

**TREASURY MANAGEMENT POSITION 2015/16 – MID YEAR REVIEW & QUARTER 2 UPDATE****1.0 LEGISLATIVE REQUIREMENT**

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 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."
- 1.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management recommends that Members be updated on Treasury Management activities regularly (Treasury Management Strategy Statement, Annual and Mid-Year reports, as well a quarterly updates). This report therefore ensures this council is implementing best practice in accordance with the code.
- 1.5 The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This Mid-Year report therefore:-
- a) updates Members on the current Treasury Management position
  - b) updates Members on the changes to the Council's credit rating methodology for the investments of its surplus funds. This is in line with the credit rating agencies (Fitch, Moody's and Standard & poor's) approach to credit ratings and the Council's treasury management advisers – Capita Asset Services – advice
- 1.6 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by this Council on 25 February 2016. There are no policy changes to the TMSS, however it should be noted that where the Strategy is influenced by the Capital expenditure plans for 2016/17 the Council's Capital Financing Requirement (need to borrow) relates to the entire 2016/17 capital expenditure programme and not only the loan to Broadacres Housing Association. This relates to reports that have been approved by Cabinet and Council in the first half of 2016/17. The details in this report update the TMSS position in the light of the updated economic position and budgetary changes during the first six months of 2016/17.
- 1.7 The Council's capital expenditure plans at Quarter 2 are financed by either external grants or contributions, capital receipts received in the year, capital reserves or borrowing.
- 1.8 During 2016/17 the Council supported the loan to the Local Housing Association by short term borrowing. This was repaid in quarter 2 and the council used surplus funds to fund the expenditure. Due to the overall financial position and the underlying need to borrow for capital purposes, new external borrowing of £1,200,000 was undertaken in September 2016 from the Public Works Loan Board at a rate of 1.05% over 5 years.

- 1.9 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is set at £25,000,000. The capital expenditure of the Council is mainly supported by grants, contributions and reserves. The capital financing requirement refers to the amount of borrowing that could be taken to support the loan to the local Housing Association of £25,000,000 at Quarter 1 or the loan to the Dalton Bridge Business Improvement District project of £1,200,000
- 1.10 The following table shows the treasury management position as at 30 September 2016:-

	<b>30 Sept 16</b>	<b>Rate</b>
	<b>£000's</b>	<b>%</b>
<b>Capital Financing Requirement</b>	25,000	
<b>Borrowing</b>	1,200	1.05
<b>Investments</b>	7,390	0.60

Table 1: Borrowing and Investment position at 30 September 2016

- 1.11 The table shows that changes in the capital expenditure programme only affects the treasury management position through the surplus funds that are available to the Council to invest, to earn investment income. The loan to the local Housing Association has been supported by surplus funds, therefore the investment position at 30 September 2016 £7,390,000 is lower compared to the position on 30 September 2015 at £29,650,000.

## **2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:**

- 2.1 The economic background and interest rate forecast, which sets the environment in which the Council's treasury management operates, is attached at Annex D.

## **3.0 ANNUAL INVESTMENT STRATEGY 2016/17 – Quarter 2:**

- 3.1 **Investment Policy** – the Council's investment policy is governed by the Department for Communities and Local Government guidance, which was implemented in the Treasury Management Strategy Statement (TMSS) for 2016/17, and includes the Annual Investment Strategy approved by Cabinet on 9 February 2016. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield

- 3.2 The Council's priority is security of its surplus funds when investing with financial institutions. However the Council will always aim to achieve the optimum return (yield) on investments in line with its risk appetite and which is commensurate with proper levels of liquidity and security. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months. Investment are placed with highly credit rated financial institutions, using the Council's treasury Management advisers – Capita Asset Services - suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita Asset Services.

- 3.3 **Investments held by the Council** – As set out in Annex D, investment rates available in the market were broadly stable during the first half of the quarter but then took a slight downward path in the second half concluding with a significant drop after the referendum on a sharp rise in expectations of an imminent cut in Bank Rate and "lower for longer" expectations thereafter.

3.4 The average level of funds available for investment purposes during Quarter 2 – 30 September 2016 - was £17,429,261. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council held core cash balances of £2,000,000 at Quarter 2 and £5,390,000 cash flow movement balances. Total investment balance at 30 September 2016 was £7,390,000.

3.5

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.28%	0.41%	£16,371
3 month	0.38%	0.62%	£24,632

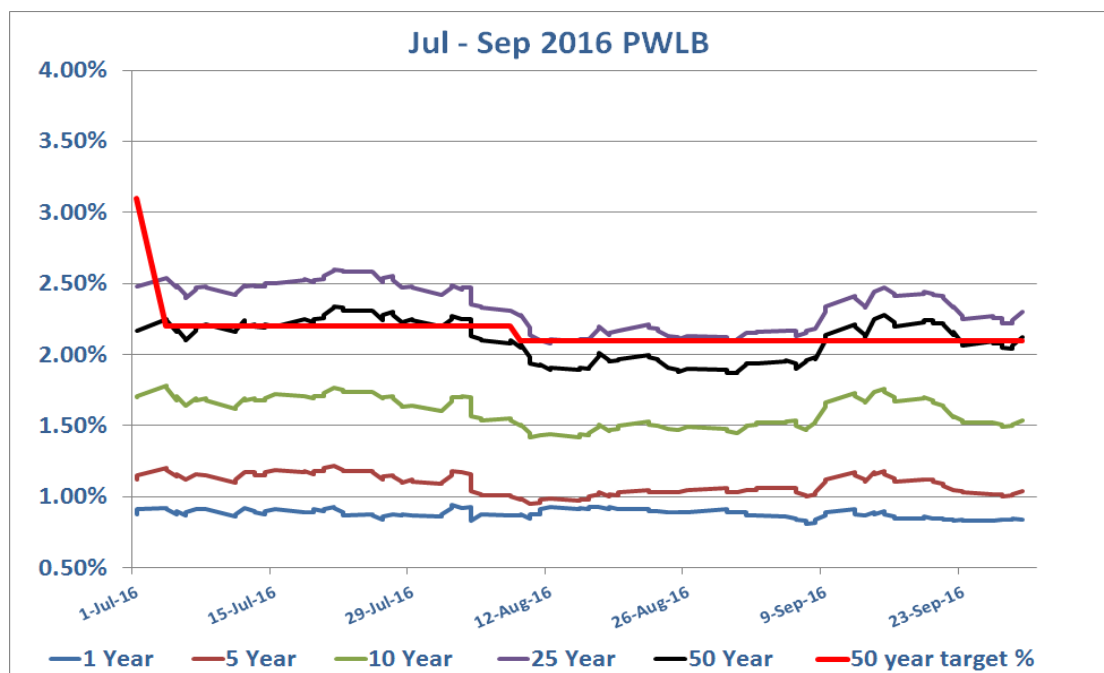
Table 2: Investment performance for quarter 2 at 30 September 2016

3.6 The table shows that the Council monitors its core cash against 3 month LIBID – London Inter Bank Investment Rates – and its cash flow investments against the 7 day rate. The Council outperformed the 3 month benchmark by 0.24% and the 7 day benchmark by 0.13%.

3.7 The Council’s budgeted investment return for 2016/17 was approved at £94,500. This was reduced by £51,330 in Quarter 1 to £43,170. This was due to the use of the Council’s surplus funds to support the capital expenditure loan to the local Housing Association, therefore a lower amount of investment interest is earned. This will be continue to be closely monitored as if the expected Bank of England Base Rate is reduced the rates available to the council will also be affected.

#### 4.0 **BORROWING 2016/17 – Mid Year Review & Quarter 2 Update**

4.1 As depicted in the graph(s) below, there has been significant volatility in Public Works Loan Board rates during quarter 1 culminating in a progressive fall in rates during the first three weeks in June as confidence rose that the polls were indicating an ‘IN’ result for the referendum, followed by a sharp rise in the run up to the referendum day as the polls swung the other way, followed by a sharp fall to the end of the month in anticipation that there is likely to be further quantitative easing purchases of gilts in the coming months.



- 4.2 During the quarter ended 30 September 2016, the 50 year PWLB target (certainty) rate for new long term borrowing started at 3.00% and ended at 2.10%. Capital Asset Services – the Council’s treasury management advisers – review this rate on a regular basis and therefore this will be closely monitored in the coming weeks with regards to the general volatility on the market.
- 4.3 The table below shows the Public Works Loans Board interest rates which were available for loans during quarter 2 of 2016/17. The Public Works Loans Board is the mechanism by which the Government allows local authorities to borrow at slightly lower interest rates than are available to other institutions. Certainty rates, as detailed in the table, are interest rates available to local authorities if they inform the Government of their borrowing requirements at the beginning of the financial year and are 0.02% (or 20 basis points) below Public Works Loans Board rates. This was introduced by the Government in October 2012.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	0.94%	1.22%	1.78%	2.60%	2.34%
Date	02/08/2016	21/07/2016	04/07/2016	21/07/2016	21/07/2016
Average	0.88%	1.09%	1.60%	2.34%	2.11%

Table 3: Public Works Loan Board (PWLB) certainty rates, quarter ended 30 Sept 2016

- 4.4 **Treasury Borrowing** – Due to the overall financial position and the underlying need to borrow for capital purposes, new external borrowing of £1,200,000 was undertaken in September 2016 from the Public Works Loan Board at a rate of 1.05% over 5 years.
- 4.5 It is anticipated that further borrowing will be undertaken in Quarter 4 of this financial year.
- 4.6 **Rescheduling of Borrowing** – the Council had no debt that could be rescheduled in Quarter 2 of 2016/17 under the regulations.
- 4.7 **Repayment of Borrowing** – the Council repaid a short term loan of £15,000,000 in Quarter 2 of 2016/17.

**5.0 COMPLIANCE WITH PRUDENTIAL AND TREASURY INDICATORS:**

- 5.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council’s approved Treasury and Prudential Indicators (affordability limits) were approved in the Treasury Management Strategy Statement by Council on 25 February 2016 and are in compliance with the Council’s Treasury Management Practices. No changes have been made or are required to be made in the first six months of 2016/17 to the Prudential and Treasury Indicators that were set prior to the beginning of the financial year.
- 5.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators approved which are attached at Annex E.
- 5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2016.