CRMG Scrutiny Committee	4 July 2017
Cabinet Meeting	18 July 2017
Council Meeting	14 September 2017

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

Report of the Borough Treasurer

1 Introduction and Purpose of Report

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management 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).

1.2 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 (Council, 3 March 2016);
- a mid-year treasury update report (Council, 1 December 2016);
- an annual report following the year describing the activity compared to the strategy (this report).

In addition, the Cabinet (previously the Executive) has received quarterly treasury management updates as part of the CPRR Reports on 16 August 2016 (First Update Report) and 7 February 2017 (Final Update Report).

1.3 The regulatory environment now places a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.4 The Council has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Corporate, Resource Management and Governance Scrutiny Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 6 December 2016 in order to support Members' Scrutiny and Executive role.

1.5 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 found in the main body of the report. The Borough Treasurer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

1.6 The financial year 2016/17 continued the challenging environment of previous years; low investment returns and on-going heightened levels of counterparty risk remained.

2 Treasury Management Policy and Practices Statements (TMPPs)

2.1 The Council's Treasury Code of Practice Statement, Treasury Management Policy Statement and the detailed Treasury Management Practices Statements were last updated and approved by the Council Meeting on 15 September 2016.

2.2 No fundamental changes have been made since then to the TMPPs. Minor changes have been incorporated to detail a change in the Council's treasury management recording software from Logotech to Treasury Live, being the CIPFA web based option. No changes are required to the TMPPs and procedures to various officer duties and the recording of deals remain the same.

2.3 The full TMPPs have not been included in this report due to their length and complexity but are available to view on request.

3 Capital Expenditure and Financing 2016/17

3.1 The Council undertakes capital expenditure on long-term assets. These activities may be financed by either:

- the application of specific capital or revenue resources (capital receipts, capital grants, capital reserves or revenue contributions)
- prudential borrowing (in year capital financing requirement)

3.2 The table below set out the original estimate and actual capital expenditure for 2016/17 and illustrates how this was financed compared to the previous financial year:

	2015/16 Actual £000	**2016/17 Budget £000**	**2016/17 Actual £000**
General Fund			
GF Capital Expenditure	109,178	178,419	224,755
Resourced by:			
Capital grants	60,801	64,934	59,546
Capital receipts	1,452	5,292	837
Capital contributions	3,527	3,787	2,170
Revenue contributions	3,340	1,170	2,262
In year Capital Financing Requirement	**40,058**	**103,236**	**159,940**
Housing Revenue Account			
HRA Capital Expenditure	13,129	32,759	12,575
Resourced by:			
Capital grants	193	1,475	386
Capital receipts	37	234	0
Capital contributions	0	0	0
Revenue contributions	12,899	20,127	10,726
In year Capital Financing Requirement	**0**	**10,923**	**1,463**

The increase of General Fund prudential borrowing from £103.236m from the budget capital programme at 2016/17 to £159.959m at outturn is largely in connection to the acquisition of Merseyway, which was added to the programme after the budget. The increase has been off-set by a number of schemes being re-phased to later years, most notably Redock (£16.123m of borrowing re-phased) and loans to Stockport Homes for their Affordable Homes scheme (£6.566m re-phased to later years).

The HRA capital programme reduced from £32.759m at budget to £12.575m at outturn largely due to re-phasing of schemes to later years as a result of rescheduling of work and delays in the commencement of some of the new build schemes.

4 Borrowing Need, Prudential and Treasury Indicators

4.1 The Council's underlying need to borrow for capital expenditure is measured through the Capital Financing Requirement (CFR). This figure is a gauge of the Council's requirement to take on long term borrowing. The CFR is amortised and charged to revenue over a number of years. The in-year CFR represents 2016/17 capital expenditure (see tables above) which has not yet been paid for by revenue or covered by specific capital cash backed resources, such as specific grants.

4.2 Part of the Council's treasury activities is to manage the Council's long-term borrowing requirements. The treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and long term cash flow requirements and balance this with short term day to day cash requirements. Long-term borrowing may be sourced through borrowing from external bodies such as the Government, through the Public Works Loan Board, PWLB or the money markets, or alternatively utilising temporary cash resources from within the Council.

4.3 The General Fund underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets financed through borrowing 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 General Fund borrowing need. There is no statutory requirement for the Council to reduce the HRA CFR.

4.4 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 3 March 2016 (with effect from 1 April 2015). This followed a complete review in 2016/17 to ensure the policy continued to comply with the statutory duty to make prudent provision.

4.5 The Council's CFR for the year is shown below and represents a key prudential indicator (this includes leasing schemes on the balance sheet, which increase the Council's borrowing need).

Capital Financing Requirement (CFR):	31.03.16 Actual £000	31.03.17 Budget £000	31.03.17 Actual £000
General Fund (GF)			
Opening balance	309,532	349,784	345,555
Add in year CFR (as above)	40,058	103,236	159,959
Transfers between GF and HRA	3,933	0	(325)
Less MRP/voluntary MRP	(7,968)	(8,829)	(8,663)
Closing balance	**345,555**	**444,191**	**496.526**
Housing Revenue Account (HRA)			
Opening balance	138,646	132,046	131,088
Add in year CFR (as above)	0	10,923	1,463
Transfers between GF and HRA	(3,933)	0	325
Less MRP/voluntary MRP	(3,625)	(914)	(5,248)
Closing balance	**131,088**	**142,055**	**127.628**

4.6 Actual borrowing activity is monitored through the prudential indicators for borrowing and the CFR and by the authorised limit and operational boundary; these are described below.

4.7 **Gross Borrowing and the CFR**: in order to ensure that actual borrowing levels are prudent over the medium term, the Council's external borrowing must only be for capital purposes. This essentially means that the Council is not borrowing to support revenue expenditure. Gross borrowing should not therefore, except in the short term, have exceeded the CFR for 2016/17 plus the expected changes to the CFR over 2017/18 and 2018/19 from financing the Capital Programme. The table below highlights the Council's gross borrowing against the CFR. The Council has complied with this prudential indicator.

Gross Borrowing and the CFR	31.03.16 Actual £000	31.03.17 Original £000	31.03.17 Actual £000
Gross borrowing	360,863	453,000	484,142
Other long-term liabilities	13,700	13,700	13,700
Total Gross External Debt	**374,563**	**466,700**	**497,842**
CFR	476,643	586,246	624,154

4.8 **The authorised limit**: the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003; the Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

4.9 **The operational boundary**: the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its operational boundary.

4.10 **Actual financing costs as a proportion of net revenue stream**: 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.

	2015/16 £000	2016/17 £000
Authorised Limit	625,000	675,000
Maximum gross borrowing position during the year	360,891	489,143
Operational Boundary	600,000	650,000
Average gross borrowing position during the year	321,542	439,419
Financing costs as a proportion of net revenue stream: General Fund	6.94%	6.87%
Financing costs as a proportion of net revenue stream: HRA	10.92%	10.46%

5 Treasury Position As At 31 March 2017

5.1 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.

5.2 At the beginning and the end of 2016/17 the Council's treasury position was as follows:

Treasury Position	Financial Year 2015/16 (2 Pools)				**Financial Year 2016/17 (2 Pools)**			
	General Fund		Housing Revenue Account		**General Fund**		**Housing Revenue Account**	
	£000	%	£000	%	£000	**%**	**£000**	**%**
	as at 31.03.16		as at 31.03.16		**as at 31.03.17**		**as at 31.03.17**	
Fixed Rate Funding:								
PWLB	144,042	4.74%	86,321	4.74%	213,574	3.90%	86,040	4.64%
Market (LOBO)	48,459	3.97%	29,041	3.97%	29,700	3.75%	17,800	3.75%
Market (converted LOBOs)	0	0%	0		18,759	4.32%	11,241	4.32%
Market (other LAs +364 days)	0	0%	0	0%	10,000	0.85%	0	0%
Market (short-term)	53,000	0.35%	0	0%	97,000	0.38%	0	0%
Sub-total	245,501		115,362		369,033		115,081	4.47%
Variable Rate Funding:								
Market (short-term)	28	0.50%	0	0%	28	0.50%	0	0%
Sub-total	28		0		28		0	
Total Debt	245,529	3.63%	115,362	4.61%	369,061	2.90%	115,081	4.47%
Total Investments	29,500	0.65%	0	0%	17,750	0.28%	0	0%
Net Debt	216,029		115,362				115,081	

The increase in PWLB borrowing between financial years, reflects £70m new borrowing in April 2016 to facilitate town centre acquisitions.

In June 2016 £30m of Lenders Option Borrowers Option (LOBO) market loans were converted by the lender to market loans without any options, hence the change in categorisation in the table above. This means the loans effectively became fixed rate loans at their current interest rates and maturities.

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

Maturity structure of fixed rate borrowing	31.03.16 Actual	2016/17 Original (Max %)	31.03.17 Actual
Under 12 months	14.2%	40%	22.5%
12 months and within 24 months	0.2%	40%	1.0%
24 months and within 5 years	7.5%	45%	9.7%
5 years and within 10 years	5.5%	45%	4.3%
10 years and above	72.6%	100%	62.5%

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

Investment Portfolio	31.03.16 Actual £000	2016/17 Original (Max Limit) £000	31.03.17 Actual £000
Less than 1 year	29,500	No limit	17,750
Over 1 year	0	60,000	0
Total	29,500		17,750

5.5 The exposure to fixed and variable rates was as follows:

Interest Rate Exposure	31.03.16 Actual %	2016/17 Original (Max Limit) %	31.03.17 Actual %
Fixed Rate:			
Gross borrowing (Principal)	99.99%	100%	99.99%
Variable Rate:			
Gross borrowing (Principal)	0.01%	40%	0.01%

5.6 The table above illustrates the maximum limits that have been set (in percentage terms) for the Council's total borrowing that can be at either fixed or variable interest rates; it then compares these limits to the actual borrowing at fixed and variable rates at the year end.

5.7 The percentage for fixed rate borrowing is set at 100% of the Council's loans portfolio, because at certain times in the financial year the Council does not have any temporary borrowing at variable rates, as the majority of borrowing is in the form of longer dated fixed rate loans. This point is emphasised in the Council's actual borrowing as at 31.03.17 which is almost entirely all at fixed rates.

5.8 The maximum limit for variable rate loans is set much lower as it would not be desirable for the Council to have too much of its loan portfolio at variable rates, potentially exposing it to an unacceptable levels of interest rate refinancing risk if rates should suddenly rise.

5.9 This indicator should also be expressed as net borrowing, i.e. fixed rate borrowing less fixed rate investments and variable rate borrowing less variable rate investments, compared to the limits in place. It was felt however that this distorts the figures significantly as the Council has a greater proportion of variable rate investments than variable rate borrowing at year end and so the indicator becomes misleading from what it is attempting to illustrate.

6 The Strategy for 2016/17

6.1 The expectation for interest rates within the strategy for 2016/17 anticipated low but rising Bank Rate (starting in quarter one 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 counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

6.3 What transpired however was a significant change to initial expectations. The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4 August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half of 2016 than forecast; coupled with rising inflation and a fall in the value of sterling has seen the Bank Rate remain at 0.25%. The cut in Bank Rate nonetheless did not alter the premise of the initial strategy.

7 The Economy and Interest Rates

7.1 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. 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 three 2018 to quarter four 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.50% 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. 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.

7.2 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter one 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 1.8%, which was close to 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. 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. 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 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.

7.3 With regards to the 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 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%.

7.4 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. 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

7.5 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%. 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. 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.

7.6 **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 sharply upwards, receiving further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate

8 Borrowing Rates in 2016/17

8.1 **PWLB certainty borrowing rates**: the table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

PWLB CERTAINTY RATES IN 2016/17					
	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
01.04.16	1.13%	1.62%	2.31%	3.14%	2.95%
31.03.17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20.12.16	10.08.16	10.08.16	12.08.16	30.08.16
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27.04.16	27.04.16	27.04.16	27.04.16	27.04.16
Average	0.93%	1.36%	2.01%	2.72%	2.49%

During 2016/17, PWLB rates 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.

9 Borrowing Portfolio Outturn for 2016/17

9.1 Borrowing is undertaken to fund net unfinanced capital expenditure and naturally maturing debt and also to maintain cashflow liquidity requirements.

9.2 The Council's opening capital financing requirement (CFR) for 2016/17 was £476.643m rising to £624.154m by 31 March 2017. The CFR 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). This is a prudent and cost effective approach in the current economic climate. The balance of external and internal borrowing is generally driven by market conditions. The table in 4.7 above shows the Council's significantly internally borrowed position (the CFR compared to total gross external debt).

9.3 The strategy followed during 2016/17 has continued to be to borrow short-term cash from the money market from other local authorities at sub Bank Rate levels. The Council has continued to avoid taking long-term PWLB borrowing ahead of need and utilised cash balances, maintaining an under-borrowed position.

9.4 The significant 'cost of carry' of taking higher rated longer term borrowing ahead of need was an influencing factor, which would entail investing the cash at very low short-term levels until required and at a time when remaining counter party risks made carrying the cash more problematic. Counterparties with whom the Council could place cash over a longer time frame to enhance returns in some way were limited during the 2016/17 financial year.

9.5 In April 2016, the Council borrowed £70m from the PWLB to finance town centre acquisitions in four separate loans ranging from 1.49% to 2.98% with differing maturity profiles; this has had the effect of reducing the overall General Fund borrowing rate from 3.63% to 2.90%.

9.6 During the first quarter of the financial year two £5m loans were also taken from other local authorities sub PWLB borrowing rates prevailing at the time, for periods exceeding 364 days.

9.7 Work was undertaken throughout the financial year (and is on-going) to gain a more precise view of how much borrowing may be needed over the next three financial years, by looking at cash flows, level of investments or use of short-term borrowing, use of reserves and spend on the Capital Programme.

9.8 In the later stages of the 2016/17 financial year the Council made the decision to make an advance payment of its employer pension contributions over the next three financial years, 2017/18 to 2019/20, to the Greater Manchester Pension Fund administered by Tameside MBC. This resulted in a discount being applied to the liability contribution rate paid by the Council and will consequently generate savings. This opportunity had an impact on the Council's cashflow as the funds were needed in advance to facilitate making the payment, hence this increased temporary borrowing towards year end and in quarter one of 2017/18. A number of loans were taken from other local authorities over different periods and maturities commencing between March and May 2017 to make this payment of £51.111m.

9.9 The Council did not engage in any debt-rescheduling during 2016/17 as the average 1% differential between PWLB new borrowing rates and premature repayment rates, made re-scheduling unviable.

9.10 The Council's overall rate of 4.42% on debt as at 31 March 2016 has reduced to 3.27% at 31 March 2017 as a result of the new PWLB borrowing undertaken at an overall rate of 2.38% which in turn reduced the portfolio rate fairly significantly.

10 Investment Rates in 2016/17

10.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter three 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter three 2018. 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.

10.2 The table below shows investment rates low, high and average levels for 2016/17.

INVESTMENT RATES IN 2016/17					
	7 Day	**1 Month**	**3 Month**	**6 Month**	**1 Year**
01.04.16	0.363%	0.386%	0.463%	0.614%	0.877%
31.03.17	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	27.05.16	21.06.16	10.05.16	22.04.16	26.04.16
Low Date	28.12.16	21.12.16	30.07.17	31.07.17	10.08.16

11 **Investment Portfolio Outturn for 2016/17**

11.1 Resources: the Council's cash balances comprise of revenue and capital resources and cash flow monies.

11.2 **Investment Policy**: the Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 3 March 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.

11.3 The Council followed its initial investment strategy for 2016/17, reducing investment balances during the financial year where possible in order to minimise credit risk (and in light of low market rates available). For its cash flow generated balances, the Council utilised notice accounts, Money Market Funds and a few fixed term deposits. The Council avoided making any longer term deals (over 365 days) during 2016/17 as investment rates remained at historically low levels.

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

11.5 Detailed below is the result of the investment strategy undertaken by the Council.

Council Performance 2016/17		
Combined Investments	**Ave Balance Invested £000**	**Return %**
Q1	26,740	0.69%
Q2	29,494	0.70%
Q3	25,804	0.54%
Q4	16,660	0.29%
Ave 2016/17	24,713	0.59%

11.6 LIBID benchmark rates for differing periods up to 12 months are shown in the table below for the 2016/17 financial year.

Period	**LIBID Rate 206/17**
7 Day	0.20%
1 Month	0.22%
3 Month	0.32%
6 Month	0.46%
12 Month	0.70%

11.7 LIBID is the London interbank bid rate, i.e. what a bank will pay to lenders; 'an investment return'. It is general market practice for fund managers to be benchmarked against LIBID; however their LIBID is compounded to take account of interest that is reinvested. The Council therefore has a target for investment of cash based on LIBID as a benchmark for return/liquidity management.

11.8 During 2016/17 the Council's combined investments (long and short-term) generated a rate of return of 0.59%. This is based on no compounding of interest and can be compared against an uncompounded 7 day LIBID rate of 0.20%, (3 month rate 0.32%, six month rate 0.46% and twelve month LIBID rate of 0.70%)

representing good annual performance above the benchmarks for the duration of the portfolio. This compares with a budget assumption of average investment balances of 0.25% as cited in the mid-year treasury management strategy review report.

11.9 The Capita model portfolio produced a return of 0.77% in 2016/17 with a weighted average duration of 132 days (over 4 months). The Council's performance of 0.59%, although being lower, carried a weighted average maturity period of just 34 days reflecting the more liquid/short term nature of the Council's investments. Furthermore the Council's return of 0.59% is also comparable to performance exceeding 6 months as depicted in the table above.

11.10 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

12 **Performance Measurement**

12.1 One of the key requirements in the Treasury Management Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. The Council's performance indicators are set in the Treasury Management Policy Statement and Annual Treasury Management Strategy.

12.2 This service has set the following performance indicators:

- Debt (borrowing): average rate movement year on year (illustrated in table in paragraph 5.2)
- Investments: internal returns above the 7 day LIBID rate (paragraphs 11.5 to 11.9)

13 **Conclusions and Recommendations**

13.1 The Council's treasury management function has been successful in 2016/17; investment performance has achieved an annual return of 0.59% and debt costs have been minimised at an overall rate of 3.27%.

13.2 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

13.3 The Council has had as its first priority the security of invested funds and its policy to place appropriate parameters (in terms of credit quality), to organisations with whom it invests. This has safeguarded the Council's investments during 2016/17.

13.4 The Cabinet is asked to recommend that the Council Meeting:

- Approve the actual 2016/17 prudential and treasury indicators in this report;
- Note the annual treasury management report for 2016/17;

- Note that no fundamental changes have been made during 2016/17 to the Treasury Management Policy Statement and Practices approved at the Council meeting on 16 September 2016.

Background Papers

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Lorna Soufian on Tel: 0161 474 4026.