Report to COUNCIL

Treasury Management Half Year Review 2017/18

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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 2017/18, and provides a comparison of performance against the 2017/18 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 2017/18;
- 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 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- Why there has been no debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

The Treasury Management Half Year Review 2017/18 report was presented to and approved by Cabinet on 20 November 2017. Cabinet commended the report to Council. It will also be considered by the Audit Committee at its meeting of 11 January 2018.

Recommendations

That Council approves Council the:

a) Treasury Management activity for the first half of the financial year 2017/18 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 at section 2.4.4 and in the table at section 2.4.5

Council **13 December 2017**

Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2017/18

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 2017/18;
- 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 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- Why there has been no debt rescheduling undertaken during 2017/18;
- A review of the compliance with Treasury and Prudential Limits for 2017/18;

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.

<u>The United Kingdom (UK)</u>

2.2.2 After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% year on year (y/y)) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012.

2.2.3 The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of Gross Domestic Product (GDP), has seen weak growth as consumers cut back on their expenditure.

2.2.4 However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

2.2.5 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise.

2.2.6 The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected Consumer Price Index (CPI) inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 2.9% in August, (with the data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC.

2.2.7 This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.

2.2.8 In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation.

This effectively means that the UK labour market faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

2.2.9 It therefore looked very likely that the MPC would increase the Bank Rate to 0.5% in November (which it did on 2 November 2017). The big question after this will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. Current forecasts are indicating that the financial markets do not expect the Bank Rate to increase again until November /December 2018.

2.2.10 However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

European Union (EU)

2.2.11 Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the European Central Bank (ECB) eventually cutting its main rate to -0.4% and embarking on a massive programme of Quantitative Easing (QE).

2.2.12 Growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

United States of America (USA)

2.2.13 Growth in the American economy has been volatile in 2015 and 2016. This year is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year.

2.2.14 Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Federal Reserve (Fed) has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018.

2.2.15 At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

China and Japan

2.2.16 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

2.2.17 Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2.3 Interest Rate Forecast

2.3.1 The Council's treasury advisor, Capita Asset Services, which has been acquired and recently changed its name to Link Asset Services, has provided the following bank rate and Public Works Loan Board (PWLB) interest rate forecast at the end of quarter 2:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

2.3.2 Link Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months".

2.3.3 As previously mentioned, this was increased to 0.5% at the November MPC meeting. The question is now whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018. The financial markets do not expect the Bank Rate to increase again until November/December 2018.

2.3.4 The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU.

2.3.5 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than currently anticipated.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

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 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 2017/18 was approved at the Council meeting on 1 March 2017. 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 (£32.853m) 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 £32.853m. Whilst approved capital expenditure/ funding carry forwards from 2016/17 (£4.129m) caused an initial increase, this is more than offset by estimated re-phasing and re-alignment and other anticipated adjustments in the 2017/18 capital programme resulting in the reduced CFR.

2.4.5 Members are therefore requested to approve the key changes to the 2017/18 prudential indicators as set out in the table below which show the original and recommended revised figures:

Prudential Indicator 2017/18	Original £'000	Recommended Revised Prudential Indicator £'000
Authorised Limit	585,000	555,000
Operational Boundary	560,000	530,000
Capital Financing Requirement	554,403	521,550

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 1 March 2017.

Capital Expenditure by Service	2017/18 Original Estimate £'000	2017/18 Current Position £'000	2017/18 Forecast Estimate £'000
Corporate and Commercial Services	3,904	4,880	4,880
Health and Wellbeing	2,518	2,588	1,338
Funds yet to be allocated	7,400	1,129	1,129
Economy, Skills and Neighbourhoods	53,113	31,318	30,488
General Fund Services	**66,935**	**39,915**	**37,835**
Housing Revenue Account	2,848	1,085	1,044
Total	**69,783**	**41,000**	**38,879**

2.5.3 The above table shows a decrease in the capital programme of £28.783m to the month 6 budgeted position with current forecast spend of £41m, this decreases further by £2.121m to the forecast year end position with an expected spend of £38.879m. The original estimate was initially increased by slippage of £4.129m brought forward into the 2017/18 programme from the previous year. During July and August 2017 the Annual Review of the Capital Programme took place alongside the usual capital monitoring process. A number of schemes were identified that required the re-phasing, realigning and removal of budgets within existing schemes. The significant budget variations were the revision to the Prince's Gate development, and the re-phasing of the Schools Capital Programme, mainly due to planning related issues.

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 (£37.550m) and unsupported elements i.e. requiring borrowing (£32.233m) 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 2017/18; an increased reliance on capital receipts is offset by a reduced reliance on capital grants, revenue contribution, reducing the forecast borrowing need by £17.219m from £32.233m to £15.014m.

Capital Expenditure	2017/18 Original Estimate £'000	2017/18 Current Position £'000	2017/18 Forecast Position £'000
General Fund Services	66,935	39,915	37,835
Housing Revenue Account	2,848	1,085	1,044
Total spend	**69,783**	**41,000**	**38,879**
Financed by:			
Capital receipts	(6,221)	(7,738)	(7,738)
Capital grants	(28,581)	(16,807)	(15,155)
Revenue	(2,748)	(1,013)	(972)
Total financing	(37,550)	(25,558)	(23,437)
Borrowing need	**32,233**	**15,442**	**15,014**

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 £32.853m. 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.

	2017/18 Original Estimate £'000	2017/18 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	554,403	521,550
CFR – housing	0	0
Total CFR	**554,403**	**521,550**
Net movement in CFR		**(32,853)**
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	310,000	275,000
Other long term liabilities	250,000	255,000
Total debt 31 March	**560,000**	**530,000**

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 2017/18 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 £116.693m headroom between total debt and the CFR.

	2017/18 Original Estimate £'000	2017/18 Revised Estimate £'000
Gross borrowing	176,613	148,656
Plus other long term liabilities*	255,971	256,201
Total Debt	**432,584**	**404,857**
CFR* (year-end position)	554,403	521,550
Headroom	**121,819**	**116,693**

*- 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	2017/18 Original Indicator	2017/18 Revised Indicator
Borrowing	330,000	295,000
Other long term liabilities*	255,000	260,000
Total	**585,000**	**555,000**

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

2.6 Investment Portfolio 2017/18

2.6.1 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 which prevailed at the end of quarter 2. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

2.6.2 The Council held £70.155m of investments, including property funds as at 30 September 2017 (£73m at 31 March 2017). 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.

2.6.3 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 £30.655m in such accounts (Notice Accounts and Money Market Funds).

Investment Type	Total at 30 September 2017
Property	5,000
Fixed (Term Deposits) Bank / Building Society	29,500
Fixed (Term Deposits) LA's / Public Bodies	5,000
Notice Accounts	3,000
Money Market Funds	27,655
TOTAL	**70,155**

2.6.4 The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

2.6.5 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%	Council Performance
7 days	0.11%	0.37%
1 month	0.13%	0.32%
3 months	0.18%	0.42%
6 months	0.32%	0.50%
1 year	0.53%	0.86%
Return first 6 months		**0.43%**

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

2.6.7 Furthermore the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

Property Fund

2.6.8 In the first six months of the year the Councils investment within the CCLA property fund has generated a return of 4.51% 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.

2.6.9 Following the Brexit decision, in the initial months property funds saw 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. This initial decline in value has started to unwind and prices are now at the same levels prior to Brexit.

2.6.10 In order to be able to maximise investment income to support the overall financial position of the Council, a revision to the maximum Property Fund investment was approved by Council on the 13 September in the Treasury Management Review 2016/17 report. The approval was given to increase the maximum investment in the Property Fund from £10m to £25m. This revision gives the Council the flexibility to be able to take advantage of 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. 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.

Investment Counterparty Criteria

2.6.11 The current investment counterparty criteria selection approved in the TMSS and included at appendix 3 is meeting the requirement of the treasury management function.

2.7 Borrowing

2.7.1 It is proposed in this report that the Council's CFR for 2017/18 is revised to £521.550m 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.

2.7.2 The table within paragraph 2.5.9 shows the Council has expected year end borrowings of £404.857m and will have utilised £116.693m 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.

2.7.3 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 2017/18. Due to current cash balances it is not anticipated that any borrowing will be undertaken in the rest of 2017/18, unless there is a further decline in interest rates attached to borrowing.

2.7.4 Current PWLB certainty rates are set out in the following table and show for a selection of maturity periods over the first half of 2017/18, 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 2017 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
03/04/17	1.05%	1.52%	2.19%	2.82%	2.57%
29/09/17	1.33%	1.85%	2.43%	2.98%	2.72%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/17	15/06/17	15/06/17	08/09/17	08/09/17
High	1.16%	1.62%	2.22%	2.83%	2.57%
Date	15/09/17	28/09/17	28/09/17	7/07/17	7/07/17
Average	0.94%	1.30%	1.95%	2.65%	2.39%

2.8 **Debt Rescheduling**

2.8.1 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.

2.9 **Overall Position at the Mid –Year 2017/18**

2.9.1 The position at the mid-year 2017/18 shows that the Council is continuing to follow recommended practice and manage its treasury affairs in a prudent manner.

2.10 **Other Key Issues**

<u>Revised CIPFA Codes</u>

2.10.1 The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes by the end of 2017.

2.10.2 A particular focus of this exercise is how to deal with local authority investments which are not traditional treasury investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to Members to give a high level summary of the overall capital strategy and to enable Members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments.

2.10.3 Officers are monitoring developments and have briefed the Audit Committee on the proposed changes and potential impact to Oldham Council. Consultation feedback has been provided to CIPFA and final versions of the codes are expected by the end of 2017. Once final versions have been issued by CIPFA, future reports will be prepared to reflect the new requirements of the Treasury Management Code.

Markets in Financial Instrument Directive II (MIFID II)

2.10.4 The Council currently operates under the Markets in Financial Instrument Directive (MIFID) when dealing with financial instrument such as Money Market Fund, Certificates of Deposits and Government Bills and Bonds. MIFID is the EU legislation that regulates firms who provide services to clients linked to financial instruments. Under the current MIFID regulations the Council is considered to be a “Professional Client” which allows access to appropriate Financial Institutions. This is now being revised to strengthen consumer protection and improve the functioning of markets in light of the 2008 financial crisis.

2.10.5 The new regulations would mean that the Council’s status would automatically change to a “Retail Client” which would restrict access to a range of Financial Instruments as mentioned in 2.10.4. This would be detrimental to the treasury management position.

2.10.6 The EU has now set a deadline of 3 January 2018 for the introduction of new regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date.

2.10.7 The new regulations will allow the Council the ability to opt up to a “Professional Client”. To enable access to Financial Instruments currently used the Council will be opting up to Professional Client Status. This requires evidence of past treasury transactions including quantity, value and the experience of the Finance team involved in Treasury Management activities. The Treasury Management team are currently in the process of providing this evidence to financial institutions and no problems are envisaged in gaining professional status.

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 Link Asset Services (the Councils Treasury Management Advisors), and senior officers. The report was presented to and approved by Cabinet on 20 November 2017. Cabinet also commended the report to Council for approval. It should be noted that the report will also be presented to the Audit Committee for scrutiny at its meeting of 11 January 2018.

6 Financial Implications

6.1 All included within the report.

7 Legal Services Comments

7.1 None.

8 Co-operative 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 both Internal and 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 -19-17

19 Background Papers

19.1 The following is a list of the 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 that Act.

File Ref:	Background paper are contained with Appendix 1, 2 and 3.
Officer Name:	Anne Ryans
Contact No:	0161 770 4902

20 Appendices

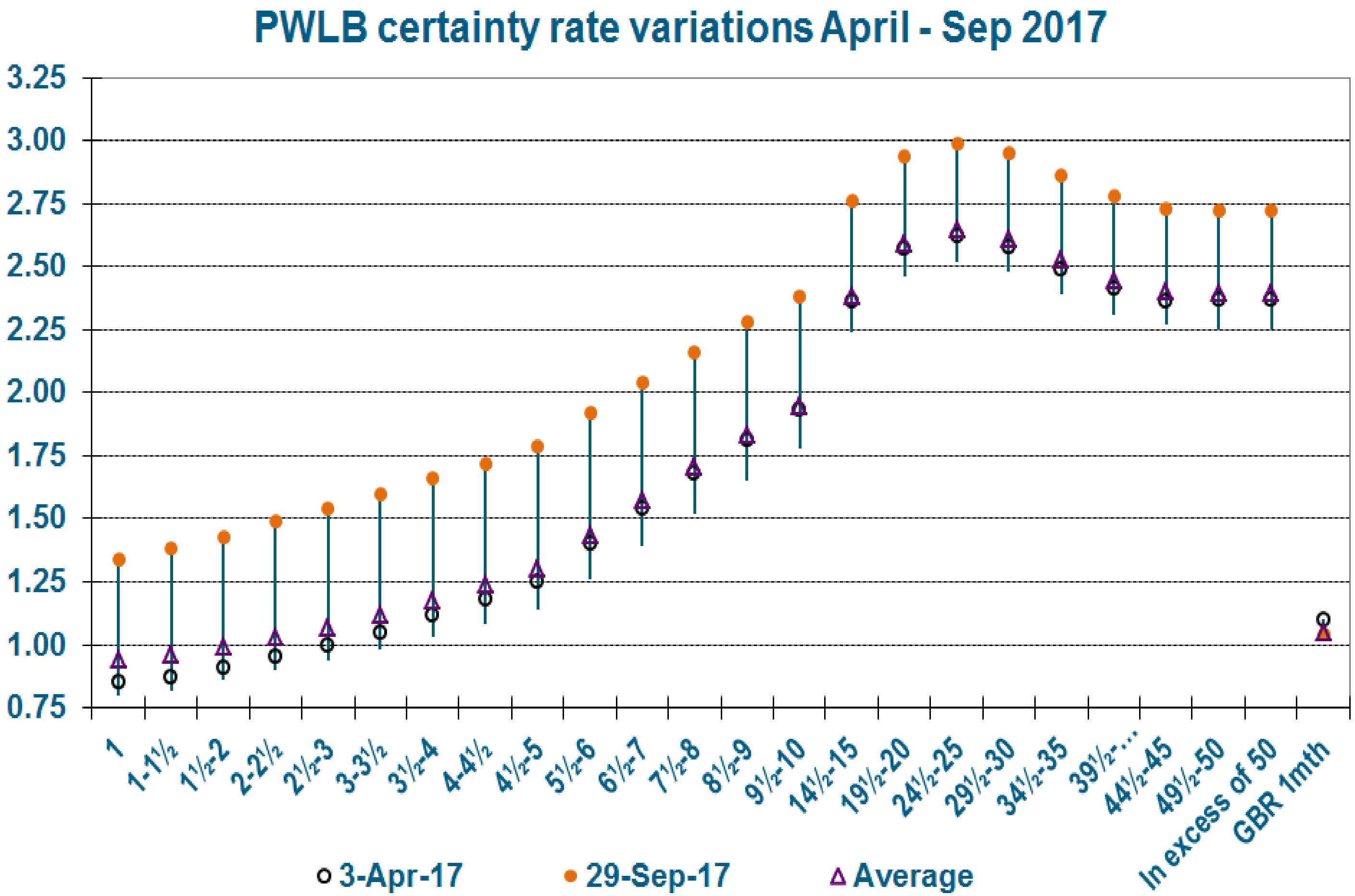
Appendix 1	Investments as at 30 September 2017
Appendix 2	Borrowing as at 30 September 2017
Appendix 2A	PWLB Certainty Rate Variations 2017/18
Appendix 2B	Comparison of Borrowing parameters to actual external borrowing - Table
Appendix 2C	Comparison of Borrowing parameters to actual external borrowing - Graph
Appendix 3	Investment Counterparty Criteria

Appendix 1 Investments as at 30 September 2017

Investments	Type	30th September 2017 £'000	Interest Rate	Date of Investment	Date of Maturity
CCLA Property Fund	Property	5,000	4.51%	30/10/2015	Open
Total Property Fund		**5,000**			
Bank of Scotland plc	Fixed	3,000	0.55%	11/05/2017	10/11/2017
Santander	Fixed	2,500	0.38%	24/05/2017	24/11/2017
Nationwide Building Society	Fixed	2,500	0.37%	24/05/2017	24/11/2017
Bank of Scotland	Fixed	2,000	0.55%	08/06/2017	08/12/2017
Nationwide Building Society	Fixed	2,500	0.37%	08/06/2017	08/12/2017
Santander	Fixed	5,000	0.70%	27/07/2017	26/01/2018
Goldman Sachs International Bank	Fixed	5,000	0.58%	28/07/2017	26/01/2018
Goldman Sachs International Bank	Fixed	2,500	0.56%	18/08/2017	16/02/2018
Santander	Fixed	2,500	0.45%	18/08/2017	19/02/2018
Barclays	Fixed	2,000	0.47%	08/06/2017	08/03/2018
GMWDA	Fixed	5,000	0.40%	26/09/2017	29/03/2018
Total Fixed Investments		**34,500**			
Bank of Scotland plc	32 day call	3,000	0.32%	21/09/2017	Open
Total Investments on call		**3,000**			
Federated Prime Rate Sterling Liquidity 3	MMF	7,900	0.19%	29/09/2017	01/10/2017
SLI Sterling Liquidity/Cl 2	MMF	12,755	0.19%	29/09/2017	01/10/2017
Federated Cash Plus Fund	MMF	7,000	0.45%	27/09/2017	01/10/2017
Total MMF		**27,655**			
Total		**70,155**			

Appendix 2 Borrowing as at 30 September 2017

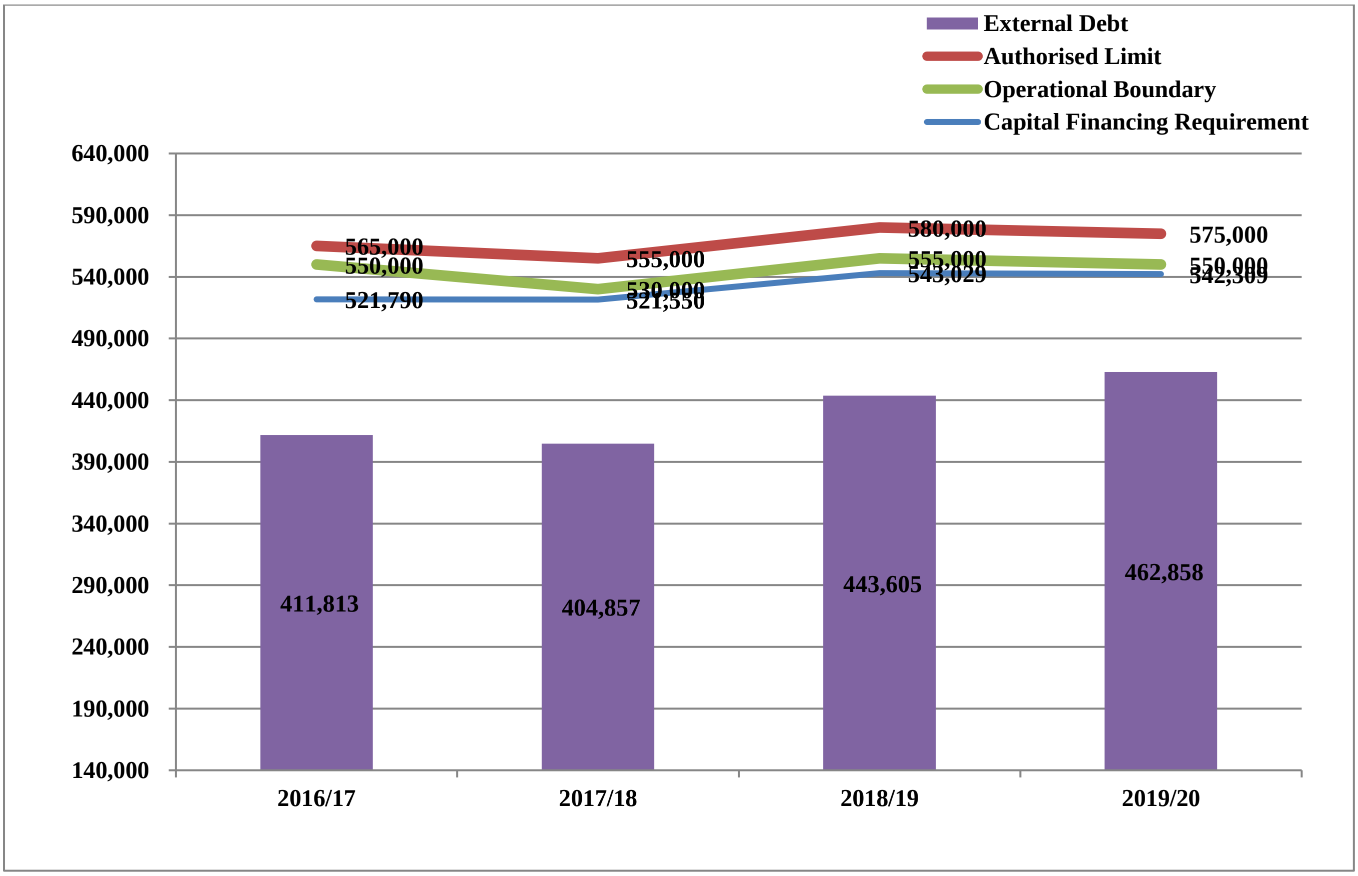
2A) PWLB Certainty Rate Variations 2017/18



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

Actual / Expected	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Authorised Limit	565,000	555,000	580,000	575,000
Operational Boundary	550,000	530,000	555,000	550,000
Capital Financing Requirement	521,790	521,550	543,029	542,309
External Debt	411,813	404,857	443,605	462,858

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



Appendix 3 Investment Counterparty Criteria

	Capita Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities	Internal Due Diligence	5 Years	£10m
GMWDA	Internal Due Diligence (Note 6)	5 Years	£30m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Money Market Funds (MMF)	AAA	Liquid	£20m
Debt Management Account Deposit Facility (DMADF)	AAA	6 months	£20m

Note 1 – UK Government debt or equivalent

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 currently include the RBS Group (Royal Bank of Scotland, Natwest Bank and Ulster Bank).

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

Note 6 – The higher maximum principal is to facilitate joint initiatives and activities related to the devolution agenda.