ITEM NO	

REPORT TO EXECUTIVE

DATE	**1st November 2016**
PORTFOLIO	**Resources and Performance Management**
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2016/17 Treasury Management Mid-Year Report

PURPOSE

1. - To report treasury management activity for the period 01/04/16 to 30/09/16.

RECOMMENDATION

2. The Executive is requested to;

   - Note the Treasury Management activities undertaken during the period 1st April to 30th September 2016, and;

   Recommend that Full Council;

   - Endorse the mid-year update on Treasury Management Strategy for 2016/17 in compliance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

REASONS FOR RECOMMENDATION

3. - To inform members of the treasury management activity in the first half of 2016/17 and to fulfil statutory and regulatory requirements.

SUMMARY OF KEY POINTS

4. **Background**

   The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. The first main function of treasury management operations is to 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 to ensure 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 commitments. This management of longer term cash may involve arranging long or short term loans, or using cash flow surpluses, and, on occasions any current debt may be restructured to meet Council risk or cost objectives.

Treasury management is defined as:

> "The management of the Council'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."

The monitoring requirements for treasury were set out in the report which included both the Treasury Management Strategy Statement for 2016/17 and the Prudential and Treasury Indicators for 2016/17 – 2018/19, approved by Full Council on the 24th February 2016.

5.

Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2011 was adopted by this Council on the 23rd 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 the Scrutiny 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 2016/17;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure;
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;

- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

6. Economic Update (Provided by Capita Asset Services)

Economic performance to date – UK GDP growth rate in 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. The referendum vote for Brexit in June this year delivered an immediate fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23rd.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look for a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

Interest Rate Forecast

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The forecast below therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. The table also shows Capita's forecast that the cost of borrowing is to remain at historically low levels for some time.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

7. Treasury Management Strategy Statement update

The Treasury Management Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by this Council on 24th February 2016.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

8. The Council's Capital Position

The table below shows the financing of the Original Capital Budget approved by Full Council on the 24th February 2016 and the latest Revised Capital Budget. Nearly all of this increase was due to in year budget monitoring adjustments, which included £1.5m slippage from 2015/16.

Capital	2016/17 Original Estimate £'000	2016/17 Revised Estimate £'000
Total Budget	**6,931**	**9,333**
Financed by:		
Capital receipts	2,388	1,924
Capital grants	1,464	4,164
Revenue	726	1,282
Total financing	**4,578**	**7,370**
Borrowing need	**2,353**	**1,963**

9. Investment Portfolio 2016/17

Investment rates available in the market have also continued at historically low levels. The average daily level of funds deposited during the financial year to date, is £14.3m, compared with £13.7m for the same period in 2015/16. The actual value of funds deposited on the 30th September was £14.233m. These funds have been available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

There were 5 investments carried forward from 2015/16 totalling £10.3m, of which £3.3m was with our bank HSBC, £2m in fixed term deposits with Bank Of Scotland, £1m in fixed

term deposits with Nationwide and £4m in notice accounts with Santander.

There have been 4 new investments made during the period 1st April 2016 to 30th September 2016 totalling £7m, as well as a daily average of £7.1m being invested with HSBC's deposit account, earning between 0.10% and 0.40% interest, and an average of 0.15%. Since the base rate was reduced to 0.25%, the interest paid on the amount has reduced to between 0.10% and 0.15%, a minimal return.

The Council has an approved list of counterparties which governs treasury management investment activity. This list is a restricted list taking into consideration the credit rating of the institution concerned and there are also limits on the amount which can be invested with any particular institution from a particular sector e.g. building society, bank etc. and also any group of institutions within an overall banking group. As part of the daily operations of the treasury management dealings, in consultation with guidance from Capita Asset Services and the money market brokers, decisions are taken by the Director of Resources and the Head of Finance and Property Management temporarily suspending/revising operations with individual counterparties. The latest deposit counterparties list was approved by the Full Council on 24th February 2016.

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Appendix 1 shows the maximum amount invested with any of the counter parties at any one time during the period 1st April 2016 to 30th September 2016. The maximum limit per counterparty is shown in brackets. None of the limits were breached.

Appendix 2 provides Members with an analysis of the Council's short-term deposits during the period 1st April 2016 to 30th September 2016, as well as comparing this to the deposits placed throughout the 2015/16 financial year.

10. Borrowing

Below is a summary of the Council's external indebtedness, as at 1st April 2016, and as at 30th September 2016.

Borrowing	1st Apr 16 £'000	30th Sept 16 £'000	Change Apr – Sept £'000
Public Works Loan Board (pwlb)	20,587	19,587	(1,000)
Temporary Market Loans	20	12	(8)
Total	**20,607**	**19,599**	**(1,008)**

PWLB Loans – One loan of £1m was repaid on 15th September 2016, and there is one loan of £1m due to be repaid on 31st March 2017.

Temporary Market Loans – The Mayor's Charity Fund withdrew £8k and deposited £30k in June 2016, and withdrew £30k in August 2016.

11. **Debt Rescheduling**

There have been no debt rescheduling opportunities in the current economic climate and consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2016/17.

12. **Compliance with Treasury & Prudential Limits**

It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

During the financial year to date the Council's treasury management activities operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement in compliance with the Council's Treasury Management Practices.

An extract of the Prudential and Treasury Indicators are shown in Appendix 3.

13. **Interest Payable on External Borrowing / Interest Receivable**

Provision is made in the revenue budget to meet the net interest payable on external borrowing. The figure in the original budget for 2016/17 was set at £896,530.

This budget will be revised down to £715,515 as a result of reducing the requirement for PWLB interest paid in the year and increasing the estimated interest receivable on external deposits.

The total interest receivable on temporary deposits for the period 1st April 2016 to 30th September 2016 amounted to £53,426 compared with a revised budget for the year of £70,000.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

14. None arising as a direct result of this report.

POLICY IMPLICATIONS

15. Compliance with the revised CIPFA Code of Practice on Treasury Management.

DETAILS OF CONSULTATION

16. Capita Asset Services Ltd guidance briefs.

BACKGROUND PAPERS

17. None.

FURTHER INFORMATION	
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