

REPORT TO	DATE OF MEETING
Governance Committee	23 September 2015

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Activity Mid-year Review 2015/16	Finance & Resources	M L Jackson	8

1. SUMMARY AND LINK TO CORPORATE PRIORITIES

To review the Treasury and Investment Strategies approved by the Council on 4 March 2015, and to report on performance in the first five months of the year, and compliance with prudential indicators. A separate report presenting proposed changes to Investment Counterparties is included on this agenda.

2. RECOMMENDATIONS

Governance Committee is asked to note the report.

Governance Committee is asked to recommend that Council approves changes to Prudential Indicators and Treasury Indicators as presented in Appendix B.

3. DETAILS AND REASONING

The Code of Practice for Treasury Management specifies that Councils should review their Treasury Strategy and activity half yearly. This report meets that requirement.

4. INTEREST RATE FORECAST

The following table shows the interest rate forecast of the Council's Treasury Advisor, Capita Asset Services – Treasury Solutions.

UK Interest Rate Forecast	Sep 2015 %	Dec 2015 %	Mar 2016 %	Jun 2016 %	Sep 2016 %	Dec 2016 %	Mar 2017 %	Jun 2017 %	Sep 2017 %	Dec 2017 %	Mar 2018 %	Jun 2018 %
Bank rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75
5 yr PWLB	2.30	2.40	2.50	2.60	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50
10 yr PWLB	2.90	3.00	3.20	3.30	3.40	3.50	3.70	3.80	3.90	4.00	4.10	4.20
25 yr PWLB	3.40	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60
50 yr PWLB	3.40	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60

Source: Capita Asset Services

The forecast PWLB interest rates shown above take into account the 20 basis point (0.20%) certainty rate reduction effective as of 1 November 2012

Comparison with the forecast in February 2015, when the Treasury Strategy was first presented to Cabinet, shows that now there is no increase in base rate expected up to the end of 2015/16. Previously an increase to 0.75% was anticipated in the December 2015 quarter, but this is now expected to be delayed until the June 2016 quarter. Base rate is expected to peak at 1.75% in March quarter of 2018, whereas it was estimated to be as high as 2.00% by then.

Though Public Works Loan Board (PWLB) interest rates are expected to increase each quarter for the foreseeable future, rates through to March 2018 are now expected to be lower than estimated earlier in the year. As indicated below, the Council has no plans to incur external borrowing in the

current financial year and the next two, so the increase in borrowing rates should have no immediate impact on the revenue budget.

In Appendix D, Capita Asset Services have provided the Council with a detailed commentary on interest rate forecasts.

5. REVIEW OF THE TREASURY STRATEGY

The Treasury Management and Investment Strategies for 2015/16 were approved by Council on 5 March 2014. They defined the Council's investment priorities as the security of capital sums invested, and the maintenance of liquidity. Consistent with these priorities, the optimum return (yield) on investments would be sought.

Cash available for investment in 2015/16 was expected to peak as high as £28m, in particular before Council Tax and NNDR are due to be paid by the Council to the Government and other local authorities. However, this estimated peak has been exceeded, having reached a maximum of around £33m. It is recommended that Council should increase this Treasury Indicator to £36m, which is a technical adjustment without any impact on the Council's finances.

As a separate report proposing changes to Investment Counterparties is presented on this agenda, this issue is not discussed in this report.

6. TREASURY ACTIVITY

Investment activity in the half year is summarised in the following table:

	Average Daily Investment £'000	Earnings to 31/8/2015 £	Average Rate %
Debt Management Office	2,214	2,320	0.25
Other fixed term deposits	16,569	37,036	0.53
Notice Accounts	0	0	0.00
Call accounts	3,426	5,744	0.40
Money Market Funds	5,890	10,253	0.42
Total	28,099	55,353	0.47

Note: earnings exclude £80,236 received in August 2015 in respect of the outstanding Heritable claim

A full list of investments currently held is shown at Appendix A. The current total invested is £32.409m, including term deposits, call accounts, and money market funds.

The interest earning benchmark is the average LIBID 7 day rate. This was 0.35% for the period reported, compared to the rate achieved of 0.47%. A key performance indicator for Shared Financial Services is that the rate achieved should exceed the 7 day LIBID plus 10%, which was 0.385%. Therefore the target was achieved.

At this stage in 2014/15, the average rate achieved was 0.51%. Compared to 2014/15, the increase in the average cash balance available to invest has meant that the average deposited with the Debt Management Office (DMO) at the low rate of 0.25% has meant that the overall average rate achieved has reduced. Should Council approve an increase in the number of high

quality investment counterparties, it should be possible to minimise use of the DMO without any reduction in security of investments, but an increase in the average rate achieved should be possible. This is discussed in further detail in the separate report presenting proposed changes to the list of Investment Counterparties.

The following table compares the budgets for interest receivable against the latest projection. Though interest rates have remained lower than expected in the Treasury Strategy, cash balances available to invest are currently higher than last year. Based on performance to date, it would be reasonable to anticipate a £20,000 increase in the interest to be earned on cash invested in 2015/16. Should Council approve an extension to the number of Investment Counterparties, it may be possible to increase interest earned by avoiding the need to place deposits with the DMO at only 0.25% interest.

	Budget for year £'000	Actual to 31/8/2015 £'000	Forecast for year £'000
Interest earned	100	55	120
Heritable repayment	0	80	80
Total	100	135	200

In August 2015, there was a repayment of £80,236 in respect of the Heritable investment claim.

The balance of the claim remaining to be recovered is now only £40,000. In total, £1.974m of the original £2m investment has been recovered. Recovery to date is around 98% of the claim value, which has exceeded expectations. The Council had received offers to purchase the claim balance, but the amount received this year exceeded the sum likely to be achieved by selling the claim.

Heritable Investment Claim	Amount £'000
Claim value	2,014
Received to 2014/15	(1,894)
Balance of claim as at 31/3/15	120
Received August 2015	(80)
Balance of claim	40

7. BORROWING

The Treasury Strategy indicated that no borrowing was necessary in the current financial year and the next two years. This remains the case and no borrowing is planned. Use of the Council's own cash balances instead of external borrowing is a form of temporary internal borrowing at a variable rate. The cost of such internal borrowing is in effect the rate of interest that could have been earned had the cash been invested rather than being used to finance capital expenditure. However, if the Council had more cash to invest, the average rate achieved would have fallen below 0.47% earned to date because the likelihood is that a greater balance would have been placed in the DMO. Depending on the period of the loans, the cost of PWLB borrowing to generate the additional cash would be between 2.3% and 3.4% at present.

8. PRUDENTIAL INDICATORS AND TREASURY INDICATORS

Council of 4 March 2015 approved Prudential Indicators and Treasury Indicators for 2015/16. While it is not meaningful to review all indicators at a mid-year stage, Appendix B presents the relevant indicators.

It is recommended that Council should approve a number of changes, in particular to reflect changes to the Capital Programme and therefore the Capital Financing Requirement; the higher than expected peak of cash available for investment; and the increase in the estimated year-end cash and investments balance.

9. TREASURY CONSULTANTS' ADVICE

Appendix C presents the advice of Capita Asset Services in respect of economic matters in the first quarter of 2015/16. In addition, a detailed commentary on interest rate forecasts is presented as Appendix D.

10. WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	The financial implications are outlined within the report.
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LEGAL	Compliance with various Regulations and statutory Codes of Practice
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RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.
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THE IMPACT ON EQUALITY	
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OTHER (see below)	
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<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

BACKGROUND DOCUMENTS

Treasury Management in the Public Services: Code of Practice
 CIPFA Prudential Code for Capital Finance in Local Authorities
 DCLG Guidance on Local Government Investments