Agenda No 11

AGENDA MANAGEMENT SHEET

Report Title:	Treasury Management Report 2017/18 - Progress Report
Name of Committee:	Cabinet
Date:	4th December 2017
Report Director:	Head of Corporate Resources and Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	Treasury Management Strategy 2017/18 – 2019/20 Council 28th February 2017
Contact Officer:	Mannie Ketley, Head of Corporate Resources and Chief Financial Officer 01788 533416
Public or Private:	Public
Report subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities:	All
Statutory / Policy Background:	The Council's Treasury Management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management.
Summary:	The report sets out the Treasury Management activities for the first half of 2017/18

Financial Implications:	The report ensures that the Council is aware of the current Treasury Management position.
Risk Management Implications:	There are no risk management implications arising from this report
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	No new or existing policy or procedure has been recommended.
Options:	
Recommendation:	IT BE RECOMMENDED TO COUNCIL THAT - (1) the report be noted; and (2) the monitoring and the review of the Treasury Management indicators be agreed.
Reasons for Recommendation:	To comply with the Code of Practice

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Cabinet – 4th December 2017

Treasury Management Report 2017/18 - Progress Report

Report of the Head of Corporate Resources and Chief Financial Officer

Recommendation

IT BE RECOMMENDED TO COUNCIL THAT -

(1) the report be noted; and

(2) the monitoring and the review of the Treasury Management indicators be agreed.

1.1 INTRODUCTION

On 28th February 2017, in accordance with the *CIPFA Code of Practice for Treasury Management in the Public Sector*, Council approved the Treasury Management Strategy for 2017/18 – 2019/20. The Code requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year.

This is a report on the Treasury Management activities for the first half of 2017/18 (the mid-year report). Treasury Management 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".

(CIPFA Code of Practice for Treasury Management in the Public Sector)

In addition to its own resources (General Fund and Housing Revenue Account (HRA) balances, capital receipts, etc.) the Council also collects council tax on behalf of Warwickshire County Council, the Office of the Police and Crime Commissioner for Warwickshire, and Parish Councils. This means that at given points of time during the financial year, the Council has significant cash holdings which require management prior to scheduled payment dates to the preceptors. A summary of transactions, and the levels of investments and borrowings held, is contained within this report.

The Head of Corporate Resources and Chief Financial Officer is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

1.2 ECONOMIC REVIEW APRIL – SEPTEMBER 2017

The first half of 2017/18 has seen UK economic growth moderate to just below 2% and the Bank of England's Quarterly Inflation Report, released in August, suggests that growth will perform within a range of 1.6% to 1.7% through to the end of 2018. Some Monetary Policy Committee (MPC) members have expressed concerns about inflation threatening price stability, particularly with the £ significantly weaker since the June 2016 EU Referendum.

Unemployment, on the Independent Labour Organisation Measure, fell to a 42-year low of 4.4%, and with full-time jobs continuing to be created and vacancy rates also increasing, there is some concern that there will be a squeeze upwards in pay inflation. Currently this is running at 2.1%, but views are divided as to whether this number will move up strongly in the second half of 2017 and in 2018, given the headwinds of: the uncertainties surrounding Brexit talks; a flat-lining housing market; and the household savings ratio having hit an all-time low.

This last point should not be under-estimated, as it suggests that consumers – the mainstay of the UK's economic performance to date – are struggling to cope with rising prices and negative real earnings. It will be important to monitor consumer confidence over the coming months and for the MPC to be careful not to undermine the current levels of growth by pre-emptively increasing Bank Rate beyond the reversal of the emergency monetary stimulus implemented in August 2016. Furthermore, business sentiment surveys suggest the UK will enjoy no more than tepid growth over the coming months.

'Forward guidance' released by the MPC following its meeting on 2 November 2017 indicates Bank Rate will rise only twice more in the next three years to reach 1.0% by 2020.

1.3 OUTLOOK FOR INTEREST RATES

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	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
5yr PWLB Rate	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10
10yr PWLB Rate	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70
25yr PWLB Rate	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.30	3.30	3.40
50yr PWLB Rate	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20

1.4 INTERIM INVESTMENT REPORT AND SUMMARY OF TRANSACTIONS

Interest earned on investments is an important source of income to the Council, and, like fees and charges, provides funding which would otherwise have to be met from increased council tax.

The average investment balance held between April and September 2017 was £67.731m and the average rate of return was 0.93%, 0.69% above the local authority benchmark of 0.24%. This generated investment income of £312,610. The investment income received exceeded the budgeted to date figure by approximately £138,930. Investment income is apportioned between General Fund, HRA, and other reserves (S106, Major Repairs Reserve, etc.) based on average balances and cash-flows during the course of the financial year.

The average debt balance held between April and September 2017 (General Fund & Housing Revenue Account) was £105.271m and the average rate paid was 2.10%, generating interest payable of £1,101,380. Interest payable was slightly lower than the budgeted to date figure by approximately £700.

The latest year end position for 2017/18 for the General Fund net cost of borrowing (interest paid less interest received) is to be £82,470 under budget[1]. This is based on the forecast for investment balances to fall during the next six months; for market interest rates to remain static or rise only slightly; and utilising the investment products prescribed in the 2017/18 – 2019/20 investment strategy, as reported to Council on February 28th 2017.

The following table summarises the treasury management transactions undertaken during the first half of this financial year:

		Principal Amount £m	Interest Rate %
Investments	- as at 31st March 2017	56.770	1.01
	- matured in period	72.567	
	- arranged in period	94.489	
	- as at 30th Sept 2017	**78.692**	0.95
Debt	- as at 31st March 2017	101.221	2.30
	- matured/repaid in period	9.000	
	- arranged in period	17.100	
	- as at 30th Sept 20167	**109.321**[2]	2.10
Net Investments at 31st March 2017		**-44.451**	
Net Investments at 30th September 2017		**-30.629**	

No debt restructuring took place during the period 1st April 2017 to 30th September 2017.

1 Does not include interest received from non-investment sources – i.e. car loans

2 Includes temporary borrowing

1.5 DEBT MANAGEMENT STRATEGY

The borrowing strategy approved (in February) did not identify a specific need for the Council to borrow this financial year to support the capital programme, but highlighted the diminishing level of capital receipts available to finance the General Fund ‘standard’ capital programme from 2017/18 onwards. The Council will look to match financing with asset life where appropriate and has the option to utilise the Public Works Loan Board (PWLB), other authorities, or ‘internal borrowing’, that is cash supporting the Council’s reserves, balances and cash flow as a temporary measure. The Council continues to monitor the progress of the UK Municipal Bonds Agency (UKMBA), created by the Local Government Association with local authority shareholders.

The outlook for interest rates (see section 1.3) shows a slight rise in PWLB rates over the medium term, although rates remain at historic lows compared to long term trends. The Council has some flexibility to borrow funds this year for use in future years, subject to capital financing requirements, and consideration will be given to undertaking new loans in advance of need where a pre-determined interest cost is important to the whole-life cost of a project. The Housing Revenue Account (HRA) Capital and Revenue estimates for 2018/19 and HRA medium term financial plan contained elsewhere on this agenda indicate that a proportion of HRA self-financing debt will require rescheduling over the period 2018/19 – 2028/29. Officers will review the HRA borrowing pool in light of this requirement and look to match any refinancing with the cash flow expectations contained within the revised HRA 30-year business plan.

In addition to borrowing from external sources the Council has the option of ‘intra-fund’ borrowing – that is, loans between the General Fund and Housing Revenue Account (HRA). In consultation with its treasury management advisors the Council will continue to look at this facility over the term of the General Fund Medium Term Financial Plan and the HRA Business Plan to ensure opportunities are maximised.

1.6 TREASURY MANAGEMENT INDICATORS

The Council measures its exposures to treasury management risks using the following indicators. Council is asked to note the following indicators as at 30th September 2017.

<u>Security: average credit rating</u>
To measure the security of its portfolio, the Council compares the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0% chance of default within 1 year and a 0.05% chance of default within 3 years. A BBB+ (most risk) rated investment has a 0.22% chance of default within 1 year and a 1.21% chance of default within 3 years.
Using these criteria, the Council’s overall portfolio at 30th September 2017 had a 0.032% risk of default.

Credit quality	£000's of portfolio at 30th September	Historic Risk of Default (within 1 year)	£000's Estimated loss (weighted by length of investment)
AAA	48,114	0.00%	0
AA-	0	0.06%	0
A-,A, A+	25,578	0.08%	21
BBB+	1,000	0.22%	2
Total/average	**74,692**[1]	**0.032%**	**23**

1 This total excludes investments in property funds which are not categorised by the above methodology.

	Target	Actual	Met?
Historic risk of default	0.25% (max)	0.032%	✓

Liquidity: cash available within 7 days (without penalty)

The Council has adopted a voluntary measure of its ability to access cash at short notice by monitoring the amount of cash available to meet unexpected payments. The target of £2m is based on average cash flow requirements. The actual level of liquid resources is much higher than this and reflects the current low interest rate environment.

	Target	Actual	Met?
Cash available at 7 days' notice (without penalty)	£2m	£19.908m	✓

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk – fluctuation in interest rates available for borrowing and investment. The exposures to fixed and variable rate interest rates, expressed as a proportion of net principal borrowed (meaning, investments and borrowing combined) were:

	Limit[1] £000's	Actual £000's	Met?
Upper limit on fixed rate exposures based on net debt (investments and borrowing combined)	111,000	79,321	✓
Upper limit on variable rate exposures based on net debt (investments and borrowing combined)	0	-37,407	✓

1 The upper limit on fixed rate exposures has been set at the equivalent of the Council's maximum borrowing requirement less its minimum investment level (or 100%) The upper limit on variable rate exposures has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit ensures the use of variable rate debt does not exceed the level of variable rate investments.

Fixed rate investments and borrowings are those where the rate of interest is fixed for 12 months or more. Instruments that mature during the financial year (regardless of their original length) are classed as variable rate. (This is the approach suggested in the Treasury Management Code guidance notes).

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk – that all borrowing falls due for repayment at the same time. The repayment structure of fixed rate borrowing (loans of 12 months or longer) was:

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	20%	0%	16%	✓
12 months and within 24 months	30%	0%	20%	✓
24 months and within five years	60%	0%	35%	✓
Five years and within 10 years	60%	0%	8%	✓
10 years to 20 years	75%	0%	2%	✓
20 years to 30 years	75%	0%	5%	✓
30 years +	75%	0%	14%	✓

The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. It is used in conjunction with the liquidity indicator to ensure sufficient cash resources are available without penalty during the short to medium term. The total principal sums invested to final maturities beyond the year end were:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£20.00m	£20.00m	£20.00m
Actual principal invested beyond year end	£16.88xm	£16.88m	£14.88m
Within limit?	✓	✓	✓

Name of Meeting:
Cabinet

Date of Meeting:
4th December 2017

Subject Matter:
Treasury Management Report 2017/18 - Progress Report

Originating Department:
Corporate Resources

List of Background Papers

Document No.	Date	Description of Document	Officer's Reference	File Reference
1.				

* The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

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* Exempt information is contained in the following documents:

Document No. Relevant Paragraph of Schedule 12A

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* There are no background papers relating to this item.

(*Delete if not applicable)