Report to Council

Treasury Management Review 2015/16

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

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Ext. 4467

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Reason for Decision

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved 25 February 2015)
- a mid-year (minimum) treasury update report (approved 24 February 2016)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The presentation of this report demonstrates full compliance with the requirements as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

This report was considered and approved at the Cabinet meeting of 25 July 2016 and will be presented to the next meeting of the Audit Committee on 8 September 2016.

Executive Summary

During 2015/16, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2014/15 Actual £'000	2015/16 Revised £'000	2015/16 Actual £'000
Actual capital expenditure	66,851	68,332	65,788
Total Capital Financing Requirement:	527,364	543,243	543,232
Gross borrowing	148,117	148,117	148,113
External debt	426,660	443,853	421,122
Investments			
· Longer than 1 year	0	0	10,500
· Under 1 year	103,070	45,000	63,600
· Total	**103,070**	**45,000**	**74,100**
Net Borrowing	45,047	103,117	74,013

As can be seen in the table above, actual capital expenditure was less than the revised budget estimate. This was due primarily to delays in both start and development of some of the capital schemes that were expected to progress during the year. The planned expenditure has therefore slipped into 2016/17. No borrowing was undertaken during the year. This was because of the policy of self - financing which was employed due to the uncertainty around interest rates and the availability of cash which caused the Council to use cash reserves rather than incur additional borrowing costs.

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance also confirms that the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2015/16 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

Council is recommended to approve the:

1) Actual 2015/16 prudential and treasury indicators in this report
2) Annual treasury management report for 2015/16

Council **7 September 2016**

Treasury Management Review 2015/16

1 Background

1.1 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2011. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- 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
- 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 section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

Treasury management in this context 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. "*

1.2 The report therefore summarises the following:-

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity
- Reporting of the required prudential and treasury indicators;

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2015/16

2.1.1 The Council incurs capital expenditure when it invests in or acquires long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2015/16 was less than the revised budget estimate. This was due primarily to delays in delivering some IT projects, transport and property related schemes that were expected to progress during the year. The planned expenditure has therefore slipped into 2016/17.

	2014/15 Actual £'000	2015/16 Revised £'000	2015/16 Actual £'000
Non-HRA capital expenditure	61,060	67,927	65,392
HRA capital expenditure	5,791	405	396
Total capital expenditure	**66,851**	**68,332**	**65,788**
Resourced by:			
Capital receipts	5,139	6,793	1,290
Capital grants	17,182	27,772	26,259
HRA	5,791	405	526
Revenue	12,125	926	5,556
Unfinanced capital expenditure	**26,614**	**32,436**	**32,157**

2.2 The Council's Overall Borrowing Need

2.2.1 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 indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council's (non-Housing Revenue Account [HRA]) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non- HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.2.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council's 2015/16 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2015/16 on 25 February 2015.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. In 2015/16 the Council had seven PFI schemes in operation; however no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

CFR	2014/15 Actual £'000	2015/16 Revised £'000	2015/16 Actual £'000
Opening balance	479,872	527,364	527,364
Add unfinanced capital expenditure (as above)	26,614	32,436	32,157
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	39,221	3,739	4,008
Less MRP/VRP	(10,886)	(12,803)	(11,963)
Less PFI & finance lease repayments	(7,457)	(7,493)	(8,334)
Closing balance	527,364	543,243	543,232

2.2.7 Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

<u>Gross borrowing and the CFR</u>

2.2.8 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16 if so required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2014/15 Actual £'000	2015/16 Revised £'000	2015/16 Actual £'000
Gross borrowing position	426,660	421,126	421,122
CFR - incl PFI / Finance Leases	527,364	543,243	543,232

The table above shows the position as at 31 March 2016 for the Councils gross borrowing position and CFR. This shows, compared to the revised budget position:

- Slight movement in the gross borrowing position, reflecting the fact that a small amount of short term borrowing had been repaid.
- A small reduction in the CFR, predominantly due to the slippage in the capital programme.

The Authorised Limit

2.2.11 The authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 and was set at £590m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational boundary

2.2.12 The operational boundary is the expected borrowing position of the Council during the year and was set at £560m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream

2.2.13 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 and is within expected levels.

	2015/16 Actual £'000
Authorised limit	590,000
Operational boundary	560,000
External Debt	148,113
PFI / Finance leases	273,009
Actual external debt (Gross Borrowing)	**421,122**
Financing costs as a proportion of net revenue stream	17.67%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is within the Authorised Limit and Operational Boundary. Treasury Position as at 31 March 2016.

2.3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

2.3.2 At the end of 2015/16 the Council's treasury position was as follows:

	31 March 2015 Principal £'000	Rate/ Return	Average Life yrs	31 March 2016 Principal £'000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	15,723			15,723		
-Stock	6,600			6,600		
Market	125,794			125,790		
Total borrowings	**148,117**	4.50%	49.90	**148,113**	4.51%	37.84
PFI & Finance lease liabilities	**278,543**			**273,009**		
Total External debt	**426,660**			**421,122**		
CFR	**527,364**			**543,232**		
Over/ (under) borrowing	**(100,704)**			**(122,111)**		
Investments:						
Financial Institutions/LA's	103,070	0.72%		74,100	0.77%	
Property	0			5,000	4.77%	
Total investments	***103,070***			***79,100***		

2.3.3 The maturity structure of the debt portfolio was as follows:

Maturity structure of fixed rate borrowing during 2013/14	2014/15 Actual %	upper limit %	lower limit %	2015/16 Actual %
Under 12 months	43%	50%	0%	50%
12 months and within 24 months	3%	7%	0%	7%
24 months and within 5 years	38%	28%	0%	28%
5 years and within 10 years	5%	5%	0%	5%
10 years and above	10%	10%	40%	10%

The 2015/16 actual figures above do not represent a significant difference in maturity profile to the previous year, reflecting the fact that there has be neither any new debt taken on or repayment of debt.

2.3.4 The maturity structure of the investment portfolio was as follows:

	2014/15 Actual £'000	2015/16 Actual £'000
Investments		
Longer than 1 year	0	10,500

Under 1 year	103,070	68,600
Property		5,000
Total	**103,070**	**79,100**

2.3.5 Key features of the debt and investment position are:

a) Over the course of the year 2015/16, investments have decreased by £23.970m, due to utilising cash resources to finance the capital programme rather than borrow externally, whilst counterparties remain limited and interest rates are expected to remain low.

b) The average rate of return on investments with Financial Institutions increased from 0.72% in 2014/15 to 0.77% in 2015/16. During the latter part of 2014/15 the investment policy altered slightly to start placing cash out for fixed term deals rather than hold all in instant access / money market funds. This continued throughout the year in 2015/16, both within the one year and an additional change to place funds for greater than one year. This approach is therefore reflected in the increased return (0.77%) on the investments held at the 31 March 2016.

c) During the year investments were also made with a Property Fund. This is a longer term investment with at least a three year time horizon for the investment that allows the Council to maximise investment income whilst cash reserves allow. Initially £2m was invested in June 2016 and a further £3m in October 2016 taking the investment to £5m. The return in year was 4.77%.

2.4 The Strategy for 2015/16

2.4.1 The expectation for interest rates within the strategy for 2015/16 anticipated a low but rising Bank Rate (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

2.4.2 The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

2.4.3 The actual movement in gilt yields meant that the general trend in PWLB rates during 2015/16 was an increase in rates during the first quarter followed by marked bouts of sharp volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year.

2.5 The Economy and Interest Rates

2.5.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

2.5.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. The Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year.

2.5.3 Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 was disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

2.5.4 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

2.5.5 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

2.5.6 In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

2.5.7 The European Central Bank (ECB) had announced in January 2015 that it would undertake a full blown quantitative easing (QE) programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

2.5.8 The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

2.5.9 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

2.5.10 On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts.

2.5.11 The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East, have also contributed to volatility.

2.5.12 The UK elected a majority Conservative Government in May 2015 which led to an unchanged approach to the economy and austerity. It however introduced some economic uncertainty due to the promise of a referendum on the UK remaining part of the EU.

2.5.13 The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

2.6 Borrowing Rates in 2015/16

2.6.1 PWLB certainty maturity borrowing rates are set out as follows and are shown in Appendix 2 for a selection of maturity periods, illustrating the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

- **5 year PWLB rate -** started the year at 1.90%, peaking at 2.35% in July 2015 before falling to a low for the year of 1.47% in February 2016, climbing slightly to finish the year at 1.61%.

- **10 year PWLB rate** - started the year at 2.49%, peaking at 3.06% in July 2015 before falling to a low for the year of 2.28% in February 2016, climbing to finish the year at 2.28%.

- **25 year PWLB rate** - started the year at 3.15%, peaking at 3.66% in July 2015 before falling to a low for the year of 2.98% in February 2016, before climbing to finish the year at 3.11%.

- **50 year PWLB rate. -** started the year at 3.11%, peaking at 3.58% in July before falling to a low for the year of 2.81% in February 2016, climbing slightly to finish the year at 2.92%.

2.7 Borrowing Outturn for 2015/16

Treasury Borrowing

2.7.1 The Council did not undertake any borrowing in 2015/16:

Repayment of Debt

2.7.2 There was no repayment of outstanding Council debt in 2015/16.

2.8 Compliance with Treasury Limits.

2.8.1 During the financial year the Council operated within the prudential indicators as set in the annual treasury management strategy. The outturn for all the prudential indicators and treasury management indicators is shown in Appendix 1.

2.9 Investment Rates in 2015/16

2.9.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years.

2.9.2 Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year.

2.9.3 Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when the Bank Rate would start rising. Deposit rate movements are summarised below;

- **7 Day rate**: this started the year at 0.361% and also ended the year at 0.361%

- **1 month rate**: this started the year at 0.381% and ended the year slightly higher at 0.386%

- **3 month rate**: this started the year at 0.445%, peaking towards the end of the year on both 15 February 2016 at 0.468%. The average for the year was 0.456%

- **6 month rate**: rates opened the year at 0.559% and peaked at 0.635% on 16 September 2015, ending the year lower at 0.615%.

- **12 month rate**: this started the year at 0.843%, reaching a high point of 0.959% on 5 August 2015, ending the year at 0.878% on 31 March.

2.10 Investment Outturn

Investment Policy

2.10.1 The Council's investment policy is governed by CLG investment guidance, which has been implemented in the annual investment strategy which for 2015/16 was approved by Council on 25 February 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Resources

2.10.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£'000)	31-Mar-15	31-Mar-16
Balances General Fund	18,122	18,547
Balances HRA	16,374	17,284
Earmarked reserves	98,696	107,482
Provisions	23,531	27,576
Usable capital receipts	4,085	6,641
Total	**160,808**	**177,531**

Investments at 31/3/16

2.10.4 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £79.1m of investments as follows:

Institution	Type	Amount £'000	Term (days)	Rate%	Start date	End date
CCLA Property Fund	Property	5,000	Open	4.77%	31-Oct-15	Open
Total Property Funds		**5,000**				
Royal Bank of Scotland	CD	5,000	364	0.91%	17-Apr-15	15-Apr-16
Standard Chartered	CD	2,500	364	0.90%	06-May-15	04-May-16

Royal Bank of Scotland	CD	3,000	364	0.95%	14-Jul-15	12-Jul-16
Standard Chartered	CD	5,000	183	0.73%	20-Oct-15	20-Apr-16
Total Certificates of Deposit (CD)		**15,500**				
Barclays	Fixed	3,000	274	0.85%	20-Aug-15	20-May-16
Nationwide BS	Fixed	2,500	183	0.66%	14-Oct-15	14-Apr-16
Herefordshire Council	Fixed	7,500	427	0.70%	23-Oct-15	23-Dec-16
Bank of Scotland	Fixed	3,000	182	0.75%	09-Nov-15	09-May-16
Bank of Scotland	Fixed	5,000	182	0.75%	18-Nov-15	18-May-16
Barclays	Fixed	3,000	365	0.97%	26-Nov-15	25-Nov-16
Santander UK plc	Fixed	2,500	183	0.71%	03-Dec-15	03-Jun-16
Total Fixed Deposits		**26,500**				
Federated MMF	MMF	17,700	3	0.54%	29-Mar-16	01-Apr-16
Standard Life MMF	MMF	14,400	1	0.50%	31-Mar-16	01-Apr-16
Total Money Market Funds (MMF)		**32,100**				
Total Investments		**79,100**				

2.10.5 Taking the opportunity to earn a better rate of return on its cash balances, the Council has in accordance with the approved TMSS during 2015/16, started to use a broader range of investment products, namely Certificates of Deposit and Investment units with a Property Fund. To invest in these types of instruments, accounts have been opened up with a custodian service (King & Shaxson) and the Churches, Charities and Local Authority (CCLA) Property Fund.

2.10.6 Certificates of Deposit have opened up a wider range of approved counterparties, that the Council may either not have had access too directly or who may not offer fixed investments. Although certificates of deposit are entered into for a fixed duration they can be sold on the secondary market in the highly unlikely event that there should be an urgent need for liquidity. As at 31 March 2016 £15.5m was held in Certificates of Deposit.

2.10.7 As mentioned above in 2.10.5, the Council has started to invest with CCLA Property Fund. The details are included in the table above; the overall return in year is 4.77%.

2.10.8 The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) both 7 day and 3 month multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure.

Average 7 Day LIBID	0.361%	
Benchmark		0.379%
Actual Return earned in year	**0.487%**	
Average 3 month LIBID		0.456%
Benchmark		0.479%
Actual Return earned in year	**0.711%**	

2.10.9 The Council's overall average performance on its cash investments exceeded its target by 0.108% on 7 day LIBID and 0.232% on 3 month LIBID.

2.10.10 The investments in year and those detailed above generated £783k of income in the financial year. This income is split £129k Property Fund income and £654k received for all other investment types. Furthermore The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

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 The preferred option is that the contents of the report are reviewed and approved by Council.

5 **Consultation**

5.1 There has been consultation with Capita Asset Services, Treasury Management Advisors and Cabinet on 25 July 2016. The report will be discussed at the Audit Committee on 8 September.

6 **Financial Implications**

6.1 All included in the report.

7 **Legal Services Comments**

7.1 None

8 **Cooperative Agenda**

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the cooperative ethos of the 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 Internal Audit reports and in the External Auditors' reports 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 **Key Decision Reference**

18.1 CFHR-19-16

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 provided in Appendices 1 and 2
Officer Name: Andrew Moran
Contact No: 0161 770 4467

20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Borrowing and Investment Rates

Appendix 1 – Prudential and Treasury Management Indicators

TABLE 1: Prudential indicators	2014/15 Actual	2015/16 Original	2015/16 Revised	2015/16 Actual
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non - HRA	61,060	90,644	67,927	65,392
HRA	5,791		405	396
TOTAL	66,851	90,644	68,332	65,788
Ratio of financing costs to net revenue stream				
Non - HRA	14.90%	18.62%	13.64%	17.67%
In year Capital Financing Requirement				
Non - HRA	47,492	45,018	15,878	15,868
TOTAL	47,492	45,018	15,878	15,868
Capital Financing Requirement as at 31 March				
TOTAL	527,364	572,382	543,243	543,232
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	£25.23	£57.44	£44.25	£45.47

TABLE 2: Treasury management indicators	2014/15 Actual	2015/16 Original	2015/16 Revised	2015/16 Actual
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
borrowing	290,000	345,000	305,000	305,000
other long term liabilities	265,000	285,000	285,000	285,000
TOTAL	**555,000**	**630,000**	**590,000**	**590,000**
Operational Boundary for external debt -				
borrowing	270,000	325,000	285,000	285,000
other long term liabilities	255,000	275,000	275,000	275,000
TOTAL	**525,000**	**600,000**	**560,000**	**560,000**
Actual external debt	426,660			421,122

Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Actual	100%			100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	40%	30%	30%	30%
Actual	0%			0%
Upper limit for total principal sums invested for over 364 days	20,000	20,000	20,000	20,000

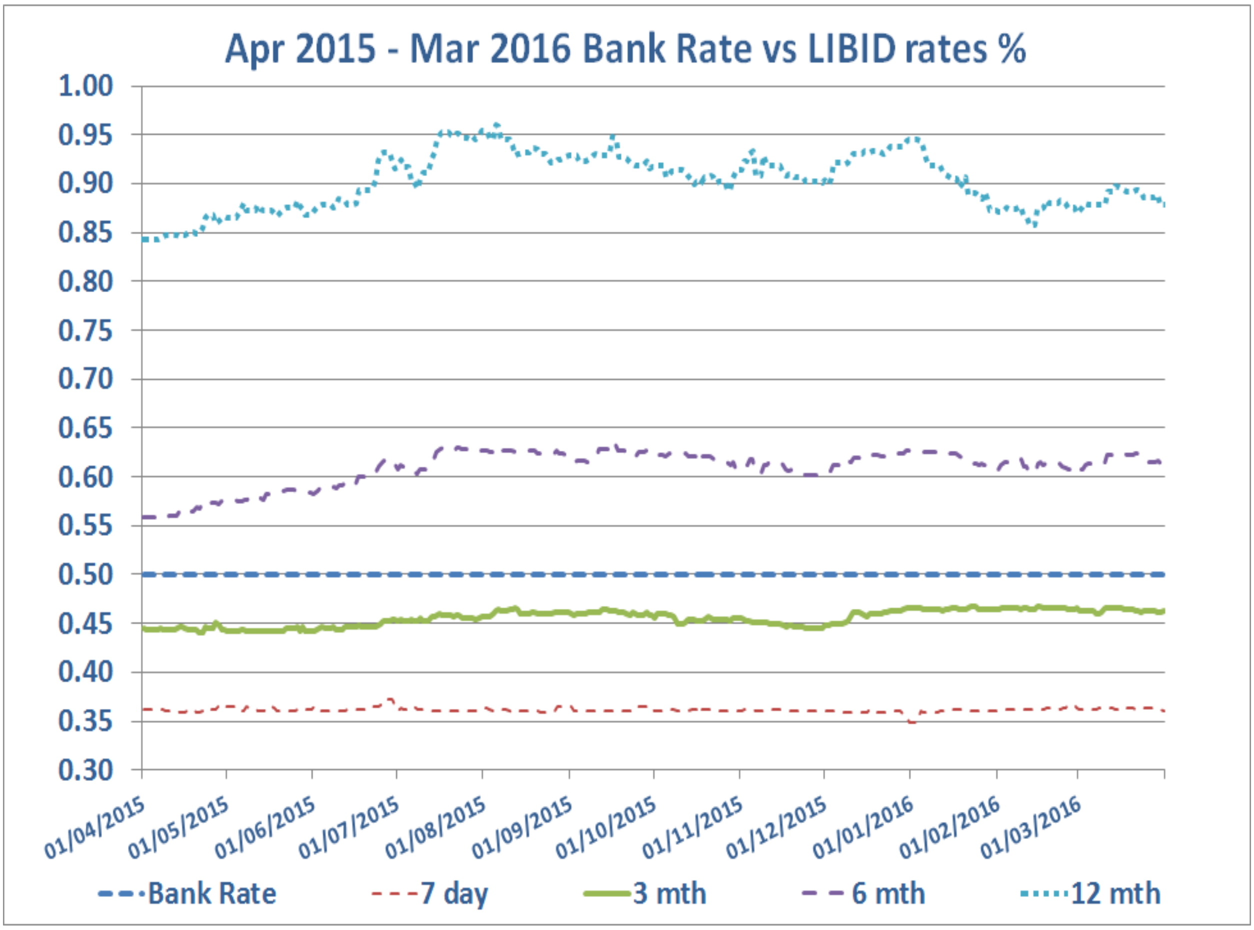
Table 3

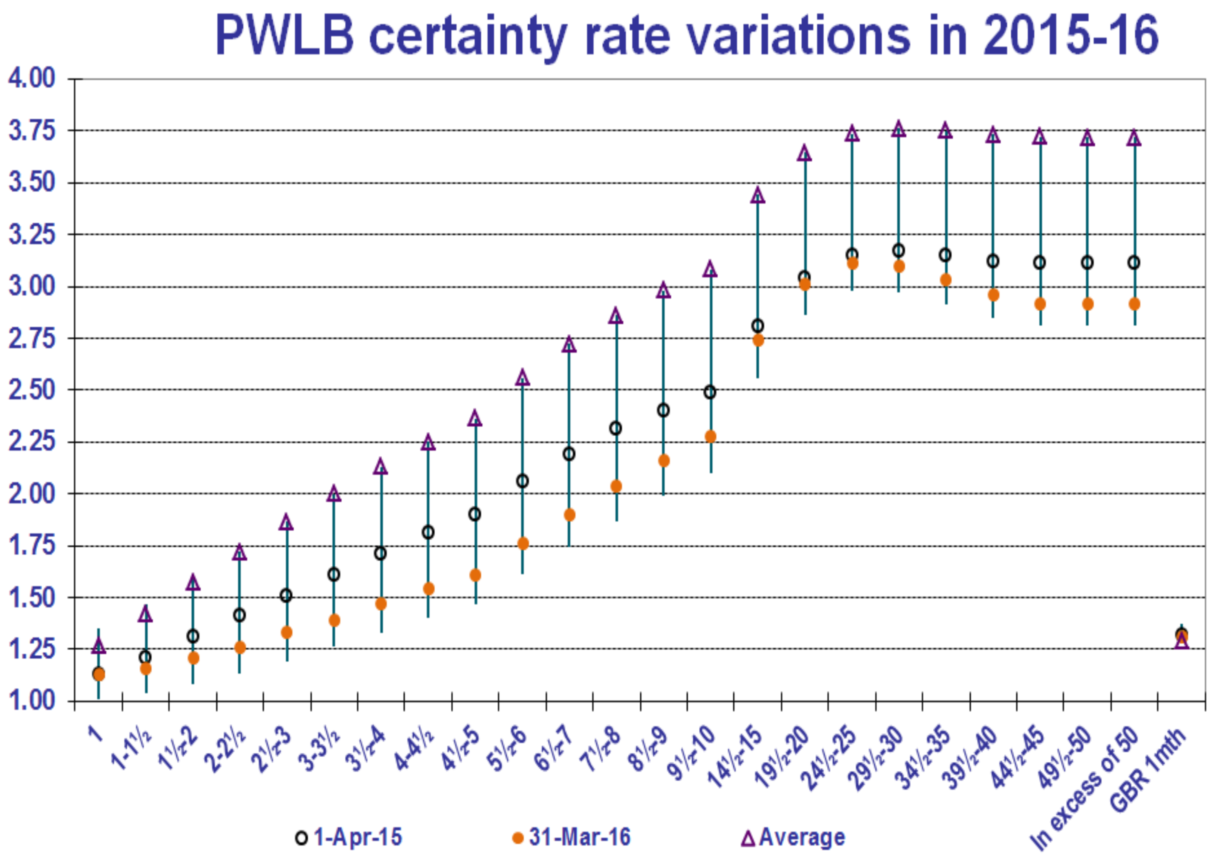
Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit	Actual
under 12 months	40%	0%	50%
12 months and within 24 months	15%	0%	7%
24 months and within 5 years	30%	0%	28%
5 years and within 10 years	5%	0%	5%
10 years and above	100%	40%	10%

Appendix 2: Borrowing and Investment Rates 2015/16

Money market investment rates 2015/16

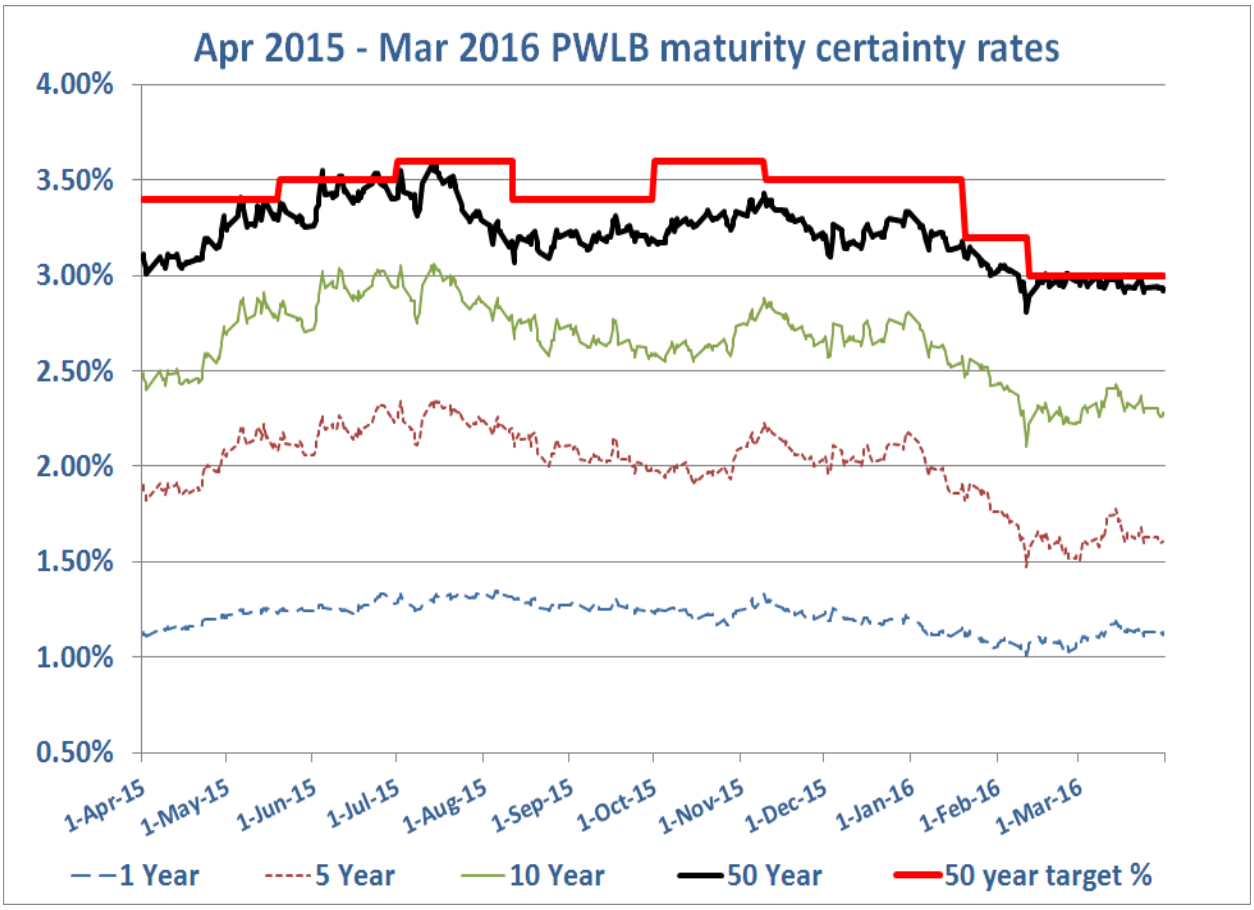
	7 day	1 month	3 month	6 month	1 year
1/4/15	0.361	0.381	0.445	0.559	0.843
31/3/16	0.361	0.386	0.463	0.615	0.878
High	0.372	0.389	0.468	0.635	0.959
Low	0.349	0.377	0.441	0.557	0.842
Average	0.361	0.383	0.456	0.609	0.902
Spread	0.023	0.012	0.027	0.078	0.117
High date	26/6/15	3/11/15	15/2/16	16/9/15	5/8/15
Low date	31/12/15	16/4/15	22/4/15	9/4/15	2/4/15





	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/15	1.130%	1.210%	1.510%	1.710%	1.900%	2.490%	3.150%	3.110%	1.320%
31/3/16	1.130%	1.160%	1.330%	1.470%	1.610%	2.280%	3.110%	2.920%	1.310%
High	1.350%	1.470%	1.860%	2.120%	2.350%	3.060%	3.660%	3.580%	1.370%
Low	1.010%	1.040%	1.190%	1.330%	1.470%	2.100%	2.980%	2.810%	1.310%
Average	1.212%	1.302%	1.608%	1.814%	2.004%	2.653%	3.348%	3.216%	1.336%
Spread	0.340%	0.430%	0.670%	0.790%	0.880%	0.960%	0.680%	0.770%	0.060%
High date	05/08/2015	06/08/2015	02/07/2015	15/07/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015	30/10/2015
Low date	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	21/03/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/15	1.13%	1.90%	2.49%	3.15%	3.11%
31/3/16	1.13%	1.61%	2.28%	3.11%	2.92%
Low	1.01%	1.47%	2.10%	2.98%	2.81%
Date	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.21%	2.00%	2.65%	3.35%	3.22%


Apr 2015 - Mar 2016 PWLB maturity certainty rates
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
1-Apr-15
1-May-15
1-Jun-15
1-Jul-15
1-Aug-15
1-Sep-15
1-Oct-15
1-Nov-15
1-Dec-15
1-Jan-16
1-Feb-16
1-Mar-16
1 Year
5 Year
10 Year
50 Year
50 year target %