

REPORT FOR DECISION

DECISION OF:	CABINET OVERVIEW & SCRUTINY COMMITTEE COUNCIL
DATE:	13 DECEMBER 2017 9 JANUARY 2018 17 JANUARY 2018
SUBJECT:	TREASURY MANAGEMENT STRATEGY – MID YEAR REVIEW 2017/18
REPORT FROM:	CABINET MEMBER FOR FINANCE & HOUSING
CONTACT OFFICER:	STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	The report is within the public domain
SUMMARY:	<p>This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:</p> <ul style="list-style-type: none">• An economic update for the 2017/18 financial year to 30 September 2017• 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 2017/18• A review of the Council's borrowing strategy for 2017/18• A review of any debt rescheduling undertaken during 2017/18• A review of compliance with Treasury and Prudential Limits for 2017/18
OPTIONS & RECOMMENDED OPTION	It is recommended that, in accordance with CIPFA's Code of Practice on Treasury Management, the report be noted.

IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Statement by Interim Executive Director of Resources and Regulation:	There are no wider resource implications
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny Committee

TRACKING/PROCESS

DIRECTOR: STEVE KENYON

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
29 November	13 December	N/a	N/a
Scrutiny		Committee	Council
9 January			17 January

1.0 BACKGROUND

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, 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".

- 1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 24 February 2010.

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 & Scrutiny Committee.

- 1.3 This report fulfils the requirement to produce a mid-year review.

2.0 ECONOMIC UP-DATE (from Treasury Advisors)

2.1 Economic Performance to date

2.1.1 UK GDP growth rates in 2017 have weakened since 2016, +0.3% (+1.7% y/y) in quarter 1 and +0.3% (1.5% y/y) in quarter 2, giving the slowest growth in the first half of the year since 2012. The main reason for this has been the sharp increase in inflation, leading to a reduction in consumer disposable income and weak growth in the services sector which accounts for 75% of GDP.

2.1.2 The Bank of England meeting on November 2nd announced an increase in Bank Rate from 0.25% to 0.50%.

2.1.3 The Bank of England Inflation Reports during 2017 have predicted a peak in inflation of just over 3% in 2017, before falling back to near 2% within 2 years.

2.2 Interest rate Forecasts and Outlook

2.2.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9th August after the quarterly Bank of England inflation Report. The MPC meeting on 2nd November raised the interest rate to 0.50%. It is uncertain whether the MPC will stop at just withdrawing the emergency bank rate cut of 0.25% in August 2016, after the result of the EU referendum, or whether they will embark on a series of further increases during 2018.

2.2.2 The overall balance of risks to economic recovery in the UK is currently on the downside but there are large variables over the final form of Brexit and when this will happen.

3.0 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UP-DATE

3.1 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Council on 22 February 2017.

3.2 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.

4.0 THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget

Capital Expenditure	2017/18 Original Estimate £m	2017/18 Revised Estimate £m
Non-HRA	6.691	28.716
HRA	9.991	7.839
Total	16.682	36.556

The increase of the revised estimate over the original estimate is due to slippage from 2016/17 of £28.253m offset by estimated project reprofiling to 2018/19 of £15.730m

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

The table shows the Capital Financing Requirement, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

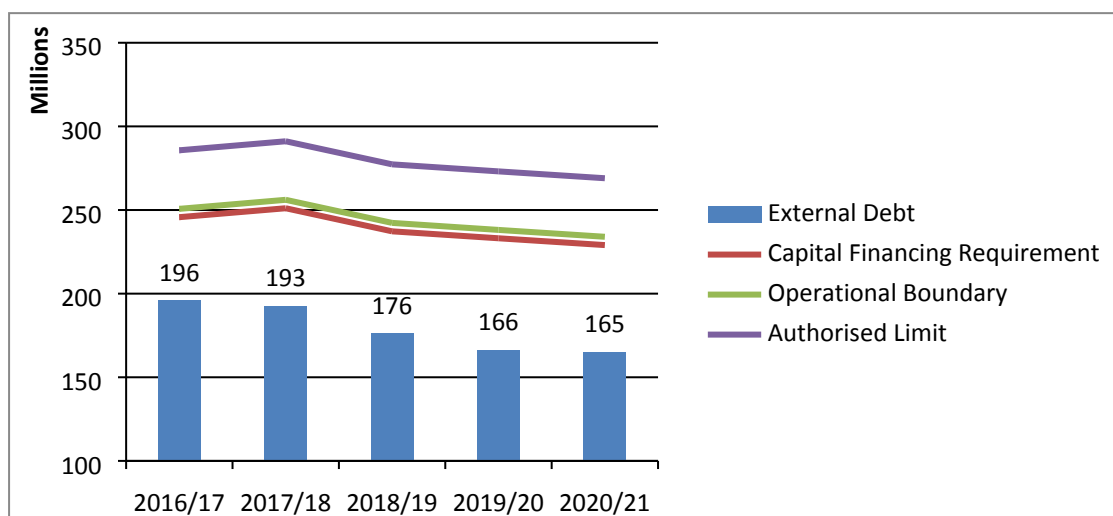
	2017/18 Original Estimate £m	2017/18 Revised Estimate £m
Prudential Indicator - Capital Financing Requirement		
CFR – non HRA	116.218	118.471
CFR – HRA existing	40.530	40.531
Housing Reform Settlement	78.253	78.253
Total CFR	235.001	237.255
Prudential Indicator - External Debt / the Operational Boundary		
Borrowing	235.000	237.300
Other long term liabilities	5.000	5.000
Total	240.000	242.300

4.3 Limits to Borrowing Activity

- 4.3.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.
- 4.3.2 The Interim Executive Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.
- 4.3.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which 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 in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	2017/18 Original Indicator £m	2017/18 Revised Indicator £m
Borrowing	235.000	237.300
Other long term liabilities	5.000	5.000
Total	240.000	242.300

- 4.3.4 The chart below shows the projected trend of the Council's Prudential Indicators.



5.0 INVESTMENT PORTFOLIO 2017/18

- 5.1 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 2, 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 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.
- 5.2 The Council held £30.5m of investments as at 30 September 2017 (£22.6m at 31 March 2017) and the investment portfolio yield for the first six months of the year is 0.18% against Capita's suggested investment earnings rate for returns on investments placed, for periods up to three months in 2017/18, of 0.18%.
- 5.3 The investments held as at 30 September were:-

Type of Investment	£ Million
Call Investments (Cash equivalents)	29.5
Fixed Investments (Short term investments)	1.0
Total	30.5

- 5.4 The Interim Executive Director of Resources & Regulation confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.
- 5.5 The Council's budgeted investment return for 2017/18 is £0.5m, and performance for the year to date is in line with the budget.
- 5.6 The Cabinet have approved a "Property Investment Strategy" which aims to increase investment income by investing in property rather than investing with financial institutions where returns are low at present. Additional borrowing may need to be undertaken to finance property acquisitions; each investment will be subject to a robust business case and also non-financial factors (e.g. ethical stance) will be considered.

6.0 BORROWING

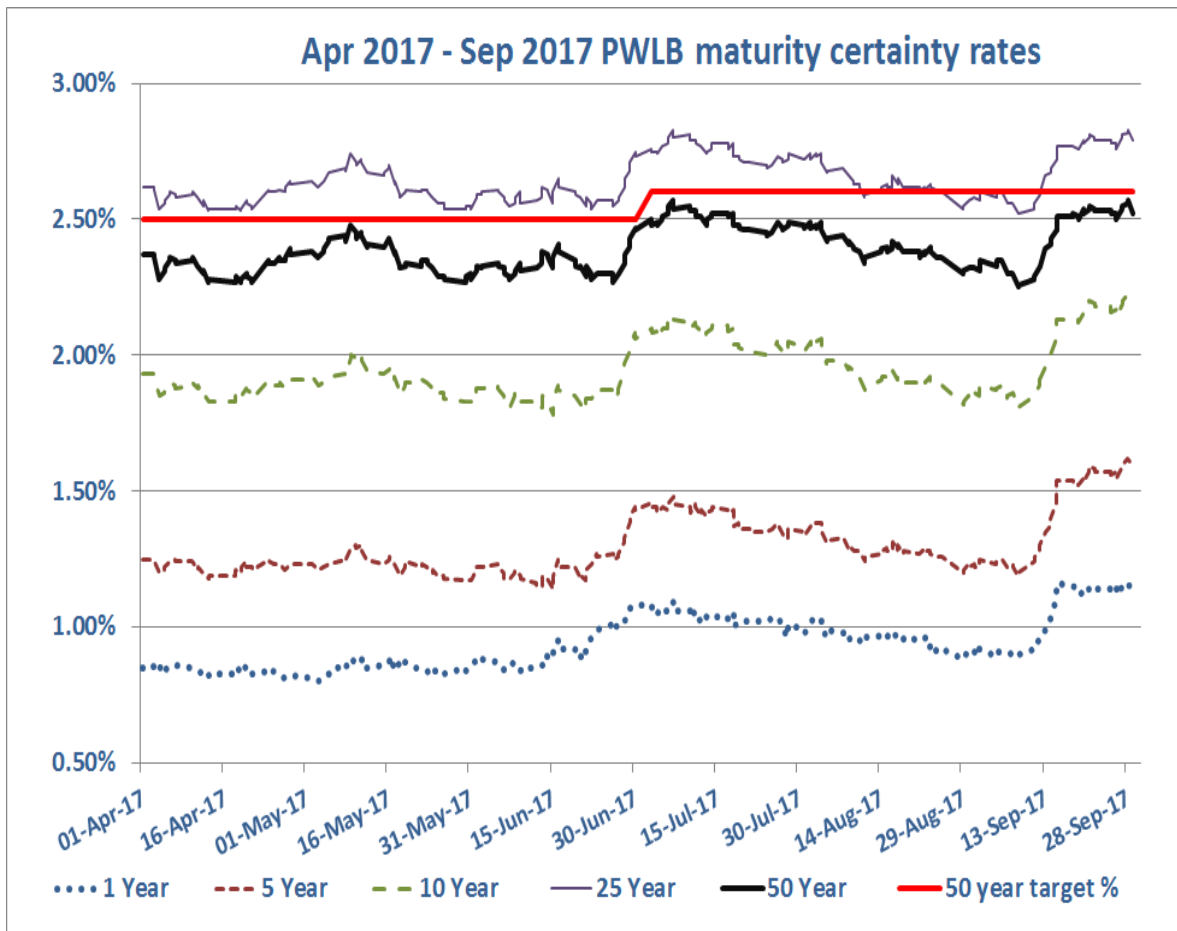
- 6.1 The Council's capital financing requirement (CFR) for 2017/18 is £237.3m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table below shows the Council has borrowings of £195.5m and has utilised £41.8m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevail.

	30 September 2017	
	Principal	Avg.

		£000	£000	Rate
Fixed rate funding				
	PWLB Bury	131,453		
	PWLB Airport	1,587		
	Market Bury	60,500	193,540	
Variable rate funding				
	PWLB Bury	0		
	Market Bury	0	0	
Temporary Loans / Bonds		2,003	2,003	
Total Debt			195,543	3.96%
Total Investments			30,500	0.18%

6.2 External borrowing of £2million has been undertaken from the market during the first 6 months of 2017/18. The loan was required to partly replace 3 loans, which matured during the period. A short term temporary loan was taken over 364 days to take advantage of low interest rates. It is anticipated that additional external borrowing may be required during the remainder of this financial year, dependent upon cash flow.

6.3 The graph below shows the movement in PWLB maturity certainty rates for the first six months of the year to 30.09.17:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017

7.0 DEBT RESCHEDULING

- 7.1 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 2017/18.

Councillor Eamonn O'Brien
Cabinet Member for Finance and Housing

List of Background Papers:-

None

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