Report No. FSD15069	London Borough of Bromley	Agenda Item No.

PART 1 - PUBLIC

Decision Maker:	**Resources Portfolio Holder** **Council**
Date:	**For pre-decision scrutiny by Executive and Resources PDS Committee on 26th November 2015** **Council 14th December 2015**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**TREASURY MANAGEMENT - PERFORMANCE Q2 2015/16 & MID-YEAR REVIEW**
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Chief Officer:	Director of Finance
Ward:	Alll

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1. Reason for report

1.1 This report summarises treasury management activity during the quarter ended 30th September 2015 and the period 1st April 2015 to 30th September 2015. It also updates Members on the Council's investment with Heritable Bank (paragraph 3.16) and includes a Mid-Year Review of the Treasury Management Strategy Statement and Annual Investment Strategy (Annex A). The report ensures that the Council is implementing best practice in accordance with the CIPFA Code of Practice for Treasury Management. Investments as at 30th September 2015 totalled £282.6m (excluding the balance of the Heritable investment) and there was no outstanding external borrowing. For information and comparison, the balance of investments stood at £275.3m as at 30th June 2015 and £264.9m as at 30th September 2014 and, at the time of writing this report (13th November) it stood at £307.6m.

RECOMMENDATION(S)

2.1 The PDS Committee and Portfolio Holder are asked to note the report and recommend that Council approve the changes to the 2015/16 prudential indicators, as set out in Annex B1.

2.2 Council is requested to note the report and approve changes to the 2015/16 prudential indicators, as set out in Annex B1.

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: N/A

2. Ongoing costs: N/A.

3. Budget head/performance centre: Interest on balances

4. Total current budget for this head: £2.741m (net interest earnings) in 2015/16; currently forecast to be £0.6m over budget

5. Source of funding: Net investment income

Staff

1. Number of staff (current and additional): 0.25 fte

2. If from existing staff resources, number of staff hours: 9 hours per week

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Legal

1. Legal Requirement: Non-statutory - Government guidance.

2. Call-in: Call-in is applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): n/a

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments:

3. COMMENTARY

General

3.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. In practice, the Director of Finance has reported quarterly on treasury management activity for many years, as well as reporting the annual strategy before the year and the annual report after the year-end. This report includes a mid-year review for 2015/16 and details of treasury management activity during the quarter ended 30th September 2015 and the period 1st April 2015 to 30th September 2015. The 2015/16 annual treasury strategy, including the MRP (Minimum Revenue Provision) Policy Statement and prudential indicators, was originally approved by Council in February 2015. The annual report for the financial year 2014/15 was submitted to the Executive & Resources PDS Committee on 9th July 2015 and was approved by Council on 19th October 2015. Amendments to the strategy (comprising an increase in the total investment limit for pooled investment vehicles from £25m to £40m) were approved by Council in October 2015. No further changes are proposed in this report.

3.2 In recent years, the Council has regularly reviewed its Investment Strategy for Treasury Management to provide a wider range of investment options, ranging from investment in corporate bonds to various investment choices over a 3 to 5 year timeframe, including investments in a property fund and in Diversified Growth Funds. The Treasury Management Code of Practice requires that priority be given to security and liquidity over the return on investments and recent changes in the regulatory environment place a 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 actual position for treasury activities and highlights compliance with Council policies previously approved by Members.

3.3 The Council has monies available for Treasury Management investment as a result of the following:
(a) Positive cash flow;
(b) Monies owed to creditors exceed monies owed by debtors;
(c) Receipts (mainly from Government) received in advance of payments being made;
(d) Capital receipts not yet utilised to fund capital expenditure;
(e) Provisions made in the accounts for liabilities e.g. provision for outstanding legal cases which have not yet materialised;
(f) General and earmarked reserves retained by the Council.

3.4 Some of the monies identified above are short term and investment of these needs to be highly “liquid”, particularly if it relates to a positive cash flow position, which can change in the future. Future monies available for Treasury Management investment will depend on the budget position of the Council and whether the Council will need to substantially run down capital receipts and reserves. Against a backdrop of unprecedented cuts in Government funding (which will require the Council to make revenue savings to balance the budget in future years), there is a probability that such actions may be required in the medium term, which will reduce the monies available for investment.

3.5 The Council has also identified an alternative investment strategy relating to property investment. The PDS Committee has previously been informed that the planned property purchases, including purchases to date, will generate income of £2m per annum with an equivalent yield of 5 to 6%. This is based on a longer term investment timeframe of at least 3 to 5 years. This alternative investment ensures that the monies available can attract higher yields over the longer term.

3.6 A combination of lower risk investment relating to Treasury Management and a separate investment strategy in the form of property acquisitions (generating higher yields and risks) provides a balanced investment strategy. Any investment decisions will also need to consider the likelihood that interest rates will increase at some point. The available resources for the medium term, given the ongoing reductions in Government funding, will need to be regularly reviewed.

Treasury Performance in the quarter ended 30th September 2015

3.7 **Borrowing:** The Council's healthy cashflow position continues and no borrowing has been required for a number of years.

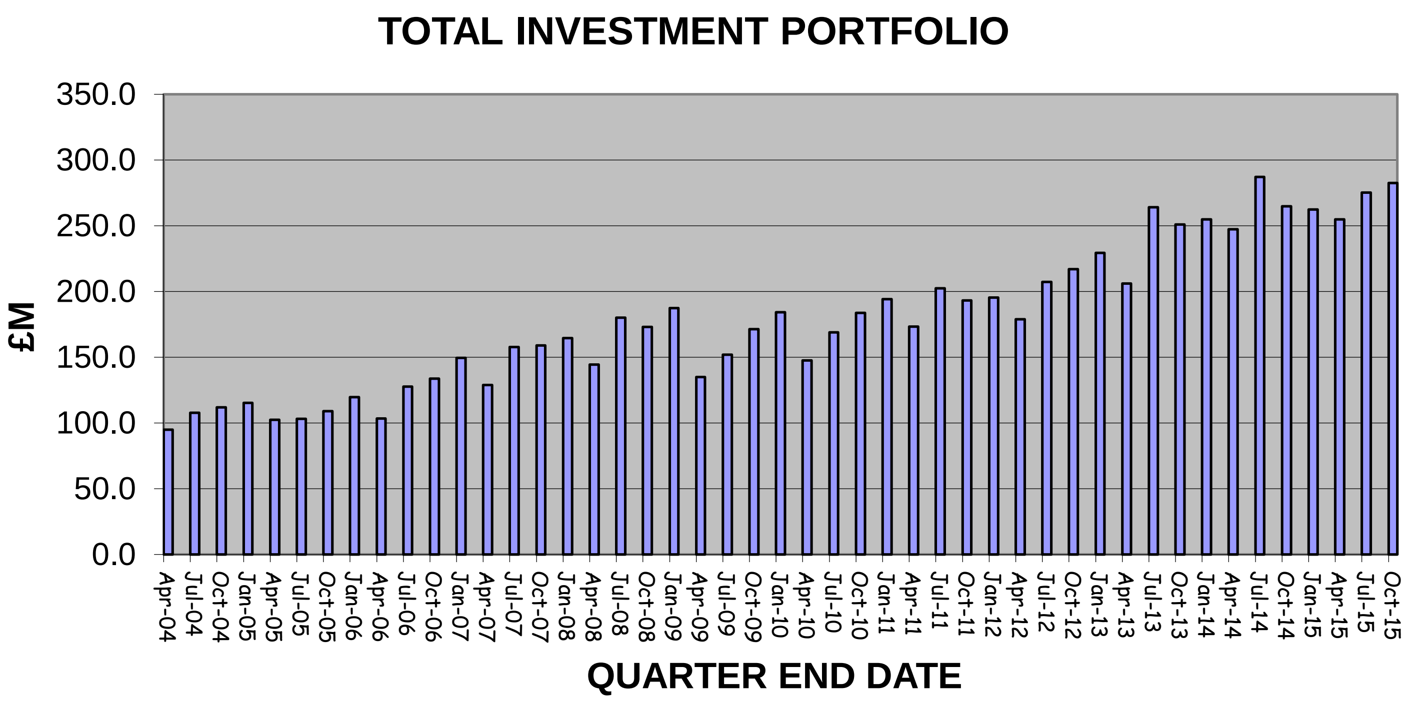
3.8 **Investments:** The following table sets out details of investment activity during the September quarter and during the financial year 2015/16 to date:-

	Qtr ended 30/9/15		**1/4/15 to 30/9/15**	
Main investment portfolio	**Deposits**	**Ave Rate**	**Deposits**	**Ave Rate**
	£m	**%**	**£m**	**%**
Balance of "core" investments b/f	232.50	1.41	207.50	1.29
New investments made in period	20.00	1.01	55.00	1.30
Investments redeemed in period	-15.00	0.70	-25.00	0.72
"Core" investments at end of period	237.50	1.40	237.50	1.40
Money Market Funds	20.10	para 3.13	20.10	para 3.13
CCLA Property Fund	15.00	para 3.14	15.00	para 3.14
Diversified Growth Funds	10.00	para 3.15	10.00	para 3.15
Total investments at end of period	**282.60**	**n/a**	**282.60**	**n/a**

3.9 Details of the outstanding investments at 30th September 2015 are shown in maturity date order in Appendix 1 and by individual counterparty in Appendix 2. An average return of 1% was included for new "core" investments (lending to banks and other local authorities) in the 2015/16 budget and the average return on the two new "core" investments during the September quarter was 1.01%. For comparison, the average LIBID rates for the September quarter were 0.36% for 7 days, 0.46% for 3 months, 0.62% for 6 months and 0.93% for 1 year. The average rate achieved on new investments placed in the period 1st April to 30th September 2015 was 1.30%, compared to the average LIBID rates of 0.36% for 7 days, 0.45% for 3 months, 0.60% for 6 months and 0.90% for 1 year. The improved average rate earned on new investments so far this year is due to the 3-year deposit placed with Lloyds Bank in April.

3.10 Reports to previous meetings have highlighted the fact that options for the reinvestment of maturing deposits have been seriously limited in recent years following bank credit rating downgrades. Changes to lending limits and eligibility criteria in recent years have alleviated this to some extent, but we have still found ourselves in the position of not having many investment options other than placing money with instant access accounts at relatively low interest rates. Active UK banks on our list now comprise only Lloyds, RBS, HSBC, Barclays, Santander UK and Nationwide and all of these have reduced their interest rates significantly in recent years. Lloyds and RBS, both still part-nationalised, are the only banks with which we can invest for more than one year (up to 3 years is permitted under our strategy) and they offer the highest rates for the longer periods. As a result, we are always full to limit (£80m each) with those banks. The Director of Finance will continue to monitor rates and counterparty quality and take account of external advice prior to any investment decisions.

3.11 The graph below shows total investments at quarter-end dates back to 1st April 2004 and shows how available funds have increased steadily over the years. This has been a significant contributor to the over-achievement of investment income against budgeted income in recent years.



Interest Rate Forecast

3.12 The bank base rate has remained at 0.5% since March 2009 and the latest forecast by Capita Treasury Solutions (in November 2015) is for it to begin to slowly rise from mid-2016 (no change from the previous estimate given in August 2015). Capita's forecasts are shown below.

Date	LATEST FORECAST (Nov 15)				PREVIOUS FORECAST (Aug 15)			
		3 month	6 month	1 year		3 month	6 month	1 year
	Base Rate	Libid	Libid	Libid	Base Rate	Libid	Libid	Libid
Dec-15	0.50%	0.60%	0.80%	1.10%	0.50%	0.60%	0.80%	1.10%
Mar-16	0.50%	0.70%	0.90%	1.20%	0.50%	0.70%	0.90%	1.20%
Jun-16	0.75%	0.80%	1.00%	1.30%	0.75%	0.80%	1.00%	1.30%
Sep-16	0.75%	0.90%	1.10%	1.40%	0.75%	0.90%	1.10%	1.40%
Dec-16	1.00%	1.10%	1.30%	1.60%	1.00%	1.10%	1.30%	1.60%
Mar-17	1.00%	1.30%	1.50%	1.80%	1.00%	1.30%	1.50%	1.80%
Jun-17	1.25%	1.40%	1.60%	1.90%	1.25%	1.40%	1.60%	1.90%
Sep-17	1.50%	1.50%	1.70%	2.00%	1.50%	1.50%	1.70%	2.00%
Dec-17	1.50%	1.80%	2.00%	2.30%	1.50%	1.80%	2.00%	2.30%
Mar-18	1.75%	1.90%	2.10%	2.40%	1.75%	1.90%	2.10%	2.40%
Jun-18	1.75%	1.90%	2.10%	2.40%	1.75%	1.90%	2.10%	2.40%
Sep-18	2.00%	2.00%	2.20%	2.50%	n/a	n/a	n/a	n/a
Dec-18	2.00%	2.00%	2.20%	2.50%	n/a	n/a	n/a	n/a
Mar-19	2.00%	2.10%	2.30%	2.70%	n/a	n/a	n/a	n/a

Other accounts

3.13 Money Market Funds

The Council currently has 7 AAA-rated Money Market Fund accounts, with Federated, Ignis, Insight, Morgan Stanley, Blackrock, Fidelity and Legal & General, all of which have a maximum investment limit of £15m. In common with market rates for fixed-term investments, interest rates on money market funds have fallen considerably in recent years. The Ignis and Federated funds currently offer the best rate (around 0.50%). The total balance held in Money Market Funds fluctuates considerably, moving from £22.3m as at 1st April 2015 to £17.8m as at 30th June 2015 and then to £20.1m as at 30th September 2015. It peaked at £57.2m in mid-October and currently stands at £35.1m (as at 13th November 2015). The Money Market Funds currently offer the lowest interest of all our eligible investment vehicles with the exception of the Government Debt Management and Deposit Fund (currently 0.25%). During the year, funds have been and will continue to be withdrawn to fund more attractive investments, most recently at the end of October, when, following Council's agreement in October to an increase of £15m in the limit for pooled investment vehicles, the Resources Portfolio Holder and the Director of Finance approved a further £10m investment in the CCLA Fund. Funds will continue to be held in money market funds, however, as there is a need to have cash available for general Council activities and to support the strategy of investment property acquisitions.

Money Market Fund	**Date Account Opened**	**Actual Balance 01/04/15 £m**	**Actual Balance 30/09/15 £m**	**Ave. Rate 2015/16 to 13/11/15 %**	**Actual Balance 13/11/15 £m**	**Ave. Daily balance to 13/11/15 £m**	**Current Rate 13/11/15 %**
Federated	15/06/2009	7.3	5.1	0.46	15.0	6.0	0.50
Ignis	25/01/2010	15.0	15.0	0.48	15.0	9.4	0.50
Insight	03/07/2009	0.0	-	0.46	-	1.8	0.45
Morgan Stanley	01/11/2012	0.0	-	-	-	-	0.44
Legal & General	23/08/2012	0.0	-	0.46	5.1	5.2	0.46
Blackrock	16/09/2009	0.0	-	-	-	-	0.37
Fidelity	20/11/2002	0.0	-	-	-	-	0.37
TOTAL		22.3	20.1		35.1		

3.14 CCLA Property Fund

Following consultation between the Director of Finance and the Resources Portfolio Holder, an account was opened in January 2014 with the CCLA Local Authorities' Property Fund and an initial deposit of £5m was made, followed by further deposits of £5m in July 2014 and in March 2015. As is mentioned in paragraph 3.13 above, a further £10m was deposited in the fund at the end of October. The investment in the CCLA Fund is viewed as a medium to long-term investment and dividends are paid quarterly. The investment returned 5.25% net of fees in 2014/15 and 4.83% (net) in the first half of 2015/16.

3.15 Diversified Growth Funds

In October 2014, the Council approved the inclusion of investment in diversified growth funds in our strategy and, in December, £5m was invested with both Newton and Standard Life. The Funds both performed very well in just over three months to 31st March 2015; the Newton Fund returning 21.5% (a gain of £294k) and the Standard Life Fund returning 21.9% (a gain of £299k). In accordance with the Council decision, interest equivalent to 27% (£160k) of the total dividend was transferred to the Parallel Fund, set up in 2014/15 with an opening balance of £2.7m to mitigate the potential revenue impact of future actuarial Pension Fund valuations. In the first six months of 2015/16, however, both Funds lost value and, as at 30th September (9 months since inception), the Newton Fund had returned 1.74% (net – an overall gain of £67k) and the Standard Life Fund had returned 3.31% (net – an overall gain of £128k). Returns in October were significantly better, with Newton returning 22.9%, a gain of £97k (cumulative return to 31st October 3.83% and an overall gain of £165k) and Standard Life returning 29.3%, a gain of £124k (cumulative return to 31st October 5.87% and an overall gain of £253k).

3.16 Investment with Heritable Bank

Members will be aware from regular updates to the Resources Portfolio Holder and the Executive that the Council had £5m invested with the Heritable Bank, a UK subsidiary of the Icelandic bank, Landsbanki. In October 2008, the bank was placed in administration and our investment was frozen. An initial dividend was paid to the Council in July 2009 and, since then, a further 14 dividends have been received. To date, a total of £4,985k has been received (98% of our total claim of £5,087k), leaving a balance of £102k (2%). Council officers and our external advisers remain hopeful of a full recovery.

3.17 External Cash Management

External cash managers, Tradition UK Ltd, currently manage £20m of our cash portfolio and provide useful advice and information on treasury management matters. In 2014/15, Tradition UK achieved a return of 1.28%, which compared with the in-house team rate of 1.06% for “core” investments (1.55% including investments with the pooled vehicles). In the first half of 2015/16, Tradition UK returned 1.42% against the in-house team return of 1.38% for “core” investments (1.25% including pooled vehicles). Tradition UK work to the same counterparty list as the Council’s in-house team and so have also been constrained by strategy changes approved after the Icelandic Bank crisis and by ratings downgrades in recent years. However, the Council’s in-house team has a requirement to keep a proportion of the lending short (at lower rates) to cover cashflow, while Tradition are able to place their whole £20m for long periods. The table below shows details of their current deposits, all of which have been placed for periods of two years or three years.

Bank	**Sum**	**Start Date**	**Maturity**	**Period**	**Rate**
Lloyds	£7.5m	18/08/14	18/08/16	2 years	1.28%
RBS	£5.0m	26/08/14	26/08/16	2 years	Min 1.52%; max 2.00% (linked to 3 month Libor)
West Dumbartonshire Council	£2.5m	26/03/14	24/03/17	3 years	1.60%
Perth & Kinross Council	£5m	23/03/14	24/03/17	3 years	1.45%

Mid-Year Review of Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16

3.18 The CIPFA Code of Practice on Treasury Management requires the Council to receive a mid-year review report on performance against the approved strategy. The Annual Investment Strategy was originally approved by Council in February 2015 and was updated in October 2015. A mid-year review, including comments on the economic background during the first half of 2015/16 and on the outlook, is included at Annex A.

Regulatory Framework, Risk and Performance

3.19 The Council’s treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been placed to date);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act, the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.20 The Council has complied with all of the above 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.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5. FINANCIAL IMPLICATIONS

5.1 There is still no real sign of interest rates improving and an average rate of 1% was again prudently assumed for interest on new fixed term deposits (lending to banks and other local authorities) in the 2015/16 revenue budget, in line with the estimates provided by the Council's external treasury advisers, Capita, and with officers' views. The Bank of England base rate is still expected to rise, but the expected start of the rise has been put back to mid-2016 and could be even later. There have been no improvements to counterparty credit ratings, as a result of which the restrictions to investment opportunities that followed ratings downgrades in recent years have still been in place. However, the Council has been able to benefit from the increases in the limits for the two part-nationalised banks (Lloyds and RBS) approved by the Council in October 2014, higher rates from longer-term deals placed with other local authorities, higher average balances than anticipated and the strong performance of the CCLA Property Fund and it is currently forecast that the 2015/16 outturn will be around £3.35m compared to the budget of £2.74m; i.e. a surplus of £0.6m.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management & Prudential Code for Capital Finance in Local Authorities. CLG Guidance on Investments. External advice from Capita Treasury Solutions.

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2015/16

1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives. In practice, the Council has not in the past borrowed to finance its capital expenditure and has no plans to do so at present.

As a consequence, treasury management is defined as:

> "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 was initially adopted by this Council in February 2012.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices setting out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Executive & Resources PDS Committee:

   This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2015/16;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16 (not applicable);
- A review of compliance with Capital and Treasury Prudential Limits for 2015/16.

3 Economic update

3.1 Economic background and interest rates

Capita's latest interest rate forecast (received on 10th November) is shown in paragraph 3.12 of the main report.

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was initially approved by this Council in February 2015. A subsequent revision was approved in October 2015. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will aim to achieve the optimum return (yield) on 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 cashflow needs, but also to seek out value available in periods up to 12 months (up to 3 years with other local authorities and with the part-nationalised banks Lloyds and RBS), with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information.

5 Investment Portfolio 2015/16

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

Details of the Council's investment activity during the first six months of 2015/16 are provided in paragraphs 3.8 to 3.15 of the covering report and lists of current investments are provided in Appendices 1 (in maturity date order) and 2 (by counterparty). Excluding the frozen Heritable investment of £5m (98% of which has now been recovered), the Council held £282.6m of investments as at 30th September 2015 (£275.3m as at 30th June 2015).

The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

The Council's budget for interest on investments in 2015/16 is £2.741m, which is based on an assumed interest rate of 1.00% for new investments, and, due to a combination of longer term investments placed at higher rates, higher balances than anticipated and the good performance of the CCLA Property Fund, the current projection is for a surplus of £0.6m.

6 Borrowing

The Council's capital financing requirement (CFR) as at 1st April 2015 was £4.3m. The CFR denotes the Council's underlying need to borrow for capital purposes and, for Bromley, relates to outstanding finance lease liabilities in respect of plant, equipment and vehicles. 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). The Council does not borrow to finance its capital expenditure and has, in recent years, only had to borrow short-term (for cashflow purposes) on a very few occasions.

No borrowing is currently anticipated during this financial year or in any later financial year.

Prudential and Treasury Indicators – Mid-Year Review 2015/16

The old capital control system was replaced in April 2004 by a prudential system based largely on self-regulation by local authorities themselves. At the heart of the system is The Prudential Code for Capital Finance in Local Authorities, developed by CIPFA. The Code requires the Council to set a number of prudential indicators designed to monitor and control capital expenditure, financing and borrowing. The indicators for 2015/16 were approved by the Executive and the Council in February 2015 and this Annex sets out the actual performance against those indicators in the first six months, updating them where necessary. Prudential and Treasury Indicators are relevant for the purposes of setting an integrated treasury management strategy.

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted by the full Council in February 2002 and the revised 2011 Code was initially adopted by full Council in February 2012.

Prudential Indicators for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the Capital Programme for 2015/16 was agreed in February 2015. The increase in the latest estimate for 2015/16 is partly the result of slippage in expenditure originally planned for 2014/15 and partly the result of the approval of additional investment property acquisitions, both of which have been highlighted in previous reports to the Executive and to PDS Committees.

Capital Expenditure by Portfolio	**2015/16 Original Estimate £m**	**2015/16 Revised Estimate £m**
Education	42.9	38.9
Renewal & Recreation	2.1	4.5
Environment	5.7	8.3
Care Services	7.9	12.1
Resources	5.6	26.3
Public Protection & Safety	-	0.3
Less: estimated slippage	-5.0	-10.0
Total	**59.2**	**80.4**

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

Capital Expenditure	**2015/16 Original Estimate £m**	**2015/16 Revised Estimate £m**
Supported	59.2	80.4
Unsupported	0.0	0.0
Total spend	**59.2**	**80.4**
Financed by:		
Capital receipts	11.5	18.4
Capital grants	38.3	31.4
Other external contributions	8.1	12.4
Revenue contributions	1.3	18.2
Total financing	**59.2**	**80.4**
Borrowing need	**0.0**	**0.0**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits", which comprise external / internal borrowing and other long-term liabilities, mainly finance leases. The Council's approved Treasury and Capital Prudential Indicators (affordability limits) are outlined in the approved TMSS. The table below shows the expected "worst case" debt position over the period. This is termed the Operational Boundary. Bromley has an operational "borrowing" limit (Operational Boundary) of £30m, although in practice, this limit is never in danger of being breached.

The Authorised Limit, which represents the limit beyond which borrowing is prohibited, is another of the prudential indicators and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 and, for Bromley, this figure has been set at £60m.

The table also shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The Council's capital financing requirement (CFR) as at 1st April 2015 was £4.3m. 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). The Council's CFR relates to liabilities arising from finance leases entered into in recent years in respect of various items of plant and equipment. The Council currently has no external borrowing as such.

Prudential Indicators	**2015/16 Original Estimate £m**	**2015/16 Revised Estimate £m**
CFR	**2.0**	**4.0**
Debt – Operational Boundary		
Borrowing	10.0	10.0
Other long-term liabilities	20.0	20.0
Total Operational Boundary	**30.0**	**30.0**
Debt – Authorised Boundary		
Borrowing	30.0	30.0
Other long-term liabilities	30.0	30.0
Total Operational Boundary	**60.0**	**60.0**

Other Prudential Indicators

Other indicators designed to control overall borrowing and exposures to interest rate movements are included in the summary table below, which will require the approval of full Council.

ANNEX B1 Prudential and Treasury Indicators - Summary

	2015/16	2015/16
	Original Estimate	Revised Estimate
	£m	£m
Total Capital Expenditure	£59.2m	£80.4m
Ratio of financing costs to net revenue stream	-1.3%	0.0%
Net borrowing requirement (net investments for Bromley)		
brought forward 1 April	£230.0m	£254.8m
carried forward 31 March	£205.3m	£260.0m
in year borrowing requirement (reduction in net investments for Bromley)	-£14.7m	+£5.2m
Estimated CFR as at 31 March (finance lease liability)	£2.0m	£4.0m
(NB. Actual CFR as at 31 March 2015 (finance lease liability) = £4.3m)		
Annual change in Cap. Financing Requirement	-£0.3m	-£0.3m
Incremental impact of capital investment decisions	**£ p**	**£ p**
Increase in council tax (band D) per annum	-	-

TREASURY MANAGEMENT INDICATORS	2015/16 Original Estimate £m	2015/16 Revised Estimate £m
Authorised Limit for external debt -		
borrowing	£30.0	£30.0
other long term liabilities	£30.0	£30.0
TOTAL	£60.0	£60.0
Operational Boundary for external debt -		
borrowing	£10.0	£10.0
other long term liabilities	£20.0	£20.0
TOTAL	£30.0	£30.0
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	20%	20%
Upper limit for total principal sums invested beyond year-end dates	£170.0	£170.0