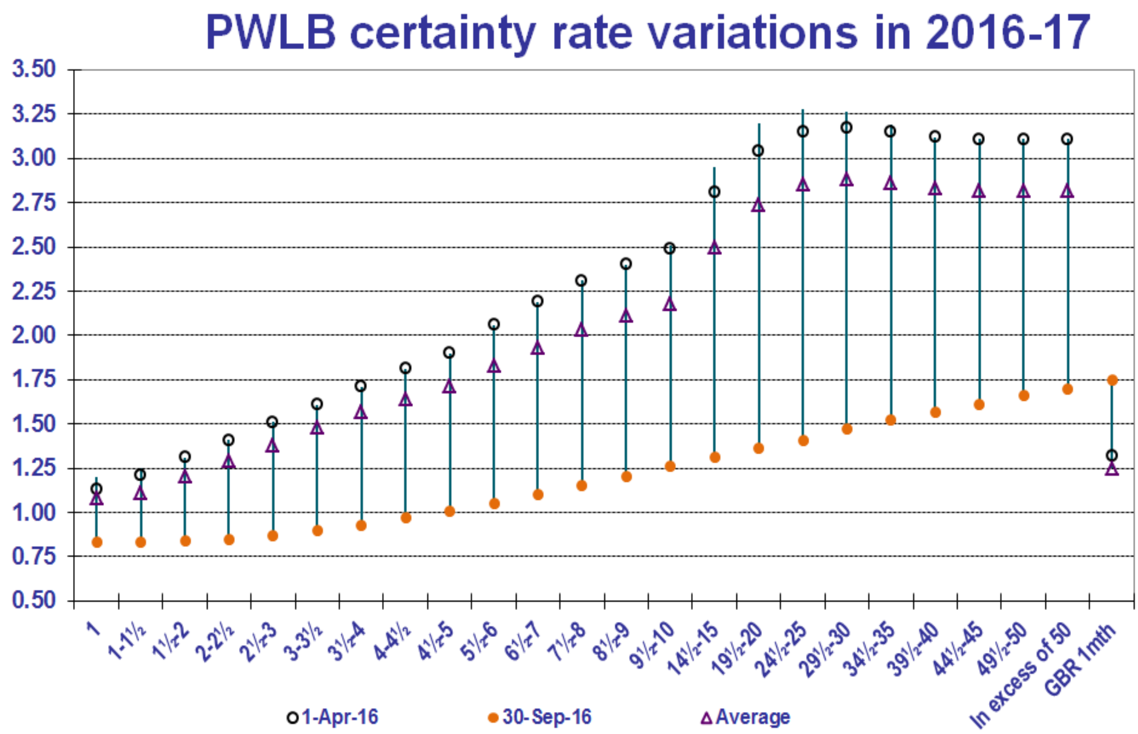
20.1 Appendix 1 – Investments at 30 September 2016
Appendix 2 - Borrowing

APPENDIX 1- Investments at 30 September 2016

Investments	Type	30th September 2016 £'000	Interest Rate	Date of Investment	Date of Maturity
CCLA Property Fund	Property	5,000	4.89%	30/10/2015	Open
Total Property Fund		**5,000**			
Bank of Scotland plc	Fixed	3,000	0.75%	09/05/2016	10/10/2016
Nationwide Building Society	Fixed	5,000	0.71%	22/04/2016	24/10/2016
Bank of Scotland plc	Fixed	5,000	0.80%	18/05/2016	18/11/2016
Barclays Bank plc	Fixed	3,000	0.97%	26/11/2015	25/11/2016
North Wales Fire And Rescue Authority	Fixed	3,000	0.55%	31/05/2016	01/12/2016
Santander UK plc	Fixed	2,500	0.66%	03/06/2016	05/12/2016
Herefordshire County Council	Fixed	7,500	0.70%	23/10/2015	23/12/2016
Nationwide Building Society	Fixed	5,000	0.49%	13/07/2016	13/01/2017
Santander UK plc	Fixed	4,000	0.54%	13/07/2016	13/01/2017
Barclays Bank plc	Fixed	3,000	0.83%	22/04/2016	23/01/2017
Leeds Building Society	Fixed	5,000	0.45%	27/07/2016	27/01/2017
Barclays Bank plc	Fixed	3,000	0.81%	20/05/2016	20/02/2017
Total Fixed Investments		**49,000**			
Abbey National Treasury Services	CD	3,500	0.86%	27/04/2016	26/04/2017
Total Certificates of Deposit (CD)		**3,500**			
Bank of Scotland plc	32 day call	2,000	0.25%	22/04/2016	04/10/2016
Total Investments on call		**2,000**			
Federated Cash Plus Fund	MMF	10,000	0.63%	26/09/2016	
SLI Sterling Liquidity/Cl 2	MMF	12,200	0.49%	30/09/2016	
Federated Prime Rate Sterling Liquidity 3	MMF	2,400	0.48%	28/09/2016	
Total Money Market Fund (MMF)		**24,600**			
Total		**84,100**			

Appendix 2 Borrowing

2A) PWLB Certainty Rate Variations 2016/17



2B) Comparison of borrowing parameters to actual external borrowing (Table)

Actual / Expected	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Authorised Limit	590,000	600,000	620,000	600,000	580,000
Operational Boundary	560,000	570,000	590,000	570,000	550,000
Capital Financing Requirement	543,231	549,545	577,275	556,518	537,142
External Debt	421,122	413,571	434,734	438,979	436,165

2C) Comparison of borrowing parameters to actual external borrowing (Graph)