Report To:	**EXECUTIVE CABINET**
Date:	16 December 2015
Executive Member /Reporting Officer:	Councillor J. Fitzpatrick - First Deputy (Performance & Finance); Peter Timmins – Interim Assistant Executive Director (Finance)
Subject:	**TREASURY MANAGEMENT ACTIVITIES**
Report Summary:	This report provides a mid-year review of the Council's Treasury Management activities for 2015/16, including the borrowing strategy and the investment strategy.
Recommendations:	1. That the reported treasury activity and performance be noted. 2. That the proposed changes to the Councils MRP policy from 2015/16 are approved, and agree a change in the repayment setting aside basis, to generate an annual revenue saving of £2.5m (see section 8), from: • 4%, resulting in a reducing balance; to • 2%, resulting in repayment over 50 years, and that the revised MRP policy be recommended to Council for approval. 3. That approval be given to adjust the Council's Treasury Management investment list to match that of the Council's treasury advisors, Capita. This will allow access to an increased range of counterparties and therefore improved levels of diversification and yield.
Links to Community Strategy:	The Treasury Management function of the Council underpins the ability to deliver the Council's priorities.
Policy Implications:	In line with Council Policies.
Financial Implications: (Authorised by the Section 151 Officer)	The Public Works Loan Board has continued the scheme to allow a 0.20% reduction on the published borrowing rates, known as the "certainty rate", for Councils that provide indicative borrowing requirements for the next 3 years. The Council has provided this information and has therefore protected it's eligibility for the "certainty rate" This does not however commit the Council to a particular course of action. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, the agencies have begun removing these "uplifts". While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse

financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now.

Legal Implications: (Authorised by the Borough Solicitor)

The achievement of savings on the cost of financing the Council's debt through repayment, conversion and rescheduling, together with interest earned by investing short term cash surpluses, is a crucial part of the Council's medium term financial strategy. This has to be carefully balanced against the level of risk incurred. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

1) Increases in interest charges and principal repayments caused by increased borrowing to finance additional capital expenditure, and
2) Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future are affordable.

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and now be determined under Guidance.

Statutory Instrument 2008 no. 414 s4 lays down that: "*A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.*"

There is no requirement to charge MRP where the Council's overall Capital Financing Requirement is nil or negative at the end of the preceding financial year. The Government has issued guidance which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required previously. The guidance offers four main options under which MRP can be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably similar with that over which the capital expenditure is estimated to provide benefits. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Risk Management:

Failure to properly manage and monitor the Council's loans and investments could lead to service failure and loss of public

confidence.

Access to Information:

The background papers relating to this report can be inspected by contacting Beverley Stephens, Head of Resource Management, by:

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1. BACKGROUND

1.1 Cash-flow management is a core element of the Council's financial management activities. The Council operates a balanced budget, which broadly means cash raised during the year will meet cash expenditure. Treasury Management operations firstly ensure that cash flow is adequately planned, with short term surplus funds being invested. The investment strategy priorities are security (in low risk counterparties), then liquidity (cash flow needs), and lastly, yield – providing adequate liquidity initially before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital investment plans, agreed as part of the annual budget setting process and updated throughout the financial year. These capital plans provide a guide to the borrowing need of the Council, essentially this is the long term cash flow planning to ensure the Council can meet its capital spending requirements. 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 management or cost reduction objectives.

1.3 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

2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) was adopted by this Council on 8 February 2012. The primary requirements of the Code are as follows:

1) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2) Creation and maintenance of Treasury Management Practices which set 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 Overview (Audit) Panel.

2.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, 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;
- The Council's capital expenditure (prudential indicators);
- 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;
    - A review of compliance with Treasury and Prudential Limits for 2015/16;
    - A review of the Minimum Revenue Provision Policy.

3. ECONOMIC UPDATE

3.1 The following economic update is provided by the Councils treasury management advisors Capita (formerly Sector).

a. 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, possibly being equal to that of 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). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% 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 over the last quarter. Investment expenditure is also expected to support growth. Moreover, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

b. The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran re-joining the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

c. There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

d. 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. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news 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 to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

e. In the Eurozone, the European Central Bank (ECB) unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries in January. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already 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%.

3.2 Capita's view on the outlook for the next six months of 2015/16 is as follows:-

a. Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices.
b. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
   - Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
   - UK economic growth turns significantly weaker than we currently anticipate.
   - Weak growth or recession in the UK's main trading partners - the EU, US and China.
   - A resurgence of the Eurozone sovereign debt crisis.
   - Recapitalisation of European banks requiring more government financial support.
   - Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens
   - The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
   - Uncertainty around the risk of a UK exit from the EU.
   - The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
   - The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
   - UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

3.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.4 The view of the Council's treasury management advisors (Capita) on the anticipated future movement in interest rates is shown below.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

3.5 The above Capita forecasts for Public Works Loan Board rates incorporate the Public Works Loan Board certainty rate reducing Public Works Loan Board borrowing rates by 0.20% for most local authorities.

3.6 As documented in previous reports, the Council's Bank, Co-operative Bank, signalled its intention to withdraw from the local Authority banking transmissions market once current contracts expire. Tameside MBC's current contract expires on the 31 March 2018. The Council participated in a Greater Manchester wide collaborative tender for banking services, led by Bury MBC. The successful Tenderer was Barclays Bank. Tameside MBC is currently in the process of transferring to Barclays with the transfer on target completed on 1 December 2015.

4. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

4.1 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the Council on 4 February 2015.

4.2 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

4.3 In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

4.4 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

4.5 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

5. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

5.1 The Prudential Indicators are reported on a monthly basis to the Executive Director of Finance and the First Deputy Performance & Finance. The table at 5.3 below shows the current position against the Prudential Indicator limits set as part of the 2015/16 Budget Report.

5.2 The indicators are updated from the Capital Programme as at October 2015, showing the Council's capital expenditure plans and how these plans are being financed. Any changes in the capital expenditure plans will impact of the on the prudential indicators and the underlying need to borrow.

5.3 The current prudential indicator position is shown below. All the indicators are within the set limits showing that the Council's borrowing strategy remains a prudent one.

Prudential Limits
Actuals v limits as at 07/10/2015

	limit	Actual @ 07/10/2015	amount within limit
	£000's	£000's	£000's
Operational Boundary for External Debt	£237,319	£120,098	-£117,221
Authorised Limit for External Debt	£257,319	£120,098	-£137,221
Upper Limit for fixed	£211,163	£33,593	-£177,570
Upper Limit for variable	£63,349	-£75,198	-£138,547
Capital Financing Requirement	£211,163	£203,045	-£8,118
Capital expenditure	£53,763	£49,416	-£4,347

Prudential Indicators

Gross borrowing and the capital financing requirement	CFR @ 31/03/14 + increase years 1,2,3	Gross borrowing @07/10/2015	amount within limit
	£211,163	£120,098	-£91,065

Maturity structure for borrowing 2015/16
Fixed rate

Under 12 months	0% to 15%	0.73%
12 months and within 24 months	0% to 15%	0.86%
24 months and within 5 years	0% to 30%	5.72%
5 years and within 10 years	0% to 40%	4.30%
10 years and above	50% to 100%	88.38%

6. INVESTMENT PORTFOLIO 2015/16

6.1 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.

6.2 The Council held £141.350m of investments as at 30 September 2015 (£150.970m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.45% against LIBID of 0.36%.

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

6.4 The Council's 2015/16 budget shows that external loans will incur interest charges of £11.892 and £0.117m will be paid to various Council funds such as the Insurance Fund. Investment income to be earned during the year is estimated to reduce these costs to give a net interest charge budget of £11.273m.

6.5 Whilst the investment counterparty criteria selection approved in the TMSS is currently meeting the requirement of the Treasury Management Function, the regulatory changes outlined in 4.2 require the Council to give consideration to diversifying its investment strategy in order to further reduce credit risk whilst also enabling the Council to maintain sufficient Counterparties.

6.6 As defined by the Treasury Management Strategy, there are various types of investments which the Council can use. These are outlined in the following tables.

Specified investments:

All such investments shall be in sterling with a maximum maturity of 1 year with institutions of high credit quality.

	Minimum Credit Criteria
Term Deposits(including bank cancellable deposits) with credit – rated deposit takers (banks and building societies) *	F1 Short Term A+ Long Term
Term Deposits with the UK Government or other Local Authorities	N/A
Money Market Funds	AAA
Debt Management Agency Deposit Facility	N/A

*If forward deposits are made, these will be for a maximum of 1 year from the date of the deal.

Bank cancellable deposits cover a variety of bank deposits where the bank holding the deposit, has the option of repaying at pre-specified times. Such investments normally attract a higher original interest rate.

Non – Specified Investments:
A maximum of 25% (at the time the investments are made) will be held in aggregate in non – specified investments The only types of non-specified investments, with high credit quality, that the Council may use during 2015/16 are:

	Minimum Credit Criteria
Term Deposits exceeding 1 year (including bank cancellable deposits) with credit – rated deposit takers (banks and building societies)	F1 Short Term A+ Long Term
Term Deposits with the UK Government or other Local Authorities exceeding 1 year	N/A
UK nationalised and part nationalised banks (currently Lloyds Banking Group and Royal Bank of Scotland Group) – investments will be limited to a maximum period of 12 months	N/A
The Council's own bankers even if they fail to meet the basic credit criteria.	N/A

6.7 Investments of this nature will only be made with the approval of the Director of Finance and in line with our treasury management advisors (Capita) investment recommendations.

6.8 Of the above investments, the most commonly used are;

- Money Market Funds
- Term Deposits with the UK Government / UK Local Authorities
- Term Deposits (less than 1 year) with suitably rated banks.

6.9 It is recommended that approval be given to expand the Council's Treasury Management investment list to that of the Council's advisors, Capita. This will allow access to an increased range of counterparties and therefore improved levels of diversification and yield.

6.10 The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.11 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still

be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

6.12 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

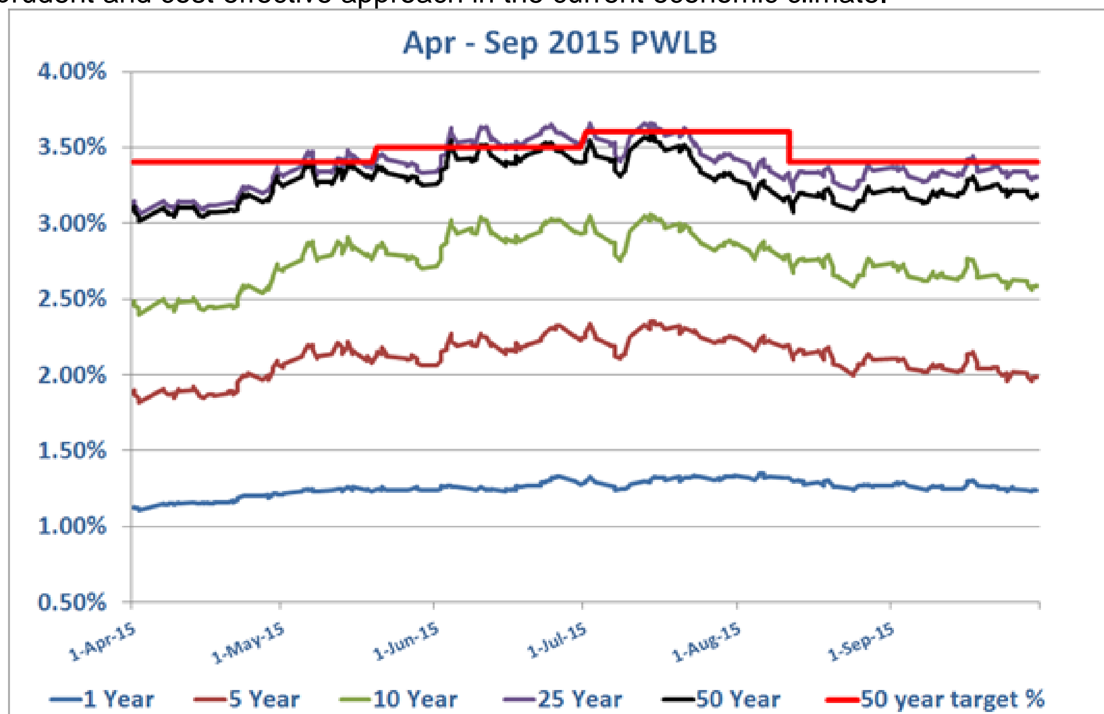
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

6.13 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

7. BORROWING

7.1 The Council's estimated capital financing requirement (CFR) at 31 March 2015 is £185.215m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the Public Works Loan Board or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

7.2 The Council had an outstanding borrowing requirement of £54.612m at 31 March 2015 which is estimated to increase to £82.332m at 31 March 2016. This outstanding borrowing requirement has been funded from internal balances on a temporary basis and has the impact of reducing the level of the Councils investment balances. This continues to be a prudent and cost effective approach in the current economic climate.



7.3 The table above shows the movement in Public Works Loan Board borrowing rates for the first six months of the financial year. No borrowing has been taken up in the first six months of the year from the Public Works Loan Board or financial institutions.

7.4 The Council may take up some of the outstanding borrowing requirement in the second half of the year, should an opportune moment occur. All borrowing decisions will be taken in consultation with the Councils treasury management advisors.

8. MINIMUM REVENUE PROVISION

8.1 Local authorities are required to set aside 'prudent' revenue provision for debt repayment (MRP) where they have used borrowing or credit arrangements to finance capital expenditure. Statutory Guidance covering Minimum Revenue Provision (published February 2012 by the Department for Communities and Local Government) sets out various options and boundaries for calculating prudent provision.

8.2 The guidance sets out various options for calculating prudent MRP but does not out rule alternative approaches that are not specifically mentioned. One of the options presented in the guidance is 'the regulatory method' which equates to setting aside 4% of the opening balance outstanding on a reducing balance basis. The Council currently uses this method for calculating MRP on General Fund debt previously financed from credit approvals or supported borrowing; namely capital financing costs that were financed as part of the annual local government finance settlement.

8.3 Several councils across AGMA are currently reviewing their own MRP policies. Furthermore, there is at least one council (Knowsley MBC) that has already adopted an alternative to the regulatory method of calculating MRP for previously supported General Fund borrowing. The alternative method adopted by Knowsley MBC, which also delivers significant medium term revenue budget savings, simply provides for the outstanding debt over a 50 year period in equal instalments (2% per annum). On a whole life basis, this approach is arguably more prudent than the regulatory method as it results in this debt being fully extinguished within 50 years.

8.4 For Tameside Council, adopting the 50 year 'Equal Instalments' approach to calculating MRP for previously supported General Fund borrowing results in an annual MRP charge of circa £3.71m (£185.5m / 50 years). This results in a saving of around £2.5m for 2015/16. Further work is required to calculate the exact figures, at this stage the above figures are provided as an indication.

8.5 Under the equal instalments approach to MRP, the current Capital Financing requirement will be fully extinguished by 31 March 2065.

8.6 Any new Prudential Borrowing taken up will be provided for within the MRP calculation based upon the expected useful life of the asset or by an alternative approach deemed appropriate to the expenditure in question.

8.7 To enable Tameside Council to adopt the 'equal instalments' approach to providing for MRP, it is necessary to revise the Council's MRP policy statement by removing references to the 'Regulatory Method' of calculating MRP. The revised MRP policy has to be approved by Full Council in order for it to be valid.

9. DEBT RESCHEDULING

9.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2015/16.

10. GREATER MANCHESTER METROPOLITAN DEBT ADMINISTRATION FUND (GMMDAF)

10.1 Unlike Tameside the GMMDAF incurs no capital expenditure, and therefore the total debt outstanding reduces annually by the amount of debt repaid by the constituent authorities. However, loans are raised to replace those maturing during the year, and for cashflow purposes.

10.2 At 31 March 2015 the fund had the following outstanding debt.

	£m
Public Works Loan Board	121.926
Other Balances	2.936
Total Debt	124.862

10.3 The fund's borrowing requirement for 2015/16 is estimated to be:-

	£m
Long term debt maturing	
Public Works loan Board	22.000
Other	0.033
	22.033
Less principal repayments	15.183
Deficit in year	(6.850)

10.4 During 2015/16 it is estimated that the total interest payments will be £6.652m at an average interest rate of 5.33%. This compares with 5.73% in 2014/15.

10.5 No borrowing has been taken up in the first six months of 2015/16. However, loans may be taken up for either re-scheduling or borrowing early for future years, if prevailing rates are considered attractive.

11. RECOMMENDATIONS

11.1 As set out on the front of the report.