Manchester City Council
Report for Information

Report to: Audit Committee – 1 December 2016
Council – 25 January 2017

Subject: Treasury Management Interim Report 2016-17

Report of: City Treasurer

Summary

To report the Treasury Management activities of the Council during the first six months of 2016-17.

Recommendations

Council is asked to approve the revised Minimum Revenue Provision Statement set out in Appendix E.

The Audit Committee is asked to:

1. note the report;

2. approve the redemption of Council Stock as described in Section 5; and

3. recommend to Council the revised Minimum Revenue Provision (MRP) policy where pre 2008 non-HRA Supported Capital Expenditure is provided for at 2% of the outstanding balance from 2016-17, as described in Section 9 and in Appendix E of this report.

Wards Affected: Not Applicable

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy Report 2016-17, (Executive Committee 17th February 2016 and Council 4th March 2016).

1. Introduction and Background

1.1 Treasury Management in Local Government is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. The City Council has adopted the Code and complies with its requirements. A primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement which sets out Council, Committee and Chief Financial Officer responsibilities, and delegation and reporting arrangements.

1.2 CIPFA amended the CIPFA Treasury Management in the Public Services Code of Practice in late 2009, and the revised Code recommended that local authorities include, as part of their Treasury Management Strategy Statement, the requirement to report to members at least twice a year on the activities of the Treasury Management function. The recommendation was included within the Treasury Management Statement Strategy approved by the Executive on the 17th February 2016, and by Council on the 4th March 2016. This report therefore ensures that the Council meets the requirements of the Strategy, and therefore the Code.

1.3 The Code was revised in November 2011, acknowledging the effect the Localism Bill could have on local authority treasury management, however there were no major changes to the Code. This report has been prepared in accordance with the revised November 2011 Code.

1.4 Treasury Management in this context is defined as:
"The management of the organisation'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".

1.5 This interim report covers:

Section 1: Introduction and Background
Section 2: The Council's Portfolio Position as at 30th September 2016
Section 3: Review of Economic Conditions
Section 4: External Borrowing in 2016-17 to date
Section 5: Proposed MCC Stock Redemption
Section 6: Compliance with Treasury Limits and Prudential Indicators
Section 7: Investment Strategy for 2016-17 to date
Section 8: Temporary Borrowing and Investment for 2016-17 to date
Section 9: Minimum Revenue Provision Policy
Section 10: Conclusion
Appendix A: Public Works Loans Board (PWLB) Interest Rates
Appendix B: Treasury Management Prudential Indicators
Appendix C: Review of Economic Conditions, provided by advisors
Appendix D: Draft Stock Redemption letters
Appendix E: Revised Minimum Revenue Provision Policy
Appendix F: Glossary of Terms

2 Portfolio Position as at 30th September 2016

2.1 As outlined in the approved Treasury Management Strategy for 2016-17 it was anticipated that there would be a need to undertake some permanent borrowing in 2016-17 to fund the capital programme and to replace some of the internal funds. However cash balances during the year to date have been relatively high and, as it remains the policy to keep cash low and minimise temporary investments, no borrowing activity has been undertaken. This is other than advances of £93m from the DCLG for the Housing Investment Fund.

2.2 The Council's debt position at the beginning of the financial year and at the end of September for comparison was as follows:

Loan Type		31-Mar-16		30-Sep-16
	Principal £m	Average Rate %	Principal £m	Average Rate %
PWLB	0.0	0.00	0	0.00
Temporary Borrowing	7.3	0.50	7.9	0.25
Market Loans	480.2	4.71	460.2	4.87
Stock	8.1	3.37	8.1	3.37
Government Funding	28.6	0.00	121.6	0.00
Gross Total	**524.2**	4.37	**597.8**	3.80
Temporary Deposits	-80.1	0.43	-156.0	0.20
Net Total	**444.1**		**441.8**	

2.3 The temporary borrowing and deposit figures fluctuate daily to meet the daily cash flow requirements of the Council. The figures for these categories in the table above are therefore only a snapshot at a particular point in time.

2.4 An assumed borrowing need of £225m was identified in the budget for 2016-17 and based on current cashflow this has reduced substantially. Given the cash deposit levels the Council is currently holding, and based on our experience of previous years, it is anticipated there will be no further borrowing need during the remainder of the year.

2.5 There could potentially be further advances of Government funding such as for the Housing Investment Fund and from Salix Financing Ltd. Financing from Salix provides interest free Government loan funding which can be applied for to fund public sector energy efficiency and carbon reduction initiatives.

3 Review of Economic Conditions: April to September 2016

3.1 In August the Bank of England cut the key lending rate to a record low of 0.25%, the first cut since March 2009. The concerns expressed in past reports about many banks being reluctant to lend, thereby limiting opportunities for the Authority to borrow from the market, continue to exist.

3.2 There remains concern that the new bank liquidity regime being pursued by the Financial Services Authority (FSA) may further impact the ability of the Authority to achieve interest rates above the base rate on short term deposits. The Treasury Management function is actively researching alternative options which may protect the average rate achieved on deposits, should the regime be implemented as planned.

3.3 Appendix C provides a more detailed review of the economic situation.

4 Treasury Borrowing in 2016-17 to date

4.1 PWLB interest rates during the first 6 months of the year are illustrated in the table below and the graph at Appendix A.

PWLB Borrowing Rates 2016-17 to date for 1 to 50 years					
	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.01%	1.15%	1.62%	2.28%	2.07%
Date	30/09/2016	30/09/2016	30/09/2016	30/09/2016	30/09/2016
High	1.40%	2.00%	2.71%	3.48%	3.28%
Date	01/04/2016	01/04/2016	01/04/2016	01/04/2016	01/04/2016
Average	1.19%	1.53%	2.12%	2.89%	2.66%

4.2 Manchester is on the approved list of authorities that can access the PWLB Certainty Rate going forward, giving the Council access to a 20 basis points reduction on the published PWLB rates. Manchester also has approval to access funds up to £25m against a PWLB project rate.

4.3 The Council has discussed a £100m facility with the European Investment Bank (EIB) which will form part of the Council's future overall borrowing strategy. The EIB's rates for sterling borrowing continue to be favourable compared to PWLB, allowing for existing planned future borrowing from PWLB to be replaced by cheaper funding from the EIB. The latest expectation is that the facility will start to be drawn down between 2017-18 to 2018-19. Whilst the EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, any monies borrowed are part of the Council's overall pooled borrowing. There has not been any advice from the EIB post Brexit that these arrangements will change.

5 Proposed MCC Stock Redemption

5.1 Between 1874 and 1891 the Council issued three classes of stock to raise funds from public investment. In 2016-17 the stock has a forecast annual interest cost of £272k.

Class	No. of Stockholders	Current Value £

Q 3% Redeemable	46	768,338
S 3% Redeemable	98	4,346,123
I 4% Irredeemable	76	2,968,828
Total	220	8,083,289

Currently the Council is experiencing a positive cash flow which affords an opportunity to redeem this long standing stock holding. From the viewpoints of security and yield redemption is a preferred use of surplus cash resources rather than deposits with appropriate counterparties.

The paragraphs below explain the redemption benefits and procedure, and request approval to progress the initiative.

Benefits of Stock Redemption

5.2 Redemption of the stock will remove the annual payment of £272,187 interest.

5.3 Risks associated in investing cash surpluses of £8m will be avoided.

5.4 There is a considerable overhead in administering the stock. The staff time which will be released is required for the implementation and operation of the new investment instruments outlined in the Treasury Management strategy.

Redemption Issues

5.5 Redemption of the Q and S stock is at the Council's discretion, however 12 months notice is required to be given. The I stock has irredeemable status meaning take up of an offer to redeem is at the discretion of the stockholder.

Proposed Redemption Methodology

5.6 The proposed redemption process has been confirmed with, and approved by Legal Services.

5.7 It is suggested that the redemption is offered at par, (the stock's face value). It is expected this will be attractive to stockholders as market rates are currently low.

5.8 Where the redeemable stock is concerned letters have been drafted with the approval of Legal Services to give stockholders 12 months notice of redemption.

5.9 In the case of the irredeemable I stock the letter is drafted as those for the Q and S stocks, but clearly states that the take up of the offer is at the holder's discretion. Copies of the letters are included at Appendix D.

Recommendation

5.10 There a positive financial case for redemption of the Council's stockholding. Also the avoidance of the administrative burden will also release staff time for other developing treasury work.

5.11 It is recommended notice is given to redeem Q and S stocks at par, and a time limited redemption offer at par is made to the holders of the irredeemable I stock.

6 Compliance with Treasury Limits

6.1 During the first half of the financial year, the Council operated within the Prudential Indicators set out in the Treasury Management Strategy Statement. Performance against the Prudential Indicators is shown in Appendix B.

7 Investment Strategy for 2016-17 to date

7.1 The Treasury Management Strategy Statement (TMSS) for 2016-17 was approved by Executive on 17th February 2016. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as:

(a) the security of capital, and
(b) the liquidity of investments.

7.2 In light of credit rating changes the Council needed to spread its counterparty risk by identifying more counterparties that can be utilised for investments; therefore included in the 2016-17 Treasury Management Strategy are a number of measures to broaden the basis of lending:

- Utilise UK banks / building societies and local authorities.
- Utilise non-UK banks / building societies in countries with an AAA rating.
- Diversify the investment portfolio into more secure UK Government and Government-backed investment instruments such as Treasury Bills.
- Utilise Certificates of Deposit and Covered Bonds with high quality counterparties, i.e. those that are AAA rated.
- Utilise Money Market Funds which are Constant Net Asset Value (CNAV) and AAA rated.
- Although the current investment strategy allows investments for up to 364 days, restrict deposits to less than 3 months unless the case can be made for investing for longer (i.e. to match a future commitment) apart from deposits with other Local Authorities or the Debt Management Office (DMO).
- These measures were approved as part of the 2016-17 Strategy, but because of the changes in regulatory and economic environments they have not all yet been pursued.
- Investment in banks and building societies are now exposed to bail-in risk (where depositors' funds will be used to support a bank at risk). In view of this the Council is now depositing less cash with banks and building societies. This is apart from Barclays bank, the Council's main banker which is the investment destination of last resort for the close of daily trading.

- Research into the implications of Treasury Bill trading has been completed. The process of opening account facilities for dealing/custodian facilities is underway in consultation with Legal Services.
- The implications of utilising Certificates of Deposit and Covered Bonds with high quality counterparties is under review. Certificates of Deposit are deposits with banks and are therefore captured by bail-in risk. Covered Bonds are not subject to bail-in risk and the bonds are backed by a separate group of loans. Covered Bonds are usually long duration investments. The custodian and broker facilities identified for Treasury Bill trading can also be used for trading in Certificates of Deposit and Covered Bonds.
- Money Market Funds will also avoid bail-in risk. They have not yet been pursued because although the requirements of Constant Net Asset Value (CNAV) and AAA rating might be met, Money Market Funds of U.K. origin might be still be invested abroad in countries which are outside the Council's approved list of counterparties/countries.

7.3 The current strategy means that a significant proportion of the Council's investments are with the Government (via the Debt Management Office (DMO)) or with other Local Authorities. This highlights the relatively low rate of credit risk that the Council takes when investing.

7.4 It should be noted that, whilst seeking to broaden the investment base, officers will seek to limit the level of risk taken by the Council. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.

7.5 During the financial year to date the Council's temporary cash balances were managed by the City Treasurer in-house and invested with those institutions listed in the Council's Approved Lending List. Officers can confirm these institutions meet the security criteria set out in the Annual Investment Strategy.

8 Temporary Borrowing and Investment Outturn 2016-17 to date

8.1 Investment rates available in the market continue to be at an historic low point and have reduced further following the cut in interest rate by the Bank of England in August. The average level of funds available for investment purposes in the first six months of 2016-17 was £156m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, the receipt of grants, and progress on the capital programme.

8.2 The temporary investment and borrowing undertaken by the Council is detailed below. As illustrated, the authority over performed the benchmark by 8 basis points on investments due to the inter local authority market being relatively buoyant.

8.3 The temporary borrowing consists of funds the Council holds for Manchester organisations that work closely with the Council. It was agreed the Council would pay interest on their funds in line with the base rate.

	Average temporary investment/borrowing	Net Return/Cost	Benchmark Return / Cost *
Temporary Investments	£156.0m	0.20%	0.12%
Temporary Borrowing	£7.9m	0.25%	0.25%

* *Average 7-day LIBID/LIBOR rates sourced from Capita*

8.4 None of the institutions in which investments were made had any difficulty in repaying investments and interest in full during the period. The list of institutions in which the Council invests is kept under continuous review.

9 Revised Minimum Revenue Provision Policy

9.1 Officers have conducted a review of the Minimum Revenue Provision (MRP) policy. MRP is the revenue charge the Council is required to make to provide for the repayment of an element of the accumulated General Fund capital spend funded by borrowing each year.

9.2 The MRP policy includes the calculation methods for various categories of expenditure, and one of the categories relates to non-HRA Supported Capital Expenditure. This is capital expenditure funded by borrowing from pre-2008 for which the Council received financial support from Government through the revenue support grant. The policy agreed by Council as part of the budget for 2016-17 included an MRP charge of 4% of the outstanding balance of this type of expenditure. This has been unchanged since 2008.

9.3 The assets created or acquired under Supported Capital Expenditure predominantly had long asset lives of .c 50 years, such as land or buildings. A 4% MRP charge implies a significantly shorter asset life, and it is therefore considered prudent to amend the MRP charge on Supported Capital Expenditure funded through borrowing to 2% of the outstanding balance.

9.4 Since 2010 the revenue support grant has been reduced, as Government has made significant cuts to local authority income. This means that the implied level of support contained within the grant to repay the borrowing incurred on non-HRA Supported Capital Expenditure must also have been reduced.

9.5 Officers believe that in order to better reflect the underlying asset lives and given the reduction in grant it is prudent to review the MRP methodology for non-HRA Supported Capital Expenditure and propose an MRP charge of 2% of the outstanding balance from 2016-17 onward.

9.6 A revised MRP Policy, reflecting this proposal, is included within this report at appendix E. Members are asked to consider the change to the MRP policy, and recommend the change to Council.

10 Conclusion

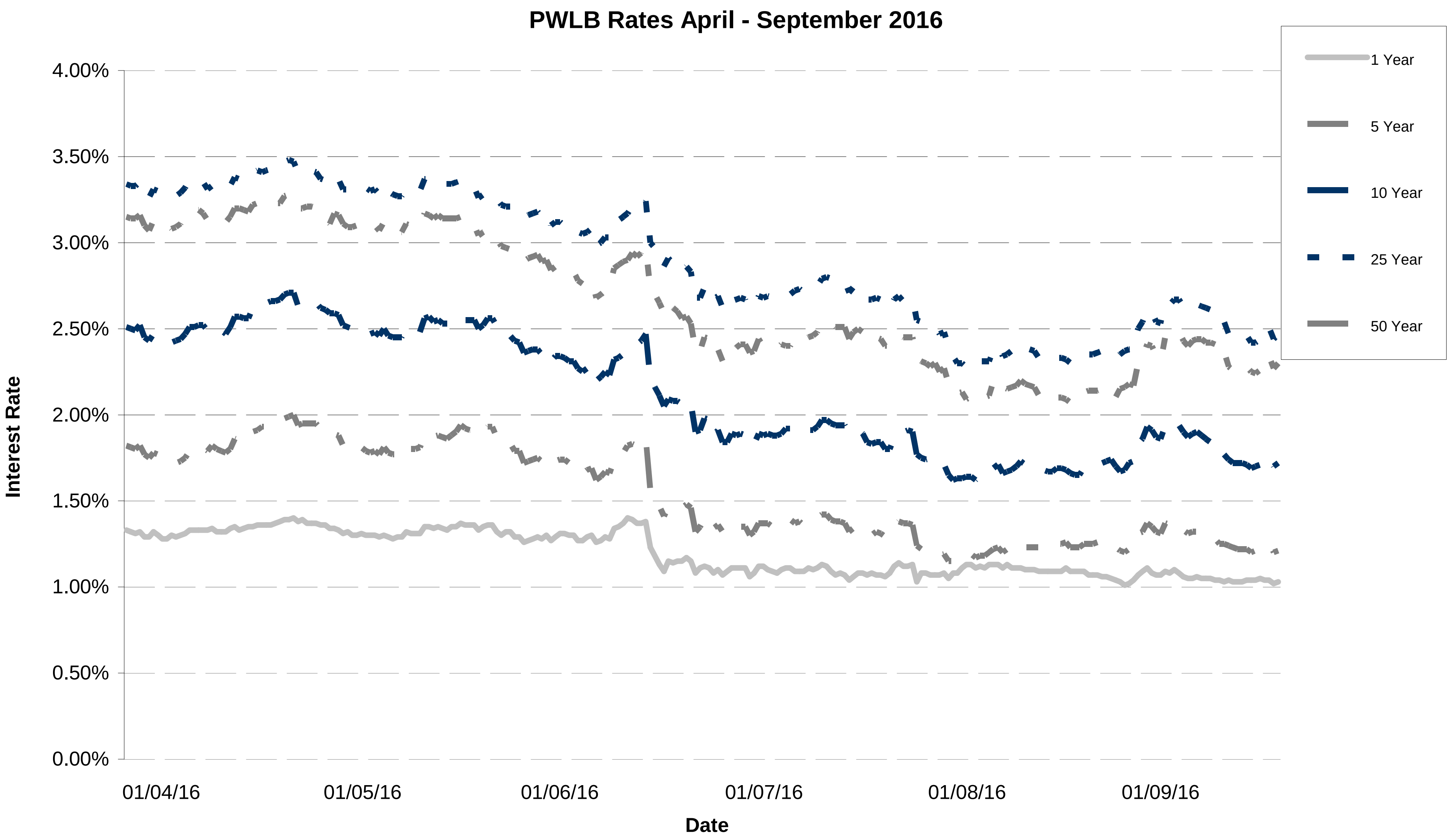
10.1 The current borrowing position reflects the strong balance sheet of the Council. It enables net interest costs to be minimised and reduces credit risk by making temporary use of internal borrowing (reserves, provisions, positive cash flows, etc.) The Council's policy remains to keep cash as low as possible and not to borrow in advance of need for capital purposes. Cash balances have been relatively high and a further borrowing requirement is not expected in 2016-17.

10.2 Proactive treasury management during the year has enabled the Council to achieve an average net return on investments of 0.20%, in excess of the benchmark average 7-day LIBID rate of 0.12% and also higher than the rate offered by the DMO, which is the default option if there are no offers in the inter local authority market.

10.3 Officers will monitor the changes that may result from the downgrading in credit ratings, and take the necessary action to ensure the Council still adheres to its Treasury Management Strategy. This however, will limit the investment options available to the Council.

10.4 Redemption of Council Stock will provide financial savings of c. £270k p.a. and increase staff capacity for the implementation and operation of the new investment instruments outlined in the Treasury Management strategy.

10.5 Changes to the MRP policy will allow for a more prudent provision for the repayment of debt.


PWLB Rates April - September 2016
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Interest Rate
01/04/16
01/05/16
01/06/16
01/07/16
01/08/16
01/09/16
Date
1 Year
5 Year
10 Year
25 Year
50 Year

Treasury Management Prudential Indicators: 2016-17 to date

	Original £m	Minimum In Year to 30 Sept 2016 £m	Maximum In Year to 30 Sept 2016 £m
Operational Boundary for External Debt:			
Borrowing	1,018.5	527.7	627.7
Other Long Term Liabilities	216.0	148.0	148.0
Authorised Limit for External Debt:			
Borrowing	1,272.5	527.7	627.7
Other Long Term Liabilities	216.0	148.0	148.0
		Actual as at 30 Sept 2016	
Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services	Yes	Yes	
Upper Limits for Interest Rate Exposure:			
Net Borrowing at Fixed Rate as a percentage of Total Net Borrowing	92%	54%	
Net Borrowing at Variable Rate as a percentage of Total Net Borrowing	90%	46%	
Upper Limit for Principal Sums Invested for over 364 days	£0	£0	

Maturity structure of Fixed Rate Borrowing	Lower Limit 2016-17 Original	Upper Limit 2016-17 Original	Actual as at 30 Sept 2016
under 12 months	0%	70%	0%
12 months and within 24 months	0%	100%	31%
24 months and within 5 years	0%	90%	65%
5 years and within 10 years	0%	70%	1%
10 years and above	0%	70%	3%

REVIEW OF ECONOMIC CONDITIONS APRIL TO SEPTEMBER 2016

This section has been prepared by the Authority's Treasury Advisors, Capita and includes their forecast for future interest rates.

1 Economic performance to date

1.1 During the period under review the UK voted to leave the EU, evidence emerged that the economic recovery lost some momentum ahead of the vote; growth remained highly dependent on consumer spending; the jobs recovery slowed, but wage growth picked up; inflation remained at very low levels and Sterling collapsed following the referendum result.

The economic recovery lost a little momentum in quarter 1 2016, with real GDP growth slowing from 0.7% quarter on quarter to 0.4% in quarter 4, an annual rate of 2.0%. The second estimate for quarter 2 GDP showed a rise of 0.6%, an increase from the previous quarter's 0.4% growth, as well as being 2.2% higher than a year ago. This was due to a rise in household spending and business investment. Overall, the recovery remained highly unbalanced too, with net trade subtracting from GDP growth for the second time in three quarters. Business surveys suggest that activity slowed further in quarter 2 ahead of the EU referendum. Indeed, the Markit (the financial information services company) and the CIPS (Chartered Institute of Procurement & Supply) composite Purchasing Managers' Index for May is consistent with quarterly growth slowing to 0.2% or so in quarter 2.

The Bank of England (BoE) cut the bank rate for the first time since 2009 to 0.25%, as the Monetary Policy Committee (MPC) voted unanimously in favour of a cut. It also expanded its quantitative easing programme by £60bn to £435bn, however three policymakers voted against the expansion. In addition, the BoE unveiled two new schemes: one to buy £10bn of high grade corporate bonds and the 'Term Funding Scheme'. This could be worth up to £100bn and is aimed at ensuring banks keep lending even after rates have been cut. Both the Bank Rate and quantitative easing programme were left unchanged in the September MPC meeting.

1.2 The August Inflation Report showed the BoE left its growth forecasts unchanged at 2% for 2016 but lowered its forecast for 2017 significantly to 0.8% from the previous estimate of 2.3%. Inflation forecasts were revised up sharply due to the fall in sterling and is now forecasted to hit its 2% target in 2017 and rise further to 2.4% in 2018 and 2019.

The headline inflation figure remained at 0.6% year on year in August, whilst the monthly rate increased to 0.3%. This was mainly due to lower prices for clothing, hotels and wine offsetting the upward effect caused by fuel prices, food and airfares.

Looking ahead, the MPC new growth and inflation forecasts were included in the August Inflation Report. Apparently, the MPC remains surprisingly upbeat in the light of recent survey data, including the weak Purchasing Managers

Index for Services (47.4, the weakest for 6 years and an indication there is the prospect of a near-term recession) and recent fall in the Halifax house prices index (down 1% Month on month). Meanwhile, CPI inflation is expected to remain above its target in the latter half of the forecast period but the MPC has indicated it will look through CPI's elevation as the economy comes to grips with its post referendum situation.

1.3 The US expanded at 2.4% during 2015. Quarter 1 of 2016 came in at +1.1% but forward indicators are pointing towards a pickup in growth in the rest of 2016. The second estimate of quarter 2 GDP in the US revealed economic growth rose by 1.2% on an annual basis, from 0.8% in quarter 1 2016. This was a result of a surge in consumer spending which offset a fall in inventories.

In July 2016, the Federal Reserve kept interest rates unchanged at 0.25%-0.50% after raising them in December for the first time since 2006. Following the Federal Open Market Committee meeting in July, the general view encompassed that these rates were used to improve labour market conditions and push inflation back up towards their 2% target.

Non-farm payrolls increased by 151,000 in August, a slowdown from July's revised figure of 275,000. The unemployment rate remained steady at 4.9% in July as more people entered the labour force.

1.4 In the Eurozone, the latest estimate of quarter 2 GDP showed growth of 0.3%. This was a slowdown from the 0.6% figure recorded in the first quarter of the year. On an annual basis, GDP grew by 1.6% in quarter 2, a slowdown from quarter 1's reading of 1.7%. The ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected Eurozone countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the European Central Bank's (ECB) December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases.

In its September meeting, the ECB stuck with the status quo keeping both its main refinancing rate and deposit rate steady at 0% and -0.40% respectively. The ECB announced their quantitative easing programme in January 2015 and began the programme in March 2015. They initially planned to inject €1.1trn into the economy by purchasing private and public assets worth €60bn per month. In December 2015, this programme was extended for an additional 6 months to March 2017 and the monthly purchases were further expanded to €80bn per month in March 2016.

1.5 China's annual GDP expanded faster than expected in quarter 2, growing by 6.7%, due to higher retail sales. This is despite the fact that private sector investment fell to a record low. The People's Bank of China lowered the reserve requirement ratio by a further 50bps for the fifth time in February to 17%.

In an attempt to boost its slowing economy, China surprised markets and devalued the Yuan after a run of poor economic data. It is intended to help combat the large falls seen in exports.

2. Outlook for the next six months of 2016/17

2.1 In the current economic environment, markets are exceedingly volatile. The US is expected to increase interest rates in the upcoming months, with the general consensus being late this year or early next year. Nevertheless, recent speeches by members of Federal Reserve have had a hawkish tone, increasing the possibility of an earlier hike than anticipated. The Bank of England recently reduced the bank rate by 25 basis points to 0.25% and may consider further stimulus and/or rate cuts should the British economy still be struggling in the aftermath of the Brexit vote.

2.2 As mentioned, the Federal Reserve is likely to increase interest rates as the economy is boosted by a labour market which is close to full employment. Any positive jobs data emerging from the US may be vital in swaying the Federal Reserve's opinion on when this rate hike will occur. Any increase in the Federal Funds rate will place an upward pressure on US Treasury yields. Similarly any further monetary policy loosening by the Bank of England will result in a downward pressure on UK gilt yields.

3. Capita's interest rate forecast

	Sep 16	**Dec 16**	**Mar 17**	**Jun 17**	**Sep 17**	**Dec 17**	**Mar 18**	**Jun 18**	**Sep 18**	**Dec 18**	**Mar 19**
Bank rate	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%
5yr PWLB rate	1.00%	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%
10yr PWLB rate	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%
25yr PWLB rate	2.3%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%
50yr PWLB rate	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%

Draft Stock Redemption Letters

Q and S STOCK:

NB: Separate letters will be sent to the holders of each class of stock however for the sake of brevity, as the Q and S stock letters are essentially the same, they are shown as combined in this appendix.

Dear Sir/Madam,

Manchester City Council 3% Stock – Proposed Redemption

As a registered holder of 3% Redeemable Consolidated stock (which became redeemable after 24 December 1928/1 August 1941), we wish to inform you that Manchester City Council intends to redeem all of the stock in its entirety, at par (i.e. at face value).

As set out in your Stock Certificate(s), Manchester City Council is required to give you 12 months' notice of the above. Accordingly, the redemption of your stock will take place on ?????????? 2017. However, you are entitled to redeem your stockholding at any time within the 12 month notice period. Please advise the Council should you wish to elect for an early redemption, which would be on the same basis as stated above, namely at par, on the date the redemption is requested.

Any outstanding redemption monies and applicable interest will be paid upon receipt of the Stock Certificate(s), which you will need to return to us by recorded post before repayment can be made. If you cannot find the Stock Certificate(s) then please complete and return the enclosed 'Indemnity for Lost Security Form'.

For your convenience, we can arrange for the repayment proceeds to be paid automatically in accordance with your current mandate instructions. Otherwise, please complete the attached repayment form advising of your alternative repayment instructions. This form should be signed by all registered stockholders and returned to the Council together with the Stock Certificate(s).

Please note that, while you will still be entitled to receive any unclaimed redemption monies and interest due as at the date of redemption, no additional interest will be payable on any unclaimed sums following that date.

If you would like further information regarding the redemption process please telephone the Treasury Management Team on (0161) 2343459 or contact them by e-mail at treasury.management@manchester.gov.uk, or write to the address shown above.

Yours faithfully,

Carol Culley
City Treasurer

I STOCK (Irredeemable):

Dear Sir/Madam,

Manchester City Council 4% Stock – Proposed Redemption

Manchester City Council wishes to redeem its historic stockholding. As a registered holder of the above stock, we would like to offer to purchase your holding at par (i.e. at face value).

This offer will be open for 12 months, and will therefore expire on ????? 2017. Please advise by return whether you would like to accept this offer, or whether you wish to maintain your stock holding.

Any outstanding redemption monies and applicable interest would be paid upon receipt of the Stock Certificate(s), which you would need to need to return to us by recorded post before repayment could be made. If you cannot find the Stock Certificate(s) then please complete and return the enclosed 'Indemnity for Lost Security Form'.

For your convenience, we can arrange for the repayment proceeds to be paid automatically in accordance with your current mandate instructions. Otherwise, please complete the attached repayment form advising of your alternative repayment instructions. This form should be signed by all registered stockholders and returned to the Council together with the Stock Certificate(s).

Please note that, while you would still be entitled to receive any unclaimed redemption monies and interest due as at the date of redemption, no additional interest would be payable on any unclaimed sums following that date.

If you would like further information regarding the redemption process please telephone the Treasury Management Team on (0161) 2343459 or contact them by e-mail at treasury.management@manchester.gov.uk, or write to the address shown above.

Yours faithfully,

Carol Culley
City Treasurer

Revised Minimum Revenue Provision (MRP) Policy

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2011/12 and will assess its MRP for 2016/17 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Council is required to make provision for repayment of an element of the accumulated General Fund capital spend funded by borrowing each year through a revenue charge (the Minimum Revenue Provision - MRP).

The Department for Communities and Local Government (DCLG) regulations require full Council to approve an MRP Statement, in advance of each year. If the Council wishes to amend its policy during the year this would need to be approved by full Council. A variety of options are available to councils to replace the previous regulations, so long as there is a prudent provision. The options are:

- ***Option 1:*** Regulatory Method – can only be applied to capital expenditure incurred prior to April 2008 or Supported Capital Expenditure. This is calculated as 4% of the non-housing CFR at the end of the preceding financial year, less some transitional factors relating to the movement to the new Prudential Code in 2003.

- ***Option 2:*** CFR Method – a provision equal to 4% of the non-housing CFR at the end of the preceding financial year.

- ***Option 3:*** Asset Life Method – MRP is calculated based on the life of the asset, on either an equal instalment or an annuity basis.

- ***Option 4:*** Depreciation Method – MRP is calculated in accordance with the depreciation accounting required for the asset.

Options 1 and 2 may be used only for supported expenditure, which is capital expenditure for which the Council has been notified by Government that the costs of that expenditure will be taken into account in the calculation of revenue grant due to the Council.

It is important to note that the Council can deviate from these options provided that the approach taken ensures that there is a prudent provision. The Council has historically followed option 1 for supported expenditure based on the level of support provided by Government through Revenue Support Grant (RSG). The assets created or acquired under Supported Capital Expenditure predominantly had long asset lives of .c 50 years, such as land or buildings, and an MRP of 4% suggests a significantly shorter asset life. As the level of RSG the Council receives has reduced in recent years, it is prudent to review the approach to MRP on supported borrowing to reflect the Government support received. It is therefore proposed to make a provision of 2% of the non-housing CFR from the end of the preceding financial year. This is in line with many over local authorities who have reviewed the basis for their MRP or something similar.

There will be no adjustment to MRP charged before 2016/17.

The Council is recommended to approve the following MRP Statement:

It is the Council's policy that MRP relating to an asset will start to be incurred in the year after the capital expenditure on the asset is incurred or, in the case of new assets, in the year following the asset coming into use, in accordance with DCLG's guidance.

The Council recognises that there are different categories of capital expenditure, for which it will incur MRP as follows:

- For non HRA Supported Capital Expenditure: MRP policy will be charged at a rate of 2% on a similar basis to option 1 of the guidance (the regulatory method) but at a lower rate, better reflecting the asset lives of the assets funded through Supported Borrowing.
- For non HRA unsupported capital expenditure incurred the MRP policy will be:
  - Asset Life Method – MRP will be based on a straight line basis or annuity method so linking the MRP to the future flow of benefits from the asset, dependant on the nature of the capital expenditure, in accordance with option 3 of the guidance.
  - If the expenditure is capital by virtue of a Ministerial direction, has been capitalised under a Capitalisation Directive, or does not create a council asset, MRP will be provided in accordance with option 3 of the guidance with asset lives calculated as per the table below:

Expenditure type	**Maximum period over which MRP to be made**
Expenditure capitalised by virtue of a direction under s16 (2) (b).	20 years.
Regulation 25(1) (a). Expenditure on computer programs.	Same period as for computer hardware.
Regulation 25(1) (b). Loans and grants towards capital expenditure by third parties.	The estimated life of the assets in relation to which the third party expenditure is incurred.
Regulation 25(1) (c). Repayment of grants and loans for capital expenditure.	25 years or the period of the loan if longer.
Regulation 25(1) (d). Acquisition of share or loan capital.	20 years, or the estimated life of the asset acquired.
Regulation 25(1) (e). Expenditure on works to assets not owned by the authority.	The estimated life of the assets.
Regulation 25(1) (ea). Expenditure on assets for use by others.	The estimated life of the assets.
Regulation 25(1) (f). Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings.	25 years.

- For PFI service concessions and some lessee interests: Following the move to International Accounting Standards arrangements under private finance initiatives (PFIs) service concessions and some lessee interests (including embedded leases) are accounted for on the Council's balance sheet. Where this occurs, a part of the contract charge or rent payable will be taken to reduce the balance sheet liability rather than being charged as revenue expenditure. The MRP element of these schemes will be the amount of contract charge or rental payment charged against the balance sheet liability. This approach will produce an MRP charge comparable to that under option 3 in that it will run over the life of the lease or PFI scheme.

In some exceptional cases, the Council will deviate from the policy laid out above provided such exceptions remain prudent. Any exceptions are listed below:

- Where capital expenditure is incurred through providing loans to organisations, and where those loans are indemnified or have financial guarantees protecting against loss, no MRP will be charged in relation to the capital expenditure. Similarly, loans given by the Council where any losses incurred on the investment will impact solely on a third party, such as those provided under the City Deal arrangement with the HCA, will not require an MRP charge.

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, 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. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Constant Net Asset Value (CNAV) – refers to Funds which use amortised cost accounting to value all of their assets. The aim is to maintain a Net Asset Value (NAV), or value of a share of the Fund at £1.

Counterparty – one of the opposing parties involved in a borrowing or investment transaction

Credit Rating – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

LIBID (London Interbank Bid Rate) – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee – the independent body that determines Bank Rate.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more then one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.