Appendix A

TREASURY MANAGEMENT INTERIM REPORT 2015/16

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to reports to Members. This report represents the interim report for 2015/16.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2015/16 as part of the Budget Proposals 2015/16 submitted to Members in February 2015. The strategy covered the following areas:

   (a) prospects for interest rates;
   (b) capital borrowing and debt rescheduling;
   (c) annual investment strategy;
   (d) external debt prudential indicators;
   (e) treasury management prudential indicators.
   (f) performance indicators;
   (g) treasury management advisers

PROSPECTS FOR INTEREST RATES

3. The Bank of England MPC has continued to vote to hold bank rate at 0.5% although one member has voted for an increase. Inflation is unlikely to rise in the near future as strongly and as quickly as previously expected. There are also major concerns around the slowdown in Chinese growth, the impact of falling oil and commodity prices and the volatility in equity and bond markets. The lack of inflation pressures allied to weaker than expected growth has seen market expectations of a rate hike put no earlier than the middle of 2016.

4. Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend is for longer term rates to rise when economic recovery is firmly established. This upward pressure has been subdued by moderate growth and subdued inflation due to falling oil prices. There has also been considerable volatility because of uncertainties over Greek debt and Chinese markets. Long term PWLB rates rose by 0.3% during the first quarter but fell back again in the second quarter to their original level.

5. The strategy indicated that the overall structure of interest rates, whereby short term rates are lower than long term rates, was expected to remain the same throughout 2015/16. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

6. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need

to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2015/16.

7. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, interest rate structures are continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

8. The investment strategy for 2015/16 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with CLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

9. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2015/16 are as follows:

UK Government including gilts and the Debt Management Account Deposit Facility, (DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

10. Investments have been made with various counterparties including UK and foreign banks with higher credit ratings, the larger Building Societies, “nationalised” banks and AAA rated money market funds. This diversity has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 November 2015 the average rate of return achieved on average principal available was 0.67%. This compares with an average seven day deposit (7 day libid) rate of 0.36%.

EXTERNAL DEBT PRUDENTIAL INDICATORS

11. The external debt indicators of prudence for 2015/16 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£65 million
Operational boundary for external debt:	£45million

Against these limits, the maximum amount of debt that was reached in the period April to November 2015 was £42.1 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

12. The treasury management indicators of prudence for 2015/16 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures
Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the period April to September 2015 was as follows:

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 0%

b) Maturity Structure of Borrowing
Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period April to November 2015 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	5%	2%
12 months and within 24 months	50%	0%	5%	2%
24 months and within 5 years	50%	0%	4%	2%
5 years and within 10 years	50%	0%	9%	9%
10 years and above	90%	0%	82%	80%

c) Total principal sums invested for periods longer than 364 days
The limit for investments of longer than 364 days was set at £2 million for 2015/16. No such investments have been placed in 2015/16.

13. **PERFORMANCE INDICATORS**
The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

14. The indicators for the treasury function are:

- Borrowing – the indicator is the average rate of actual borrowing compared to the average available for the period of borrowing. However, there has been no borrowing in the period April to November 2015.

- Investments – Internal returns compared to the 7 day LIBID rate. The return in the period April to November 2015 was 0.31% above the benchmark.

TREASURY MANAGEMENT ADVISORS

15. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level

Agreement. The Council employs treasury management advisors appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

16. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

17. Treasury Management activity in 2015/16 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.