This matter is not a Key Decision within the Council's definition and has not been included within the relevant Forward Plan

Cabinet: **Report of the Executive Director Core Services**

ANNUAL REPORT ON TREASURY MANAGEMENT AND LEASING ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2016/17

1. Purpose of Report

1.1 The purpose of this report is to review the treasury management and leasing activities of the Council and actual performance against Prudential Indicators for 2016/17. The Council's treasury management activity is underpinned by the CIPFA Code of Practice on Treasury Management and this report is prepared in accordance with the Code.

1.2 This report will cover the following:

- agreed strategy for 2016/17;
- economic review;
- review of the borrowing activity for the GF & HRA (including a review of leasing activity);
- GF investment activity for the year;
- compliance with Prudential Indicators for 2016/17.

2. Recommendations

2.1 It is recommended that;

- **Members note the treasury management and leasing activities undertaken for the period.**
- **Approve the actual 2016/17 Prudential Indicators within the report.**

3. The Strategy Approved for 2016/17

3.1 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.

3.2 The HRA takes a longer-term view of debt management and therefore the key aim of the borrowing strategy is to continue to manage the affordability of debt repayments within the 30 year business plan.

3.3 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated a low but rising Bank Rate. Short-term rates were expected to be the cheaper form of borrowing over the 2016/17 period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

3.4 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.

4. Economic Review for the Year Ending 31 March 2017

4.1 In the near term, the UK's economic outlook has become more uncertain. The British people's decision to leave the EU presents new opportunities, but also new challenges. The UK economy showed considerable momentum in the run up to the EU referendum, and has shown significant resilience since. The UK is likely to face a period of uncertainty, followed by adjustment. Reflecting this, the Office for Budget Responsibility (OBR) forecasts that GDP growth will slow in 2017, and then recover year-on-year to 2020. The OBR expects lower business investment and household spending to weigh on GDP in the near term. Lower business investment is expected to exacerbate the long-standing weakness in UK productivity. However, there is a higher than usual degree of uncertainty in any forecasting at present.

4.2 The Monetary Policy Committee (MPC), cut the Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it thought was going to be a sharp slowdown in growth in the second half of 2016. At that juncture, it also gave a strong steer that it was likely to cut the Bank Rate again by the end of 2016. However, since August, growth has been robust and inflation forecasts have risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, the Bank Rate has not been cut again, and on current trends, it now appears unlikely that there will be another cut.

4.3 Growth in the United States has been highly volatile in 2016 and is expected to gather momentum, especially if President Trump gets Congressional support for his promised fiscal stimulus package. Now that the economy is considered to be at 'full employment' and inflation has exceeded its target, interest rates have been raised three times, the latest being in March 2017. Further increases are expected later in 2017 and throughout 2018.

4.4 There are currently major concerns about stresses within the EU. National elections in 2017 in France and Germany are major stress points, together with the free movement of people within the EU and how Turkey is dealing with controlling such movements of people. On top of which, the EU will also have to deal with the UK triggering Article 50 to start the process of leaving the EU.

5. The Council's Overall Borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is the Capital Financing Requirement (CFR) which is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. This year's CFR is shown in the Prudential Indicators in Appendix 1, and represents the 2016/17 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. The treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This is sourced through external bodies such as the PWLB or the money markets, or by utilising temporary cash resources within the Council.

5.3 The General Fund's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets 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's borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The Council's 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Statement for 2016/17 in February 2016.

Borrowing Strategy 2016/17

5.5 The Authority's chief objective when borrowing 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, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

5.6 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

5.7 Temporary and short-dated loans borrowed from the markets, predominantly from other Local Authorities, has remained affordable and attractive throughout the year. The Authority had a total of £70M in temporary loans as at 31st March 2017 with an average rate of 0.54%.

5.8 No rescheduling activity was undertaken during 2016/17 as the average 1%

differential between PWLB new borrowing rates and premature repayments rates made rescheduling unviable.

5.9 The Authority holds £63M 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 and only then does the Authority have the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO options were exercised by the lender during the year. Low interest rates mean the Council's £63M of LOBOs loans (GF share of £27M) are unlikely to be called in 2017/18. The interest rate of 4.75% is above current PWLB levels and therefore the refinancing risk in respect of these loans is low when taking into account prevailing market conditions. The Council will take the option to repay the LOBO loans at no cost should the opportunity arise to do so.

5.10 The increase in the Council's General Fund (GF) borrowing position for the year is £36.348M. The table below summarises the loan transactions undertaken during the period.

General Fund

	Balance at April 2016 £M	New Borrowing £M	Matured / Redeemed £M	Balance at March 2017 £M	Increase / (Decrease) £M
PWLB Fixed	148.749	0.671	4.849	144.571	(4.178)
PWLB Variable	34.675	-	-	34.675	-
Market Loans	27.217	-	0.214	27.003	(0.214)
Long-term Local Authority	1.757	2.140	-	3.897	2.140
Temporary Borrowing	31.003	111.300	72.700	69.603	38.600
Total	**243.401**	**114.111**	**77.763**	**279.749**	**36.348**

5.11 PWLB debt of £4.849M was redeemed during the year. This comprised of part repayments on PWLB annuity and equal instalment of principal loans. In addition, a PWLB fixed rate loan matured in January 2017. The principal repaid was £2.143M and this was running at a rate of 8.625%.

5.12 The new borrowing represents PWLB loans totalling £671K which were transferred to the Authority following the abolition of Brierley Town Council. The decision by the Authority to take on this liability was approved by Full Council on 24 Sept 2015.

5.13 The temporary borrowing position increased during the year by £38.600M as the Council took advantage of inexpensive temporary loans offered by other Local Authorities. £20M was borrowed from London Borough of Wandsworth at a rate of

0.56% for 12 months. The Council will make an early repayment of its Pension Fund deficit in April 2017 and the additional temporary borrowing position is planned to cover this payment which will be approximately £26M.

5.14 The GF continues to hold £35M of PWLB variable rate debt at an average rate of 0.42%. There is a clear interest rate risk associated with holding variable debt when interest rates will increase. However, interest rates remain low and this variable rate debt continues to offer a cost-effective funding option.

5.15 All external borrowing in the year was undertaken at the lowest possible cost at the time individual agreements were made, commensurate with the Council's position regarding future risk. Only approved methods of raising capital finance were used during the year.

5.16 The decrease in the Housing Revenue Account (HRA) external borrowing position for the year is £5M. The table below summarises the loan transactions undertaken during the period.

Housing Revenue Account

	Balance at April 2016 £M	New Borrowing £M	Matured / Redeemed £M	Balance at March 2017 £M	Increase / (Decrease) £M
PWLB Fixed	193.995	-	4.465	189.530	(4.465)
PWLB Variable	46.225	-	-	46.225	-
Market Loans	36.283	-	0.286	35.997	(0.286)
Total	**276.503**	**-**	**4.751**	**271.752**	**(4.751)**

5.17 As in the case of the General Fund, no long-term fixed rate borrowing was undertaken during 2016/17 by the HRA. PWLB debt of £4.465M was redeemed during the year. This comprised of part repayments on PWLB annuity and equal instalments of principal loans. The HRA proportion of the PWLB fixed rate loan which matured in January 2017 totalled £2.857M.

5.18 The HRA pool continues to hold £46M of PWLB variable rate debt at an average rate of 0.42%. There is a clear interest rate risk associated with holding variable debt when interest rates will increase. However, interest rates remain low and this variable rate debt continues to offer a cost-effective funding option.

5.19 The HRA has £36M of LOBO loans all of which were eligible for call in 2016/17. The lenders did not exercise any call options (as discussed at 5.9) and given the relatively low interest rate environment are unlikely to do so in 2017/18, limiting the HRA's refinancing risk.

5.20 In terms of the debt position for 2016/17, the table at 5.16 shows there is relatively little volatility within the HRA portfolio.

6. Review of Leasing Activity

6.1 In 2016/17 vehicles with a total value of £0.654M were acquired by the Council. A tender exercise was completed to identify the best value method of funding these assets. Leasing was identified as the best value method of funding for all the assets involved. This also met the operational needs of the user service.

7. Review of Investment Activity 2016/17

Investment Policy

7.1 The Council's Annual Investment Strategy (AIS) is prepared in accordance with CLG's revised Investment Guidance and was approved by Council in February 2016.

7.2 The effective management of counterparty risk and safeguarding the security of the Council's investments was the immediate priority in 2016/17. 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.

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

Investment Activity

7.4 In accordance with the AIS, Treasury staff continued to invest temporary cash surpluses in the money market during the year. The total value of in-house investments held at the year-end was £62.250M.

7.5 The net increase in the Council's investment position for the year is £36.400M. This is representative of the increase in the borrowing position for the year of £36M as the Council took advantage of inexpensive temporary loans offered by other Local Authorities. This increased level of investments at the year-end was to manage cash flows and cover the Pension Fund deficit repayment in early April 2017. Investment balances will be reduced as the 2017/18 financial year progresses.

The table below summarises the investment transactions undertaken during the 2016/17 financial year.

	Balance at April 2016 £M	New Borrowing £M	Matured / Redeemed £M	Balance at March 2017 £M	Increase / (Decrease) £M
Long-term Investments	9.000	-	2.000	7.000	(2.000)
Short–term Investments	5.000	30.000	18.000	17.000	12.000
Money Market Funds/Instant Access	11.850	395.122	368.722	38.250	26.400
Total	**25.850**	**425.122**	**388.722**	**62.250**	**36.400**

7.6 The above figures demonstrate the large volume of transactions through Money Market Funds and instant access accounts during the year. Due to the Bank of England interest rate cut in August 2016, rates across the board have declined rapidly. The Council has aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated institutions.

Security / Credit Risk

7.7 The effective management of credit risk and safeguarding the security of the Council's investments was a key Treasury Management priority in 2016/17.

7.8 The AIS aims to reduce credit risk by requiring that deposits are not made with financial institutions unless they meet specified criteria. The minimum long-term counterparty credit rating determined by the Authority for the 2016/17 AIS was A- across rating agencies Fitch, S&P and Moody's.

7.9 Whilst credit ratings remain a key source of information, the Council bases investment decisions on a range of other credit indicators and takes account of the following market information:

- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from parent institution
- Share Price
- Credit Default Swaps

7.10 Investments in 2016/17 were limited to the following institutions:

- Barclays Bank

- Calderdale Council
- Goldman Sachs International Bank
- Landesbank Hessen-Thueringen Girozentrale
- Lloyds TSB
- Plymouth City Council
- Svenska Handelsbanken
- AAA-rated Money Market Funds

7.11 Maximum investment limits for UK counterparties remained at £15M in 2016/17. A limit of £10M remains for money market funds and non-UK banks. The Council also has a total group investment limit of £15M for institutions that are part of the same banking group and a limit of £15M per country (non-UK). The AIS permits the Authority to invest a maximum of £5M with other Local Authorities.

7.12 All investments were made in accordance with the Council's 2016-17 AIS and no investments are considered to pose an immediate credit risk. A list of the Council's current investments as at 31st March 2017 can be found at Appendix 2.

Liquidity

7.13 The Council continued to use instant access accounts and Money Market Funds to manage liquidity requirements.

7.14 The Barclays flexible interest bearing current account (FIBCA) continues to be used to move funds between the Authority's accounts, significantly improving the day to day management of cash.

7.15 The Council did not experience any liquidity problems during the year and continue to operate without the use, and cost, of an overdraft facility.

Yield

7.16 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	0.75%
5yr PWLB rate	1.40%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%
10yr PWLB rate	2.10%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
25yr PWLB rate	2.70%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
50yr PWLB rate	2.50%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

7.17 The Monetary Policy Committee (MPC) cut the Bank Rate from 0.50% to 0.25% on 4th August 2016. The MPC gave a strong steer that it was going to cut the Bank Rate again by the end of the year. However, economic data since August indicated much stronger growth in the second half of 2016 than originally forecast, and consequently the rate was not cut further.

7.18 The latest interest rate forecast from Capita Asset Services shows the first increase from 0.25% to 0.50% is not expected until June 2019. However, if strong domestically generated inflation (e.g. from wage increases in the UK) were to emerge, then the pace and timing of increases in the Bank Rate could be brought forward.

7.19 Credit risk remains a key concern for the Council and one approach was to keep deposits liquid, illustrated by the fact that a significant number of transactions were processed through money market funds (table 7.5). This approach further impacted on yields. The Authority has seen interest rate reductions across its instant access accounts and money market funds. Officers are continuing to assess daily cash flows and liquidity requirements to ensure the Authority's investments are the most suitable within the current environment.

7.20 The 7 day LIBID rate is used as a performance indicator for measuring the return on in-house investments. The average 7 day LIBID for 2016/17 was 0.20%. The average rate of return on investments as at 31 March 2017 was 0.41% which exceeded the annual performance indicator.

8. Performance Measurement, Compliance with Prudential Indicators (PIs) and Governance Arrangements

Performance Measurement

8.1 The Authority measures and manages its exposures to treasury management risks using the following indicators:

Security: The Authority has adopted a voluntary measure of our exposure to credit risk by monitoring the benchmarking data received from Capita which compares the performance of its 217 Local Authority clients.

	Capita Average	**BMBC Actual**
Weighted Average Return	0.55%	0.41%
Weighted Average Maturity	97 days	11 days
Weighted Average Credit Risk	3.40	2.23

8.2 The above figures show that the BMBC performance is slightly below the benchmark, but this is reflective of the internal borrowing position, and thus the requirement to keep cash/investments shorter dated. This explains the weighted average maturity being less than the benchmark, where other authorities have invested higher proportions of their portfolio for periods of up to one year.

8.3 The BMBC weighted average credit score is above the benchmark. The Capita methodology works on a score of 1 to 7. 1 is AAA-rated institutions, therefore higher security, but this will ultimately lead to a lower return. The higher the score, the higher the perceived credit risk.

8.4 A score of 2.23 is therefore towards the higher end of the range and reflects a balanced portfolio with good security, high liquidity and a reasonable return of 0.41%.

8.5 Further analysis of the Authority's investment portfolio as at 31st March 2017 is shown at Appendix 2.

8.6 Liquidity: The Authority has adopted a voluntary measure of our exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	**Actual**
Total cash available within 3 months	£15M	£62M

8.7 The Council remains well within the liquidity target, having £62M of funds available within the three months following 31st March 2017. This reflects the low weighted average maturity of the investment portfolio and the very low interest rate environment where there is little reward for fixing out investments for longer periods.

8.8 Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2016/17	**2017/18**	**2018/19**
Upper limit on fixed interest rate exposure	90%	90%	90%
Actual	90%		
Upper limit on variable interest rate exposure	25%	25%	25%
Actual	10%		

8.9 The Council is required to report on the above as part of the Prudential Indicators, and compliance with this target can also be found in Appendix 1, point 8a.

8.10 The current debt portfolio, through internal and short-term borrowing, leaves the Council with a significant degree of interest rate exposure. However, this approach has significantly reduced the Council's debt interest payments, resulting in significant savings as highlighted above. Managing this ongoing risk will be a key theme of 2017/18.

8.11 Whilst total investment income fell, this was more than offset by savings achieved through internal borrowing, and the average yield achieved exceeded the benchmark. Crucially, the Council's capital was preserved and no investments are considered to be at risk. As such, the Council has achieved the three principal aims of the 2016/17 Treasury Strategy as outlined in Section 7.2.

Prudential Indicators

8.12 The Council can confirm that it has complied with its Prudential Indicators (PIs) for 2016/17 which were approved by Cabinet in February 2016. These are shown at Appendix 1.

Governance and Scrutiny

8.13 The Council has strong arrangements around the governance and scrutiny of Treasury Management activities, over and above those prescribed in the Treasury Management Code. Since 2009 the Treasury Management Panel, comprising of Elected Members and Senior Officers from within the Council, meets on a regular basis to oversee operations and to make decisions on strategy.

9. Review of TM Activities

9.1 Financial Services continue to closely monitor the Council's borrowing position together with a potential increase in interest rates. Affordability and the 'cost of carry' (the difference between long-term borrowing rates and short-term investment rates) remain important influences on the borrowing strategy. However, the Council will not be able to sustain a temporary / internally borrowed position and will need to fix out more borrowing in the near future to fund town centre spend. In addition to this, the Council has a number of loans that will mature over the next 2-3 years at relatively high rates. Financial Services will again seek to replace these loans at lower rates as part of the process to optimise the Council's longer term borrowing position.

9.2 Several borrowing recommendations have been included in the 2017/18 Treasury Management Strategy which include:

1) Borrowing from the newly formed Municipal Bond Agency. The Agency has been established to provide an alternative source of funding for Local Authorities from the PWLB. The Agency is a new initiative and it is worth noting that at the time

of writing it has yet to make its first bond issue. This will only go ahead with a sufficient level of commitment and interest from local authorities. Should the bond issue fail to materialise within our required timescales, the Authority will look into alternative borrowing options.

2) It is recommended in the 2017/18 Strategy that a proportion of the debt portfolio is fixed out, to move towards fixing out temporary variable loans as a policy objective. The variable rate debt will not incur a penalty if repaid early, will reduce variable rate risk, but clearly will introduce additional costs to refinance.

3) The Council will look at the option of taking out deferred loans to cover off a large variable loan due to mature in 2019/20. Options are available to fix the rate now for a period of up to 5 or 6 years in advance. This would allow the Authority to maintain a cheap, short term position, with the comfort of fixed rate loans being delivered in the future. The risks are that BMBC would commit to the loan and the market rates could potentially be cheaper in 3 years' time. Arranging the loans could be quite a lengthy process involving a great deal of due diligence with commercial lenders.

9.3 In addition to the above, ongoing work is being undertaken to review other areas in the Council's debt portfolio to create further savings. For example, a review of the Building Schools for the Future PFI programme and reviewing the terms of the Lender Option Borrower Option (LOBO's) loans. A report was submitted to Cabinet in January 2017 to outline the proposed revised terms that the Local Education Partnership and Council have arrived at in relation to a refinancing proposal for Phase 2. This has now reached financial close and it is intended to review terms for Phase 1 and Phase 2 during 2017/18.

9.4 Finally, opportunities to repay the Authority's LOBO loans have been investigated, but at this time further progress has not been made. This is primarily due to the German lenders, FMS, who do not appear to want to engage in discussions to re-negotiate the deal despite initially encouraging dialogue. Further updates will be provided in due course.

10. <u>Consultations</u>

10.1 This report has been prepared using information supplied by the Council's Treasury Management advisors Capita and approved by the Treasury Management Panel.

11. Financial Implications

11.1 The financial implications arising from the treasury management activities for the year have been reported to Cabinet as part of the Council's revenue outturn report for 2016/17.

12. Employee Implications

12.1 None arising from this report.

13. Regulatory Framework & Risk Assessment

13.1 The Council has complied with all of the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

13.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Capita, the Council's advisers, has proactively managed the debt and investments over the year.

13.3 Treasury Management risks are identified and monitored on the MKI Insight software as part of the Council's overall approach to managing risk.

13.4 Treasury Management is a core system and as such is subject to Internal Audit inspection on an annual basis. The current assessment of Treasury Management systems is 'substantial', with no outstanding recommendations.

14. Background Papers

14.1 Various Financial Services working papers.

APPENDIX 1

Prudential Indicators 2016/17

1. Actual Capital Expenditure

Capital expenditure is a significant source of risk and uncertainty and it is important that limits are monitored to ensure they remain within sustainable limits.

	2016/17 Actual £M
Actual Capital Expenditure GF	41
Actual Capital Expenditure HRA	27
Total Capital Expenditure	**68**

2. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

Ratio of Financing Costs to Net Revenue Stream	Approved 2016/17 %	Actual 2016/17 %
General Fund	15	22
HRA	44	45

3. Actual Capital Financing Requirement (CFR)

The CFR measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

	2016/17 Actual £M
Actual CFR GF	663
Actual CFR HRA	281
Total CFR	944

4. Actual External Debt

This indicator is obtained directly from the Council's balance sheet and is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (External Borrowing + Other Long Term Liabilities).

	Balance at 31/3/17 £M
External Borrowing GF	280
External Borrowing HRA	272
Other Long-Term Liabilities	227
Actual External Debt	**779**

5. Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council.
The Authorised Limit is the statutory limit under the Local Government Act 2003 and must not be exceeded during the year.

	Indicator 2016/17 £M	Actual 2016/17 £M	Compliance with Indicator
Maximum Debt compared to Authorised Limit	961	801	YES

6. Operational Boundary for External Debt

This indicator refers to the means by which the authority manages its external debt to ensure it remains within the statutory authorised limit. It differs from the authorised limit in as far as it is based on the most likely scenario, in terms of capital spend and financing during the year.
Unlike the authorised limit breaches of the operational boundary (due to cash flow movements) are allowed during the year as long as they are not sustained over a period of time.

	Indicator 2016/17 £M	Actual 2016/17 £M	Compliance with Indicator
Average Debt Compared to Operational Boundary	931	777	YES

7. Adoption of CIPFA Code of Practice in TM

The Council adopted the CIPFA Code of Practice on Treasury Management on 13th February 2002

8a. Interest Rate Exposure – GF

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. Separate limits have been set for the GF and HRA debt pools.

The limits adopted by Council provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

	Indicator 2016/17 %	Actual 2016/17 %	Compliance with Indicator
Upper Limit on Fixed Interest Rate Exposure	90	90	YES
Upper Limit on Variable Interest Rate Exposure	25	10	YES

8b. Interest Rate Exposure - HRA

	Indicator 2016/17 %	Actual 2016/17 %	Compliance with Indicator
Upper Limit on Fixed Interest Rate Exposure	100	83	YES
Upper Limit on Variable Interest Rate Exposure	25	17	YES

9a. Maturity Structure of Fixed Rate Borrowing – GF

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, thereby managing the effects of refinancing risks.

Separate limits have been set for the GF and HRA debt pools. The higher percentage of maturities within 12 months in the GF pool is representative of the strategy of short-term borrowing to minimise debt interest costs.

The Council's LOBOs are now shown within the 'Less than 12 months' category.

	Indicator 2016/17 %	Actual 2016/17 %	Compliance with Indicator
Less than 12 months	50	33	
12 months to 2 years	25	8	
2 years to 5 years	25	16	
5 years to 10 years	25	10	
10 years to 20 years	75	4	YES
20 years to 30 years	75	9	
30 years to 40 years	75	10	
40 years to 50 years	75	10	
50 years and above	75	0	

9b. Maturity Structure of Fixed Rate Borrowing - HRA

	Indicator 2016/17 %	Actual 2016/17 %	Compliance with Indicator
Less than 12 months	25	18	
12 months to 2 years	25	1	
2 years to 5 years	25	18	
5 years to 10 years	25	9	
10 years to 20 years	75	6	YES
20 years to 30 years	75	12	
30 years to 40 years	75	14	
40 years to 50 years	75	22	
50 years and above	75	0	

10. Maximum Principal Sums Invested

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 364 days. This limit is set to contain exposure to credit and liquidity risk.

	Indicator 2016/17 £M	Actual 2016/17 £M	Compliance with Indicator
Sums Invested > 364 days Sums Invested > 2 years Sums Invested > 3 years	20 20 20	0 0 0	YES

11. HRA Limit on Indebtedness

This indicator compares the HRA CFR with the Debt Cap prescribed by the CLG.

	Approved 2016/17 £M	Actual 2016/17 £M	Compliance with Indicator
HRA Debt Cap compared to HRA CFR	301	281	YES

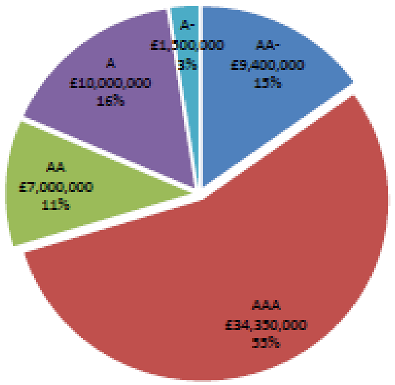
APPENDIX 2

Barnsley Metropolitan Borough Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Federated Investors (UK)	9,200,000	0.27%		MMF	AAA	0.000%
MMF Aberdeen	5,100,000	0.20%		MMF	AAA	0.000%
MMF Goldman Sachs	6,150,000	0.20%		MMF	AAA	0.000%
MMF Standard Life	6,900,000	0.29%		MMF	AAA	0.000%
Barclays Bank Plc	1,500,000	0.20%		Call	A-	0.000%
Svenska Handelsbanken AB	9,400,000	0.30%		Call	AA-	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.74%		USDBF	AAA	0.000%
USDBF Payden Sterling Reserve Fund	2,000,000	1.44%		USDBF	AAA	0.000%
Calderdale Metropolitan Borough Council	2,000,000	0.34%	30/03/2017	05/04/2017	AA	0.000%
Lloyds Bank Plc	5,000,000	0.65%	07/10/2016	06/04/2017	A	0.001%
Goldman Sachs International Bank	5,000,000	0.63%	02/12/2016	02/06/2017	A	0.012%
Plymouth City Council	5,000,000	0.38%	08/03/2017	08/06/2017	AA	0.001%
Total Investments	**£62,250,000**	**0.41%**				**0.001%**

Rating Exposure



Portfolios weighted average risk number = 3.97

									Excluding Calls/MMFs/USDBFs	
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	55.18%	£34,350,000	79.62%	£27,350,000	43.94%	0.27%	10	14	51	67
Pink1	8.03%	£5,000,000	100.00%	£5,000,000	8.03%	0.74%	0	0	0	0
Pink2	3.21%	£2,000,000	100.00%	£2,000,000	3.21%	1.44%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	15.10%	£9,400,000	100.00%	£9,400,000	15.10%	0.30%	0	0	0	0
Red	18.47%	£11,500,000	13.04%	£1,500,000	2.41%	0.58%	30	158	35	182
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£62,250,000	72.69%	£45,250,000	72.69%	0.41%	11	37	41	135

WARoR = Weighted Average Rate of Return   WAM = Weighted Average Time to Maturity