

## TRAFFORD COUNCIL

**Report to:** Executive / Council  
**Date:** 17 February 2016  
**Report for:** Decision  
**Report of:** Executive Member for Finance and the Director of Finance

### Report Title

**ADDENDUM TO TREASURY MANAGEMENT STRATEGY 2016/17 – 2018/19**

### Summary

The Council is currently in active discussions with the Greater Manchester Pension Fund about the timing of the payments of pension contributions to the Fund.

By paying contributions in advance, by up to three years, it will be possible to earn a discount from the Fund which would be significantly better than can be obtained in the money market.

If employee and employer contributions could be paid in advance this prepayment could be £48 million. It is arguable whether such a prepayment needs to be taken account of in the Treasury Management Strategy, but given the potential size of the transaction and that it would be in excess of the current maximum limit that can be placed with a single institution, this report **seeks approval** for up to £50 million to be placed with Greater Manchester Pension Fund. It is not considered that the Council's funds will be at risk and in any event it is money that would be required to be paid over to the Fund over the next three years.

In addition, the original report that has been distributed with the agenda includes a section on debt strategy which indicates that for the first time in five years the Council is likely to borrow long term money to reduce its under-borrowed position and take advantage of current low interest rates. The report assumes borrowing of £10 million from the PWLB but given that we are in an historical low interest rate environment and recognising that the position can change quickly, **it is recommended** that the borrowing limits be increased by a further £10 million. This is not to say the Council will definitely borrow this amount but it will give the Chief Finance Officer the freedom to act if it is considered to be in the Council's interest to do so.

The above changes would require a revised set of prudential indicators to be agreed and these are attached; changes to the original version are highlighted.

**Recommendation(s)**

**Taking account of the Treasury Management report and the addendum it is recommended that Members approve:**

- 1. the policy on debt strategy for 2016/17 to 2018/19 as set out in section 3 and in the Addendum Report;**
- 2. the investment strategy for 2016/17 to 2018/19 as set out in section 5 and in the Addendum Report;**
- 3. the Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and the Investment criteria as detailed in Appendix 3 and in the Addendum Report.**

Contact person for access to background papers and further information:

Name: Ian Duncan  
Extension: 1555

Background Papers: None

**Other Options**

It is a requirement of the Council's Constitution that a Treasury Management Strategy is agreed each year

**Consultation**

Not applicable

**Reasons for Recommendation**

As set out in the report

**Key Decision** (as defined in the Constitution): Yes  
**If Key Decision, has 28-day notice been given?** Yes

**Finance Officer Clearance** (type in initials).....GP.....  
**Legal Officer Clearance** (type in initials).....JL.....

**[CORPORATE] DIRECTOR'S SIGNATURE** (electronic).....  
To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

**Amendments made to the Treasury Management Strategy 2016/17 – 2018/19 reflecting the Council’s updated Capital Investment Programme.**

3.2 The table below shows the actual current external debt levels, with forward projections, against the underlying capital borrowing need (the Capital Financing Requirement - CFR) highlighting the Council’s under-borrowing position. Interest rates are at historically low long term levels and the table includes an assumed take up of new borrowing during the remainder of 2015/16 and 2016/17.

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>
Debt at 1 April	94,992	114,107	124,915	126,181
Debt maturing	(1,770)	(3,747)	(2,684)	(2,578)
New Debt	20,885	14,555	3,950	0
Debt at 31 March	114,107	124,915	126,181	123,603
Capital Financing Requirement at 31 March	135,431	144,007	146,343	141,022
Under borrow at 31 March	21,324	19,092	20,162	17,419

**UPDATED TREASURY PRUDENTIAL INDICATORS AND LIMITS (Appendix 3)**  
**(Changes highlighted)**

In accordance with the CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the expected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and the Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

	2015/16 estimate £m	2016/17 estimate £m	2017/18 estimate £m	2018/19 estimate £m
<b>Upper Limits – Fixed interest rate exposure</b>	2.7	3.1	3.0	2.7
<b>Upper Limits – Variable interest rate exposure</b>	3.2	3.3	3.3	3.5
<b>Upper Interest Limits</b> – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments (debt interest payable less investment interest receivable).				
<b>Authorised Limit for External debt</b>				
-External debt (01.04)	140.0	146.0	144.0	143.0
-Other long term Liabilities (PFI)	6.0	5.8	5.6	5.4
<b>Total</b>	<b>146.0</b>	<b>151.8</b>	<b>149.6</b>	<b>148.4</b>
<b>Authorised external debt limit</b> - maximum level of external debt that the authority will require to cover all known potential requirements and includes headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003.				
	2015/16 estimate £m	2016/17 estimate £m	2017/18 estimate £m	2018/19 estimate £m
<b>Operational Boundary for External debt</b>				
-External debt (01.04)	125.0	130.0	130.0	128.0
-Other long term Liabilities (PFI)	6.0	5.8	5.6	5.4
<b>Total</b>	<b>131.0</b>	<b>135.8</b>	<b>135.6</b>	<b>133.4</b>
<b>Operational boundary</b> - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course				

of the year excluding any temporary borrowing and is not a limit.				
<b>Upper limit for sums invested over 364 days</b>	<b>70</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Upper Limit for sums invested for over 364 days</b> – these limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment. Included within this limit are Manchester Airport Shares which at 31 March 2015 were independently valued at £41.0m and the Church Commissioners Local Authorities Property Investment Fund investment of £5m.				
<b>Gross debt and Capital Financing Requirement</b>				
-External debt (01.04)	125.0	130.0	130.0	128.0
-Other long term Liabilities (PFI)	6.0	5.8	5.6	5.4
Gross debt	131.0	135.8	135.6	133.4
-C.F.R.	135.4	144.0	146.3	141.0
<b>Excess C.F.R.</b>	<b>4.4</b>	<b>8.2</b>	<b>10.7</b>	<b>7.6</b>
<b>Gross Debt and the Capital Financing Requirement</b> – this indicator reflects that over the medium term, debt will only be for capital purposes. The Director of Finance will ensure that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council.				
<b>Maturity structure of borrowing – 2016/17 to 2018/19</b>				
	<b>Lower limit %</b>		<b>Upper limit %</b>	
Under 12 months	0		70	
12 months to 2 years	0		30	
2 years to 5 years	0		30	
5 years to 10 years	0		30	
10 years to 20 years	0		30	
20 years to 30 years	0		30	
30 years to 40 years	0		30	
40 years and above	0		35	
<b>Maturity Structure of Borrowing</b> – these gross limits are set to reduce the Council’s exposure to large sums falling due for refinancing and this indicator reflects the next date on which the lending bank can amend the interest rate for the Lender Option Borrower Option loans.				

## **INVESTMENT CRITERIA –**

### **Counterparty Selection**

The minimum criteria for providing a list of high quality investment counterparties is highlighted in the categories 1 to 4 below and are to be applied for both Specified (maximum period 1Year) and Non-specified investments (maximum period 3 Years). Category 5 & 6 applies only to The Church Commissioners Local Authorities Property Investment fund and Greater Manchester Pension fund respectively;

	<b>Fitch (or equivalent) – Long Term</b>	<b>Maximum Group Limit</b>	<b>Maximum Time Limit</b>
<p><b>Category 1 –</b> All UK or Non UK banks with their subsidiaries which meet the necessary ratings or has a parent bank guarantee in place and building societies domiciled in a non-UK country which has a minimum Sovereign long term rating of AA- and individual credit rating issued by Fitch, Moody's and Standard and Poor's of:</p> <ul style="list-style-type: none"> <li>• Short Term – Fitch F1 or equivalent</li> <li>• Long Term – Fitch A- or equivalent</li> </ul> <p>This amendment is reflective that the rating agencies have concluded their reassessment of their ratings under their revised methodologies. This action has generated more certainty over underlying ratings thereby allowing the Council to become more prescriptive in the limits it applies. Importantly there is no change to the minimum credit rating required.</p>	<p>AA to AAA A+ to AA- A- to A</p> <p>Current limit</p> <p>AA to AAA A- to AA-</p>	<p>£20m £10m £5m</p> <p>£20m £5m</p>	<p>3yrs 1Yr 1yr</p> <p>3yrs 1yr</p>
<p><b>Category 2 –</b> UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.</p>		£20m	1yr
<p><b>Category 3 –</b> The Council's own banker for transactional purposes if the bank falls below the above criteria.</p>		n/a	1day
<p><b>Category 4 –</b></p> <ul style="list-style-type: none"> <li>• Money Market Funds – must be AAA credit rated</li> <li>• Enhanced Money Market Funds – must be AAA credit rated</li> <li>• UK Government (including treasury bills, gilts and the DMO)</li> <li>• Local Authorities</li> <li>• Supranational Institutions</li> </ul>		£20m	3yrs

• Corporate bonds (Manchester Airport Group)			
<b>Category 5 –</b> • Local Authority Property Investment fund	-	£10m	10yrs
<b>Category 6 –</b> • Greater Manchester Pension Fund		£50m	3yrs