APPENDIX A

TREASURY MANAGEMENT ANNUAL 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 regular reports to Members. This report represents the final report on Treasury Management for 2015/16.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2015/16. The strategy covers 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 advisors

PROSPECTS FOR INTEREST RATES

3. Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at late 2015 but soon moving back to the middle of 2016 and by the end of the year to 2017. Economic growth was disappointing and there were fears over China's economic growth and impact on emerging market countries, the collapse in oil prices and Eurozone growth uncertainties. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year.

4. It was expected that the economic fundamentals of continued growth, falling unemployment and eventually rising inflation would indicate upward pressure on long term rates. This upward pressure was subdued by moderate growth and lower 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 during the first quarter but fell back again in the second quarter to their original level before resuming upward movement in the third quarter before falling back again in the final quarter of the year. The overall movement during 2015/16 was that longer term Public Works Loans Board (PWLB) rates fell by 0.16% from 3.28% at the start of the year to 3.12% at the end of the year.

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 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 did not envisage that any new long term borrowing would be required in 2015/16 and no new borrowing was arranged. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

7. 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 central government regulations 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.

8. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. The average rate of return achieved on average principal available in 2015/16 was 0.77%. This compares with an average seven day deposit (7 day libid) rate of 0.36%.

9. The Investment Strategy specified that investments are only made with banks with a high credit rating. UK banks must have at least an “A” long term rating for inclusion on the Authority’s counterparty list. The money markets are continually monitored for information regarding the creditworthiness of financial institutions and notifications are received of any changes to credit ratings made by any of the rating agencies. An institution is immediately suspended from the Authority’s list of institutions should any doubt arise about its financial standing regardless of whether its credit rating is downgraded.

EXTERNAL DEBT PRUDENTIAL INDICATORS

10. 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:	£45 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2015/16 was £42.1 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

11. 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 financial year 2015/16 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 at any time in the financial year 2015/16 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%	8%
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 were placed during 2015/16.

PERFORMANCE INDICATORS

12. 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.

13. The indicators for the treasury function are:

- Borrowing - Average rate of long term borrowing for the year compared to average available. No new long term borrowing was arranged in 2015/16.

- Investments – Internal returns compared to the 7 day LIBID rate. The return in the financial year 2015/16 was 0.41% above the benchmark.

TREASURY MANAGEMENT ADVISORS

14. 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 advisers 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.

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

CONCLUSION

16. 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.