Report to Council

Treasury Management Review 2016/17

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

Officer Contact: Anne Ryans, Director of Finance

Report Author: Andrew Moran, Assistant Director of Finance

Ext. 4467

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Reason for Decision

The 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 2016/17. 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 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved 24 February 2016)
- a mid-year (minimum) treasury update report (approved 14 December 2016)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. 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 21 August 2017 and is an item on the Audit Committee Agenda for the 7 September 2017 meeting.

Executive Summary

During 2016/17, 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	2015/16 Outturn £'000	2016/17 Revised Budget £'000	2016/17 Outturn £'000
Actual capital expenditure	65,788	69,597	42,873
Total Capital Financing Requirement:	543,232	549,545	521,790
Gross borrowing	148,113	154,959	147,866
External debt	421,122	413,571	411,813
Investments			
· Longer than 1 year	10,500	5,000	5,000
· Under 1 year	68,600	45,000	68,000
· Total	**79,100**	**50,000**	**73,000**
Net Borrowing	69,013	104,959	74,866

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 been re-profiled into 2017/18. 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 and 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 2016/17 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

Council is recommended to:

1) Approve the actual 2016/17 prudential and treasury indicators in this report
2) Approve the annual treasury management report for 2016/17
3) Approve the amendment to the Treasury Management Strategy 2017/18 with regard to unspecified investments as presented at Appendix 4

Council **13 September 2017**

Treasury Management Review 2016/17

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;
- Detailed investment activity; and
- Reporting of the required prudential and treasury indicators.

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2016/17

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, a decision is taken not to apply resources, and the capital expenditure will give rise to a borrowing need.

2.1.2 The actual level of capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2016/17 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 and a significant rephasing as a result of a revision to a planned major development.

	2015/16 Outturn £'000	2016/17 Revised Budget £'000	2016/17 Outturn £'000
Non-HRA capital expenditure	65,392	68,096	41,625
HRA capital expenditure	396	1,501	1,248
Total capital expenditure	**65,788**	**69,597**	**42,873**
Resourced by:			
• Capital receipts	1,290	17,002	8,780
• Capital grants	26,259	20,861	17,304
• HRA	526	1,501	
• Revenue	5,556	2,531	16,789
Unfinanced capital expenditure	**32,157**	**27,702**	**0**

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 2016/17 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 activity 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 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy report for 2016/17 on 24 February 2016. This was amended during 2016/17 and approved at the Council meeting on 7 September 2016.

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 2016/17 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	2015/16 Outturn £'000	2016/17 Revised Budget £'000	2016/17 Outturn £'000
Opening balance	527,364	543,232	543,232
Add unfinanced capital expenditure	32,157	27,702	0
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	4,008	0	296
Less MRP/VRP*	(11,963)	(13,271)	(13,620)
Less PFI & finance lease repayments	(8,334)	(8,118)	(8,118)
Closing balance	543,232	549,545	521,790

* Includes voluntary application of capital receipts and revenue resources

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

Gross borrowing and the CFR

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 plus the estimates of any additional capital financing requirement for the current 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 2016/17 if so required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2015/16 Outturn £'000	2016/17 Revised Budget £'000	2016/17 Outturn £'000
Gross borrowing position	421,122	413,571	411,813
CFR - including PFI / Finance Leases	543,232	549,545	521,790

The table above shows the position as at 31 March 2017 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 and repayment of transferred debt and finance leases.
- A reduction in the CFR, predominantly due to the slippage in the capital programme and financing of capital through revenue resources.

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 £600m. 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 £570m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2016/17 Actual £'000
Authorised limit	600,000
Operational boundary	570,000

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.

	2016/17 Actual £'000
External Debt	147,866
PFI / Finance leases	263,947
Actual external debt (Gross Borrowing)	**411,813**
Financing costs as a proportion of net revenue stream GF	15.43%

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 2017.

2.3 **The Councils Debt and Investment Position**

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 2016/17 the Council's treasury position was as follows:

	31 March 2016 Principal £'000	Average Rate/ Return	Average Life (years)	31 March 2017 Principal £'000	Average Rate/ Return	Average Life (years)
Fixed rate funding:						
-PWLB	15,723			15,482		
-Stock	6,600			6,600		
Market	125,790			125,784		
Total borrowings	**148,113**	4.51%	37.84	**147,866**	4.50%	37.42
PFI & Finance lease liabilities	**273,009**			**263,947**		
Total External debt	**421,122**			**411,813**		
CFR	**543,232**			**521,790**		
Over/ (under) borrowing	**(122,111)**			**(109,977)**		
Investments:						
Financial Institutions/LA's	74,100	0.77%		68,000	0.60%	
Property	5,000	4.77%		5,000	4.83%	
Total investments	**79,100**			**73,000**		

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

	2015/16 Actual %	Upper Limit %	Lower Limit %	2016/17 Actual %
Under 12 months	50%	50%	0%	33%
12 months and within 24 months	7%	7%	0%	0%
24 months and within 5 years	28%	28%	0%	25%
5 years and within 10 years	5%	5%	0%	4%
10 years and above	10%	100%	40%	37%

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

	2015/16 Outturn £'000	2016/17 Outturn £'000
Investments		
Longer than 1 year	10,500	0
Under 1 year	63,600	68,000
Property	5,000	5,000
Total	**79,100**	**73,000**

2.3.4 Key features of the debt and investment position are:

a) Over the course of the year 2016/17, investments have decreased by £6.1m, 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 decreased from 0.77% in 2015/16 to 0.60% in 2016/17. This decrease relates to the Bank of England base rate dropping from 0.50% to 0.25%.

c) It has previously been reported that an investment with a property fund had been made in the previous financial year. This is a longer term investment with at least a 5 year time horizon for the investment that allows the Council to maximise investment income whilst cash reserves allow. During 2016/17 this provided a return of 4.83%, which is a small increase compared to the previous year and generated £218k of income.

2.4 The Strategy for 2016/17

2.4.1 The expectation for interest rates within the strategy for 2016/17 anticipated low but rising Bank Rate (starting in quarter 1 of 2017), 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 During 2016/17 there was major volatility in Public Works Loan Board (PWLB) rates with rates falling during quarters one and two to reach historically very low levels in July and August, before rising significantly during quarter three, and then partially easing back towards the end of the year.

2.5 The Economy and Interest Rates

2.5.1 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 2016.

2.5.2 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.

2.5.3 At its 4 August 2016 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.

2.5.4 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.

2.5.5 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.

2.5.6 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.

2.5.7 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.

2.5.8 **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 (Federal Reserve) 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%.

2.5.9 **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%.

2.5.10 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.

2.5.11 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.

2.5.12 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.

2.5.13 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.

2.5.14 **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.

2.5.15 **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.

2.5.16 **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.

2.6 Borrowing Rates in 2016/17

2.6.1 PWLB certainty maturity borrowing rates during 2016/17 fell from April to June and then gaining fresh downward impetus after the referendum and bank rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. Details are below for different maturity profiles and are also shown in Appendix 3 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 1.62%, peaking at 1.8% in April 2016 before falling to a low for the year of 0.95% in August 2016, climbing to finish the year at 1.24%.

- **10 year PWLB rate -** started the year at 2.31%, peaking at 2.51% in April 2016 before falling to a low for the year of 1.42% in August 2016, climbing to finish the year at 1.09%.

- **25 year PWLB rate -** started the year at 3.14%, peaking at 3.28% in April 2016 before falling to a low for the year of 2.08% in August 2016, before climbing to finish the year at 2.6%.

- **50 year PWLB rate. -** started the year at 3.14%, peaking at 3.28% in April before falling to a low for the year of 1.87% in August 2016, climbing to finish the year at 2.34%.

2.7 Borrowing Outturn for 2016/17

Treasury Borrowing

2.7.1 The Council did not undertake any borrowing in 2016/17, due to investment concerns with both counterparty risk and low investment returns.

Repayment of Debt

2.7.2 In August 2016 a PWLB loan reached its maturity date. Due to the small value of £241k, no further borrowing was required and the balance due was paid using investment balances.

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 2016/17

2.9.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August 2016 and remained at that level for the rest of the year.

2.9.2 Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018 but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018.

2.9.3 Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017. Deposit rate movements are summarised below;

- **7 Day rate:** this started the year at 0.363% and also ended the year at 0.111%

- **1 month rate:** this started the year at 0.386% and ended the year slightly higher at 0.132%

- **3 month rate:** this started the year at 0.463%, peaking in May 2016 at 0.467%. The average for the year was 0.315%

- **6 month rate:** rates opened the year at 0.614% and peaked at 0.622% on 22nd April 2016, ending the year lower at 0.366%.

- **12 month rate:** this started the year at 0.877%, reaching a high point of 0.902% on 26th April 2016, ending the year at 0.593% on 31st 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 2016/17 was approved by Council on 24 February 2016. 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 March 2016	31 March 2017
Balances General Fund	18,547	14,744
Balances HRA	17,284	18,366
Earmarked reserves	107,482	94,838
Provisions	27,576	29,008
Usable capital receipts	6,641	4,164
Total	**177,530**	**161,120**

Investments at 31/3/17

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 £73m of investments as follows:

Institution	Type	Amount £'000	Term	Rate%	Start date	End date
CCLA Property	Property	5,000		4.83%		
Total Property		**5,000**				
Abbey National	CD*	3,500	364	0.86%	27-Apr-16	26-Apr-17
Total Certificates of Deposit		**3,500**				
Leeds Building Society	Fixed	3,000	183	0.45%	17-Oct-16	18-Apr-17
Nationwide BS	Fixed	5,000	182	0.42%	24-Oct-16	24-Apr-17
Bank of Scotland	Fixed	3,000	182	0.65%	10-Oct-16	10-Apr-17
Bank of Scotland	Fixed	5,000	181	0.60%	18-Nov-16	18-May-17
Bank of Scotland	Fixed	2,000	91	0.45%	09-Jan-17	10-Apr-17
Newham Council	Fixed	5,000	39	0.32%	23-Feb-17	03-Apr-17
Dumfries & Galloway Council	Fixed	5,000	39	0.32%	23-Feb-17	03-Apr-17
Plymouth City Council	Fixed	5,000	62	0.30%	31-Jan-17	03-Apr-17
Nottingham City Council	Fixed	5,000	45	0.29%	17-Feb-17	03-Apr-17
Glasgow City Council	Fixed	5,000	65	0.30%	26-Jan-17	03-Apr-17
Total Fixed Deposits		**43,000**				
Federated MMF	MMF**	11,500	6	0.28%	28-Mar-17	03-Apr-17
Standard Life MMF	MMF	10,000	3	0.27%	31-Mar-17	03-Apr-17
Total Money Market Funds		**21,500**				
Total Investments		**73,000**				

*Certificate of Deposits (CD)
** Money Market Funds (MMF)

2.10.5 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) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period

	LIBID + 5%	Actual Return %
7 Day	0.11649%	0.40484%
1 Month	0.13827%	0.64497%
3 Month	0.22306%	0.38871%
6 Month	0.38470%	0.59600%
12 Month	0.62232%	0.81027%

2.10.6 The Council's overall average performance on its cash investments exceeded its LIBID benchmark in all periods.

2.10.7 The investments held with the CCLA property fund generated £218k of income with an average return in year of 4.83%. 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.

Other Key Issues

2.10.8 It is important to be able to maximise investment income to support the overall financial position of the Council. It is therefore essential to have flexibility to be able to take advantage of opportunities for new investments that may become available. In order to allow this, a revision to the non-specified investment category within the 2017/18 Treasury Management Strategy is therefore proposed and as set out in Appendix 4 covering fixed term deposits and property fund. Members should be assured that any investments will only be undertaken after an appropriate due diligence exercise and having regard to the Treasury Management principles of security, liquidity, yield and ethical investments.

2.10.9 The Council's Treasury Advisors, Capita Asset Services have recently announced the sale of their Business to an organisation named LINK who offer similar services overseas. This sale has to be approved by the competition commission before it is finalised. It isn't expected that this sale will have any negative affect on the service received by Oldham Council. A further update will be reported in the half year review report as the sale moves through the completion stage which is expected later this year following regulatory approvals.

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 agreed by to Council.

5 Consultation

5.1 There has been consultation with Capita Asset Services, Treasury Management Advisors.

5.2 The Treasury Management Review 2016/17 was approved at Cabinet on 21 August 2017 and will be presented to the Audit Committee on 7 September 2017 for detailed scrutiny in compliance with the requirements of the CIPFA Code of Practice.

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 Equality Impact Assessment Completed?

17.1 No

18 **Key Decision**

18.1 Yes

19 **Key Decision Reference**

19.1 CFHR-10-17

20 **Background Papers**

20.1 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 to 4
Officer Name:	Andrew Moran
Contact No:	0161 770 4467

21 **Appendices**

Appendix 1	Prudential and Treasury Management Indicators
Appendix 2	Graphs
Appendix 3	Borrowing and Investment Rates
Appendix 4	Amendment to Non-Specified Investments

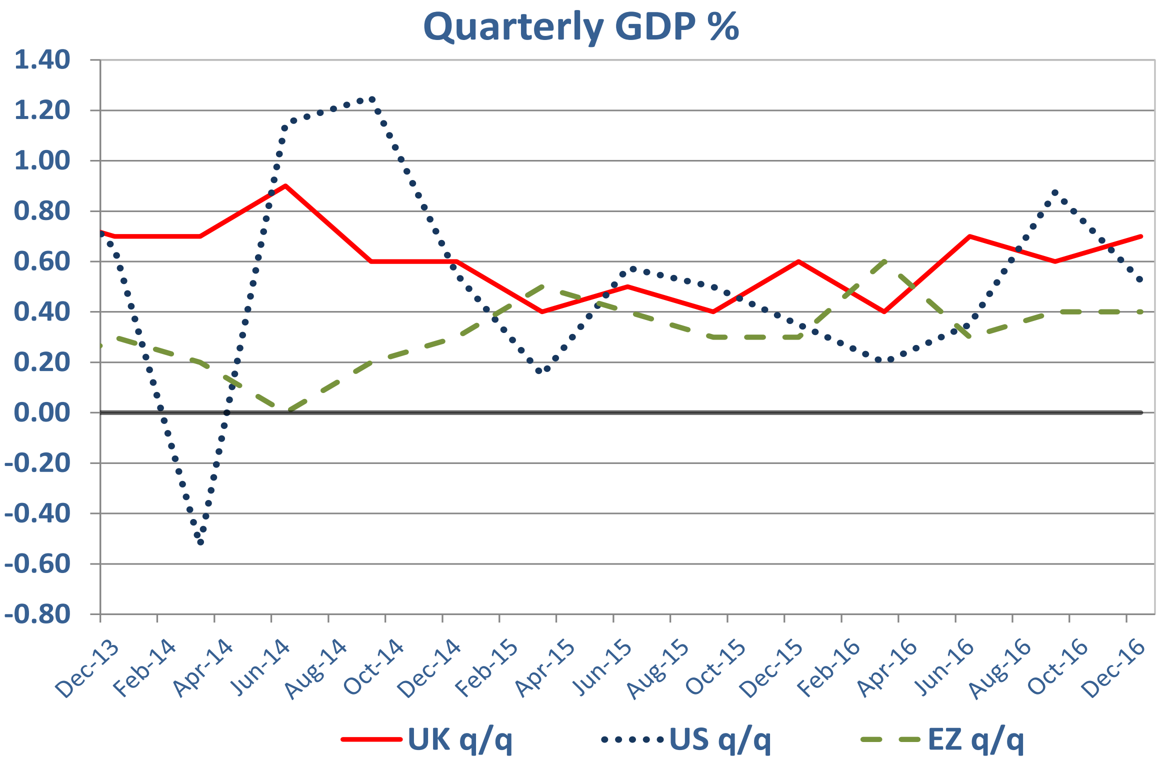
Appendix 1: Prudential and Treasury Management Indicators

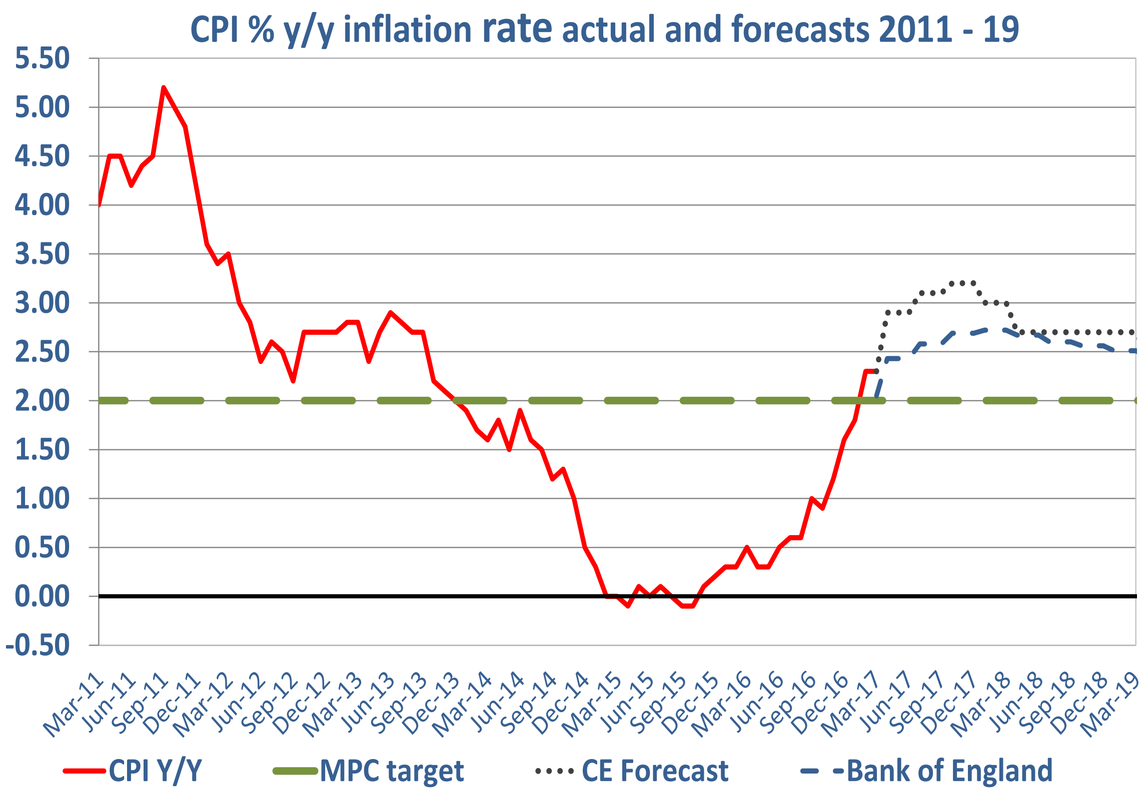
TABLE 1: Prudential indicators	2015/16	2016/17	2016/17	2016/17
	Outturn	Original	Revised	Outturn
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non – HRA	65,392	90,644	68,096	41,625
HRA (applies only to housing authorities)	396		1,501	1,248
TOTAL	65,788	90,644	69,597	42,873
Ratio of financing costs to net revenue stream				
Non – HRA	17.67%	16.31%	16.31%	15.43%
In year Capital Financing Requirement				
Non – HRA	63,360	15,145	6,313	(21,442)
TOTAL	63,360	15,145	6,313	(21,442)
Capital Financing Requirement as at 31 March	543,232	558,377	549,545	521,790
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum *	£25.23	£51.75	£51.75	£10.00

TABLE 2: Treasury management indicators	2015/16	2016/17	2016/17	2016/17
	Outturn	Original Budget	Revised	Outturn
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
Borrowing	305,000	330,000	325,000	325,000
other long term liabilities	285,000	275,000	275,000	275,000
TOTAL	**590,000**	**605,000**	**600,000**	**600,000**
Operational Boundary for external debt -				
Borrowing	285,000	310,000	305,000	305,000
other long term liabilities	275,000	265,000	265,000	265,000
TOTAL	**560,000**	**575,000**	**570,000**	**570,000**
Actual external debt	421,122			411,813
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	30%	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

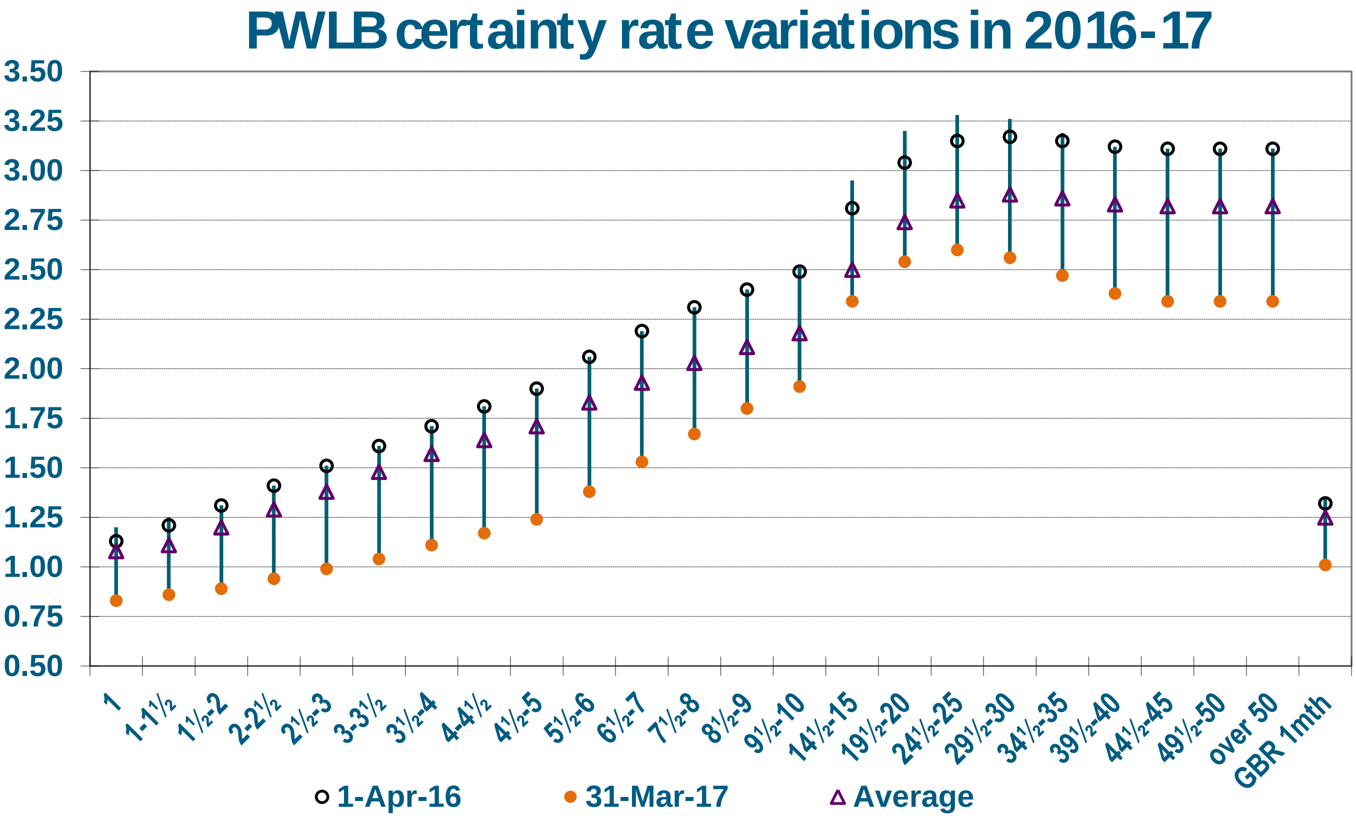
Maturity structure of fixed rate borrowing during 2016/17	Upper Limit	Lower Limit	Actual
under 12 months	50%	0%	33%
12 months and within 24 months	7%	0%	0%
24 months and within 5 years	28%	0%	25%
5 years and within 10 years	5%	0%	4%
10 years and above	100%	40%	37%

Appendix 2: Graphs





Appendix 3: Borrowing and Investment Rates



	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
1/4/16	1.130%	1.160%	1.330%	1.470%	1.620%	2.310%	3.140%	2.950%	1.310%
31/3/17	0.830%	0.860%	0.990%	1.110%	1.240%	1.910%	2.600%	2.340%	1.010%
High	1.200%	1.250%	1.460%	1.630%	1.800%	2.510%	3.280%	3.080%	1.350%
Low	0.760%	0.800%	0.840%	0.880%	0.950%	1.420%	2.080%	1.870%	1.040%
Average	0.928%	0.961%	1.104%	1.226%	1.361%	2.007%	2.724%	2.494%	1.150%
Spread	0.440%	0.450%	0.620%	0.750%	0.850%	1.090%	1.200%	1.210%	0.310%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	20/05/2016
Low date	20/12/2016	15/03/2017	10/08/2016	10/08/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016	30/11/2016

Money market

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.91%	2.60%	2.34%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%

Investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16

Appendix 4 Amendment to Non-Specified Investments

An additional Non-Specified investment category for fixed terms deposits has been added to the strategy to allow the Council to consider alternative investments. A revision to the maximum property fund investment is also recommended (an increase from £10m to £25m). These revisions (as detailed in the table below) allow the Council to take advantage of the availability of alternative investment products and property fund investment opportunities that satisfy the Treasury Management investment criteria, in accordance with the 2017/18 Treasury Management Strategy approved by full Council on 1 March 2017

Maturities in excess of 1 year

OTHER NON-SPECIFIED INVESTMENTS	Minimum Credit Criteria	Use	Max % of total investments/ £ limit per institution	Max. maturity period
Fixed term deposits with variable rate and variable maturities	Internal Due Diligence	In-house and External Advice	£20m	50 years
Property Funds	Internal Due Diligence	In-house	£25m	10 years