SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet	**DATE:** 5th September 2016
CONTACT OFFICER:	Stephen Fitzgerald, Interim Assistant Director Finance & Audit	
(For all enquiries)	(01753) 875358	
WARD(S):	All	
PORTFOLIO:	Cllr. Sohail Munawar; Lead Commissioner for Finance & Strategy.	

PART I
NON-KEY DECISION

TREASURY MANAGEMENT ANNUAL REPORT

1 **Purpose of Report**

Members are asked to note the Treasury Management activities for 2015/16 and the beginning of 2016/17 as set out in the body of this report.

This report fulfils the Authority's legal obligation under the [Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.

2 **Recommendation(s)/Proposed Action**

The Cabinet is requested to resolve that the report summarising treasury activity in 2015-16 and the first part of 2016-17 be noted.

3. **The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

The report indirectly supports all of the Joint Wellbeing Strategy priorities and cross cutting themes. The maintenance of good governance within the Council to ensure that it is efficient, effective and economic in everything it does is achieve through the improvement of corporate governance and democracy by ensuring effective management practice is in place.

4 **Other Implications**

Financial . The Financial Implications are contained within this report.

Risk Management

Risk	**Mitigating action**	**Opportunities**
Legal	None	None
Property	None	None
Human Rights	None	None

Health and Safety	None	None
Employment Issues	None	None
Equalities Issues	None	None
Community Support	None	None
Communications	None	None
Community Safety	None	None
Financial :Detailed in the Report and Above	As identified	None
Timetable for delivery	None	None
Project Capacity	None	None
Other	None	None

Human Rights Act and Other Legal Implications
None identified

Equalities Impact Assessment

No identified need for the completion of an EIA.

5 **Supporting Information**

1. Background

The Treasury Management Strategy for 2015/16 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

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."

In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks. This report summarises treasury activity in 2015-16 and the first part of 2016-17.

2. External Context

As we entered 2016, there was a significant uncertainty about the outlook for global growth. The slowdown in the Chinese economy and the knock-on effects for both trading partners and commodity prices, the uncertainty over the outcome of the US presidential election (no clear party or candidate being identified as an outright winner) and the impending referendum on the UK's future relationship with the EU, all resulted in nervousness and a shaky start for markets.

Data released in the April-June quarter showed UK GDP at 2% year to March 2016 and annual inflation at 0.3% in May. Core inflation remained subdued as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. Internationally, a modest pace of growth in the UK's main trading partners remained the most likely prospect.

Fluctuations in the opinion polls on the EU referendum prompted pronounced volatility in exchange rates, gilts, corporate bonds and equities as the result became increasingly uncertain. Immediately prior to the result, financial market sentiment shifted significantly in favour of a Remain outcome, a shift swiftly reversed as the results came in. The vote to leave the EU sent shockwaves through the domestic, European and global political spectrum, the most immediate impact being the resignation of Prime Minister David Cameron.

Between 23rd June and 1st July the sterling exchange rate index fell by 9% and short-term volatility of sterling against the dollar increased significantly. Worldwide, markets reacted very negatively with a big initial fall in equity prices. Government bond yields also fell sharply by 20-30 bp across all maturities (i.e. prices rose) as investors sought safe haven from riskier assets. The 10-year benchmark gilt yield fell from 1.37% to 0.86%.

Yet, a week on from the result the overall market reaction, although significant, was less severe than some had feared. The 5-year CDS for the UK (the cost of insuring against a sovereign default) rose from 33.5 basis points to 38.4 basis points. The FTSE All Share index, having fallen sharply by 7% from 3,481 points on 23rd June to 3,237 after the result, had subsequently risen to 3,515 by the end of the month.

The Bank of England sought to reassure markets and investors. Governor Mark Carney's speeches on 24th and 30th June in response to the referendum result stressed that the Bank was ready to support money market liquidity and raised the likelihood of a cut in policy rates 'in the summer'. The door was also left open for an increase in the Bank's asset purchase facility (QE). The Governor noted that the Bank would weigh the downside risks to growth against the upside risks to inflation from fall in the value of sterling.

3. Debt Management

	Balance on 01/04/2015 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2016 £m	Increase/ Decrease in Borrowing
CFR	286,328				307,590	
Short Term Borrowing[1]	5,000	5,000			4,000	-1,000
Long Term Borrowing	177,372				173,372	-4,000
TOTAL BORROWING	182,372				177,372	-5,000
Other Long Term Liabilities	49,584				47,858	-1,726
TOTAL EXTERNAL DEBT	231,956				231,956	-6,726
Average Rate % / Life (yrs)	3.53% / 17.90yrs				3.32% / 16.64yrs	

The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2016 was £307.59 million.

The Authority's chief objective when borrowing money has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

At 1st April 2015 the Authority held £182.372 million of loans, as part of its strategy for funding previous years' capital programmes.

In 2015-16 a loan of £5m was repaid in August 2015 and this will not be replaced which will generate a revenue saving from reduced interest costs of £96,000. The remaining increase in external debt shown in the above table is an increase in the liability of other Finance Leases. A further £4m loan will be repaid in 2016-17 which will generate further revenue savings of £96,000 in reduced interest costs.

With short-term interest rates having remained much lower than long-term rates, it was more cost effective in the short-term to use internal resources to fund capital expenditure. For the Council the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding £21.3m of capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, the Council acknowledges that this position will not be sustainable over the medium term and the Authority expects it will need to borrow £17.0m for capital purposes by the end of 2016-17. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor.

[1] Loans with maturities less than 1 year.

The PWLB remains an attractive source of borrowing for the Authority as it offers flexibility and control. Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

While there has been no new long term borrowing in 2016-17, the Council has borrowed short term money through the London Money Markets to meet short term cash flow obligations. All have the loans have been with other Local Authorities at rates between 0.29% and 0.60%. The council has an ambitious Capital Programme and it is expected that the need to borrow both short term and long term will increase as investment balances diminish. The council currently has £18.6m short term borrowing and the table below summarises activity thus far in 2016-17.

Start Date	End Date	No. of days	Loan Amount	Interest Rate %
05/05/2016	19/05/2016	14	4,000,000.00	0.35
05/05/2016	20/05/2016	15	2,000,000.00	0.29
19/05/2016	20/06/2016	32	8,000,000.00	0.52
31/05/2016	30/06/2016	30	5,000,000.00	0.38
20/06/2016	20/09/2016	92	3,600,000.00	0.52
21/06/2016	21/09/2016	92	5,000,000.00	0.47
28/06/2016	08/07/2016	10	10,000,000.00	0.52
08/07/2016	07/07/2017	364	5,000,000.00	0.6
08/07/2016	27/06/2017	354	5,000,000.00	0.6

PWLB Certainty Rate and Project Rate Update
The Authority qualifies for borrowing at the ‘Certainty Rate’ (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2015. In April the Authority submitted its application to the CLG along with the 2016-17 Capital Estimates Return to access this reduced rate for a further 12month period from 1st November 2016.

PWLB Borrowing

Debt Rescheduling:
The increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premia was still relatively expensive for the loans in the Authority’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

A year after their commencement, the £125.8m of loans borrowed on 28th March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. If the increases in gilt yields and PWLB redemption rates seen at the end of this quarter prevail in subsequent months, they may present early loan repayment opportunities at close to par. Early repayment or rescheduling will first be assessed against the requirements of the HRA business plan and any future borrowing requirements. Where rescheduling is appropriate, the Authority will consider alternative refinancing to achieve cost savings and a reduction in risk. (Conventional PWLB to PWLB debt restructuring is limited by the new borrowing and repayment spread.) The Authority is currently considering options for debt rescheduling in conjunction with its Treasury Management advisors.

LOBOs: The Authority holds £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £4m of these LOBOS had options during 2015-16 none of which were exercised by the lender. As a further £4m of LOBOS have options during 2016/17, the Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4. Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investments	Balance on 01/04/2015 £m	Investments Made	Maturities/ Investments Sold £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	53,176	63,771	92,147	24,800	0.89/0.41 yrs
Long Term Investments	17,050	13,700	1,500	29,250	
Cash Equivalents	5,505	251,028	252,668	3,865	
Bonds issued by Building Societies	5,033	6579	4529	7,083	
Corporate Bonds					
Funds Managed Externally					
TOTAL INVESTMENTS	80,764			64,998	

The £64.998m is broken down further below:

Type of Investments	**£m**
Money Market Funds	3.625
Instant Access Call Accounts-Overseas Banks	0.24
Pooled Property Fund	10
Other Pooled Funds	9
Covered Bonds issued by Building Societies	3.004
Covered Bonds issued by UK Banks	4.079
95 Day Notice Account UK Bank	2.8
Certificates of Deposit Overseas Banks	5
Fixed Term Deposits UK Banks	5
Type of Investments	**£m**
Local Authorities	19
Municipal Bonds Agency	0.05
Slough Urban Regeneration Loan Note	3.2
	64.998

Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16 which defined "high credit quality" The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Investments with banks and building societies were instant access accounts, fixed-rate term deposits but also Certificates of Deposit and Floating Rate Note Covered Bonds. The maximum duration of these investments was 3 years in line with the prevailing credit outlook during the year as well as market conditions.

The Council's budgeted investment income for 2015-16 was estimated at £1.943m (£1.85m 2014-15) and they achieved £1.959m (£1.736m in 2015-15). The average cash balances were £88.2m during 2015-16. Also income of £0.292m was realised by making an upfront payment to the pension scheme.

Externally Managed Funds:

At the end of April 2015 the Council invested a further £3m into a Property Fund to take the amount invested in the fund to £10m.. The Local Authorities' Property Fund is administered by CCLA Investment Management limited (a company specialising in fund management on behalf of Churches, Charities and Local Authorities) (CCLA). The Fund was launched in 1972, is was valued at £599 million on 31st March 2016 and has a track record of income distribution yield of over five per cent per annum paid quarterly. The distribution yield is after property management costs and CCLA's fund management fee of 0.65 per cent. The fund has outperformed the Investment Property Databank (IPD) Balanced Property Unit Trusts index which is their benchmark over the past 10 years. Due to high entry fees this is seen as a long term investment with at least a 5 years time horizon. During 2015-16 the CCLA fund, generated £506,000 a return of over 5%, which has thus far proved the highest returning of our investments. The fund also appreciated in value by £422,000 during the year,

The council has also invested £8.0m in other pooled funds as follows:

- £2.5m in the Insight – ILF Liquidity Plus Fund which is a Cash Plus Fund. The Fund invests in a diverse range of securities, instruments and obligations that carry a minimum credit rating of A1 for short-term investments, to ensure a return in excess of the money markets with minimal risk.
- £5.5m in the Payden & Rygel Sterling Reserve Fund. It is a Short Bond Fund, longer in duration than cash plus funds investing in sterling-denominated investments, including gilts, supranationals, agencies, bank and corporate bonds and other money market securities.

Both funds are supported by our Treasury Advisors, are secure and offer reasonable liquidity. The values of the funds vary (Variable Net Asset Value) but are an excellent way of diversifying the council's investment portfolio. In May 2016, due to cash flow considerations, the Council disinvested in the Payden and Rygel Sterling reserve Fund.

Long Term Local Authority Investments

In April 2015, the Council invested £5m with a Local authority for three years at a rate of 1.20%. This follows on from two investments in 2014-15 where the Council invested £5m each with two Local Authorities for a period of three years at rates of 1.40% and 1.50%

respectively. These were seen as favourable rates for the credit risk the council was taking on. Reference was also made of the council's Treasury Advisors long term interest rate forecast. At the time the Council's advisors only saw small upward increases in rates in the next few years.

Safe Custody Arrangements

The Council set up a custody account with King & Shaxson in February 2012. By opening a custody account with King & Shaxson, the Council now has the ability to use a number of approved investment instruments as outlined in the 2016/17 Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds.

By establishing custody arrangements, the Council is better-placed to consider the use of alternative investment instruments in response to evolving credit conditions. During 2015-16 the council has been able to take advantage of these custody arrangements by placing Certificate of Deposits with Toronto Dominion Bank and Standard Chartered Banks respectively. The custody arrangements therefore give the council access to a larger range of suitable counterparties. Using the custody arrangement the council has also placed £6.5795m in two Floating Rate Note Covered Bonds with the Yorkshire Building Society and Abbey Treasury Services (part of Santander UK Bank) respectively. The bonds are secured against mortgages and are exempt form bail-in risk. The current rating for YBS covered bonds is AA+ and Abbey Treasury Services covered bonds are AAA rated so there is little credit risk, and the rate the council receives is linked to the 3 month LIBOR rate that re-fixes every three months so there is very little interest rate risk also.

Investment Activity in 2015/16

Investments	Balance on 01/04/2016 £m	Investments Made	Maturities/ Investments Sold £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	24,800	5,000	8,300	21,500	0.89/0.41 yrs
Long Term Investments	29,250			29,250	
Cash Equivalents	3,865	90,490	82,705	11,650	
Bonds issued by Building Societies	7,083			7,083	
Corporate Bonds					
Funds Managed Externally					
TOTAL INVESTMENTS	64,998	95,490	91,005	69,483	

The £69.483m is broken down further below:

Type of Investments	£m
Money Market Funds	4.34
Instant Access Call Accounts-Overseas Banks	7.31
Pooled Property Fund	10
Other Pooled Funds	3.5
Covered Bonds issued by Building Societies	3.004
Covered Bonds issued by UK Banks	4.079
95 Day Notice Account UK Bank	2
Certificates of Deposit Overseas Banks	5
Fixed Term Deposits UK Banks	8
Local Authorities	19
Municipal Bonds Agency	0.05
Slough Urban Regeneration Loan Note	3.2
	69.483

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m

Total non-specified investments	£60m

The Council currently has £36m in long term investments and no investments without credit ratings.

Budgeted Income and Outturn

The average cash balances have been £71.07m so far in 2016-17. The UK Bank Rate has been maintained at 0.5% since March 2009 and is now forecast to fall further. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 1%%. Investments in Money Market Funds generated an average rate of 0.48%%.

The Authority's budgeted investment income for the year is estimated at £1.943mm.

The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies.

Counterparty Update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government.

Moody's affirmed the ratings of nine UK banks and building societies and revised the outlook to negative for those banks and building societies that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession. In the coming weeks and months Arlingclose will therefore review all UK based institutions, and it is likely that, over time, will advise shortening durations on those institutions considered to be most affected.

Earlier in the quarter Moody's downgraded Deutsche Bank's long-term rating from Baa1 to Baa2 reflecting the agency's view of increased execution risks for the implementation of Deutsche Bank's strategic plan. In June Moody's downgraded Finland from Aaa to Aa1 on its view that Finnish economic growth will remain weak over the coming years, reducing the country's ability to absorb economic shocks.

Fitch upgraded the long-term rating of ING Bank from A to A+ based on Fitch's view of the bank's solid and stable financial metrics and its expectation that that the improvement in earnings will be maintained. Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.

Credit Risk
Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2016	2.95	AA	2.26	AA
30/06/2016	3.40	AA	2.56	AA+

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Update on Investments with Icelandic Banks
The Council had deposited £2.5M with Heritable Bank Plc on 22nd March 2007 for a fixed period maturing on 22nd March 2011 with interest payable annually. Heritable Bank was a UK registered bank and was placed in Administration on 7th October 2008. Ernst and Young LLP are the appointed Administrators and based on their report issued on 17th April 2009.

The Administrators latest report dated 11th February 2013 projects a base case return of between 84% and 95% and as a result the Council has reassessed the value of recoverable amount. The total dividend received as at 31st March 2015 is £2.425M. The Administrators latest report can be viewed at the following website:

http://www.heritable.co.uk/aboutheritablebank/news/indexdb55.html%3FNewsID=90&CatID=3.html

Investments included in the assets figures in the Balance Sheet include above impaired deposit. The details are as follows:

Date Invested	22nd March 2007
Maturity Date	22nd March 2011
Original Amount	£2,500,000
Interest rate	5.72%
Carrying Amount 31.3.2012	£861,273

Carrying Amount 31.3.2013 £507,135

Carrying Amount 31.3.2014 £75,529

The Council received a final payment in August 2015 and no further sums are expected.

5. Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2016/17, which was set in February 2016 as part of the Authority's Treasury Management Strategy Statement.

6. Outlook for Remainder of 2016-17

Following the UK's vote to leave the European Union, the economic outlook for the UK has immeasurably altered. It will to a large extent be dependent on the nature of the future relationship negotiated with the EU, particularly in relationship to trade. The negotiations crucially hinge on domestic politics which, at the end of the June quarter, were unsettled themselves.

The domestic outlook is uncertain, but likely to be substantially weaker in the short term than previously forecast. Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. The likely path for Bank Rate is downwards and the central case is 0.25%, but there is a 40% possibility of that the rate is cut to zero.

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent any immediate market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

7. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the 2015-16 and the first part of 2016-17. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

6 Comments of Other Committees

Not Applicable

7 Conclusion

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2015/16 and the first quarter of 2016/17. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

8 **Appendices Attached**

1 - Prudential Indicators
‘ 2 - Money Markets and PWLB Rates
3 - Maturity Rates for New Investments

9 Background Papers

Financial detail provided from the Council’s Treasury Management System and General Ledger.

Appendix 1

Capital Financing Requirement

Estimates of the Authority's cumulative maximum external borrowing requirement for 2015/16 to 2017/18 are shown in the table below:

	31/03/2016 Actual £000s	31/03/2017 Estimate £000s	31/03/2018 Estimate £000s	31/03/2019 Estimate £000s
Gross CFR	307,590	323,590	339,590	343,590
Less: Other Long Term Liabilities	-47,858	-46,399	-44,558	-42,740
Borrowing CFR	**259,732**	**277,191**	**295,032**	**300,850**
Less: Existing Profile of Borrowing	-177,372	-173,372	-170,372	-170,372
Gross Borrowing Requirement/Internal Borrowing	**82,360**	**88,293**	**96,134**	**101,952**
Usable Reserves	**-143,559**	**-143,559**	**-143,559**	**--143,559**
Net Borrowing Requirement/Investment Capacity	**-61,199**	**-39,740**	**-18,899**	**-13,081**

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2016 Actual £000s	31/03/2017 Estimate £000s	31/03/2017 Estimate £000s	31/03/2018 Estimate £000s
CFR	307,590	323,590	339,590	343,590
Gross Debt	225,230	219,771	214,930	213,112
Difference	**82,360**	**103,819**	**124,660**	**130,388**
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

Usable Reserves

Estimates of the Authority's level of Usable Reserves for 2016/17 to 2018/19 are as follows:

	31/03/2016 Actual £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s	31/03/2018 Estimate £000s
Usable Reserves	**-143,559**	**-143,559**	**-143,559**	**-123,266**

Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
The Section 151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak in 2015-16 was £182m.

	Authorised Limit (Approved) as at 31/03/2016 £000s	Operational Boundary (Approved) as at 31/03/2016 £000s	Actual External Debt as at 22/07/2015 £000s
Borrowing	267	257	177
Other Long-term Liabilities	48	48	48
Total	**315**	**305**	**225**

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.
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	Approved Limits for 2016/17 £/%	Maximum during Q1 2016/17 £/%
Upper Limit for Fixed Rate Exposure	100%	87%
Compliance with Limits:	87%	Yes
Upper Limit for Variable Rate Exposure	50%	13%
Compliance with Limits:	13%	Yes

(c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 22/07/2015 £000s	% Fixed Rate Borrowing as at 22/07/2015	Compliance with Set Limits?
under 12 months	50	0	12,000	7.13%	Yes
12 months and within 24 months	50	0	3,000	2.19%	Yes
24 months and within 5 years	50	0			Yes
5 years and within 10 years	75	0	18,000	9.87%	Yes
10 years and within 15 years	95	0	25,508	13.99%	Yes
15 years and within 20 years	95	0	30,022	16.46%	Yes
20 years and within 25 years	95	0	53,000	29.06%	Yes
25 years and above	95	0	35,841	19.65%	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date[2])

(d) **Total principal sums invested for periods longer than 364 days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2015/16 Approved £000s	22/7/2016 Actual £000s	31/03/2017 Estimate £000s	31/03/18 Estimate £000s
	40,000	**36,283**	**38,704**	**38,704**

[2] Page 15 of the Guidance Notes to the 2011 CIPFA Treasury Management Code

Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016		0.50		0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016		0.50		0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016		0.50		0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016		0.50		0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
Average		0.50		0.36	0.36	0.38	0.46	0.60	0.86	0.77	0.83	0.98
Maximum		0.50		0.36	0.37	0.39	0.47	0.62	0.90	0.88	0.99	1.20
Minimum		0.50		0.35	0.36	0.37	0.40	0.50	0.73	0.49	0.49	0.58
Spread		--		0.01	0.01	0.02	0.07	0.12	0.17	0.39	0.50	0.62

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
	Low	1.09	1.41	2.05	2.76	2.79	2.59	2.56
	Average	1.31	1.79	2.46	3.17	3.23	3.07	3.03
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
	Low	1.24	1.51	2.11	2.55	2.79	2.86
	Average	1.48	1.83	2.48	2.91	3.15	3.23
	High	1.59	1.99	2.68	3.11	3.34	3.42

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	**Pre-CSR**	**Pre-CSR**	**Post-CSR**	**Post-CSR**	**Post-CSR**
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
Low	1.51	1.52	1.52	0.61	0.62	0.62
Average	1.53	1.55	1.57	0.63	0.65	0.67
High	1.55	1.56	1.60	0.65	0.66	0.70

Appendix 3

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£5m 4 years	£5m 10 years
A+	£15m 2 years	£15m 3 years	£15m 5 years	£5m 3 years	£5m 5 years
A	£15m 13 months	£15m 2 years	£15m 5 years	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	£15m 5 years	£5m 13 months	£5m 5 years
BBB+	£5m 100 days	£5m 6 months	£15m 2 years	£2.5m 6 months	£2.5m 2 years
BBB or BBB-	£5m next day only	£15m 100 days	n/a	n/a	n/a
None	£3m 12 months	n/a	£5m 25 years	n/a	£5m 5 years
Pooled funds	£10m per fund				

This table must be read in conjunction with the notes below

† The time limit is doubled for investments that are secured on the borrower's assets

* But no longer than 2 years in fixed-term deposits and other illiquid instruments

** But no longer than 5 years in fixed-term deposits and other illiquid instruments