REPORT FROM THE EXECUTIVE AND COMMITTEES TO COUNCIL

1 REPORT OF THE REVIEW COMMITTEE

Treasury Management 2017/18 Mid-Year Review

1.1 This item of business was referred by the Review Committee on 5 December 2017 to Full Council with a recommendation on the Mid Year Treasury Management Report.

1.2 An extract of the key elements of the report of the Section 151 Officer to the Review Committee is appended.

In response to questions, the following was noted:

- Although no external borrowing was proposed for the current year, any proposed change for 2018/19 would go through the Chairman of the Investment Board and the Portfolio Holder for Finance.

- The Council is likely to retain its AA+ rating requirement for investments; there may be a need, therefore, for a future Treasury Management Strategy to set out separately the criterion that would apply to the Council lending to a subsidiary, for example, Green Gateway Trading (Development) Ltd. The Council is awaiting external advice as part of the financial due diligence process on all options available to the Council when investing in GGT (Development) Ltd; the rate of interest offered to the company would have to reflect the commercial risk to the Council.

- The Government is consulting on proposed changes to the prudential framework of capital finance, including reporting requirements for local authorities who borrow solely to invest: the outcomes and recommendations from the consultation would be reported to the Investment Board once published by Government. Local authorities may borrow in advance of need, where this is expected to provide the best long term value for money. In terms of any potential impact on the Council’s right to borrow for property investment in respect of Project Wyvern, there was no indication that Local Authorities would be prevented from borrowing for projects in their own area.

- The Council had begun to see requests from other Local Authorities seeking to borrow funds: this inter-authority lending could potentially offer higher rates than could be achieved by investing in the institutions currently invested in. The Council’s Treasury Management Strategy allows the Council to invest with other Local Authorities although no investments of this nature had been made so far. Members requested assurance that Local Authority loans are guaranteed by Central Government and so provide a secure form of lending.

- The balance in the Council's current account fluctuates according to the cash flow requirement; this is monitored on a day by day basis.

- The contract for the new Treasury Management Advisors, when appointed, would be for 4 years.

- The increase in the estimated budget for capital expenditure as shown in paragraph 5.1 of the officer report was due to the increased cost of the IT migration project as well as other capital projects that had been moved from the previous year to this year.

- Local Authorities are not limited to borrowing from the Public Works Loan Board but generally do so because a more favourable rate can usually be achieved. The Council could potentially borrow from other sources, as long as it keeps within the requirements of its Treasury Management Strategy. It was recognised that the Council continues to have a strategy for its investments that is risk-averse, with security of investments as the primary principle.

1.3 It is proposed that Council **RESOLVES** that the Treasury Management 2017/18 Mid Year Report be noted.

TREASURY MANAGEMENT 2017/18 MID-YEAR REVIEW

1 SUMMARY

1.1 The purpose of the report is to provide an update of the Council's Treasury Management activity for the period 1 April 2017 to 30 September 2017 in accordance with the Council's Treasury Management Policy and good practice in treasury management.

1.2 It is recommended that Review Committee note the Council's treasury activities for the period ending 30 September 2017 and provide comments on the information presented in this report, before it is presented for approval by Full Council on 12 December 2017.

2 INTRODUCTION

2.1 The Council has adopted the Code of Practice on Treasury Management and a requirement of this is to produce a mid year review looking at the Authority's performance in line with the strategy considered by this Committee in April 2016.

2.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to 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.

2.3 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 liabilities.

2.4 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*."

2.5 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 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 compliance with Treasury and Prudential Limits for 2017/18.

2.6 The Council employs treasury advisors, Link Asset Services Ltd, formerly known as Capita Asset Services Ltd, to provide advice on its treasury management strategy and analysis of the economy and expectations for interest rates.

3 ECONOMIC UPDATE

3.1 The Monetary Policy Committee (MPC) increased Bank Rate to 0.5% in November. The MPC also gave forward guidance that they expected the Bank Rate to rise twice more in the next three years to reach 1% by 2020. As at the start of October, short sterling rates were indicating that financial markets did not expect a second increase until May 2018, with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018.

3.2 The latest Link Asset Service's forecast (issued on 24 November) of Bank of England Base Rate and PWLB rates is shown in the table below. The overall longer run trend is likely to be for PWLB rates to rise, albeit gently.

	Nov 2017 Actual %	Dec 2017 %	Mar 2018 %	Jun 2018 %	Sept 2018 %	Dec 2018 %	Mar 2019 %
Interest Rate Forecast February 2017	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Current Forecast	0.50	0.50	0.50	0.50	0.50	0.75	0.75
5 Year PWLB Forecast	1.57	1.50	1.60	1.60	1.70	1.80	1.80
10 Year PWLB Forecast	2.16	2.10	2.20	2.30	2.40	2.40	2.50
25 Year PWLB Forecast	2.76	2.80	2.90	3.00	3.00	3.10	3.10
50 Year PWLB Forecast	2.49	2.50	2.60	2.70	2.80	2.90	2.90

4 KEY MOVEMENT / CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

4.1 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by this Council on 14 February 2017.

4.2 The Council has made clear an aspiration to develop potential sites as part of its Asset Register Review (“ARR”) and Phase 1 of Project Wyvern, namely 19 and 57 South Street. The delivery body of any potential development is planned to be through the Council’s wholly owned company (Green Gateway Trading (Development) Limited) with the Council financing the required funding for construction and development to take place.

4.3 In order to fulfil this aspiration it is likely the Council would need to provide financing to Green Gateway Trading Development Company; therefore an addition to the 2017/18 Treasury Management Annual Strategy Statement is proposed to allow the Council to invest in it’s own trading company. This will gives the Council options on how it finances its commercial arm in future; however, note these projects will be subject to a separate approval process by Council before any financing is agreed.

4.4 Any future external borrowing requirements will be presented as part of the 2018/19 Treasury Management Annual Strategy Statement, including changes to the Authorised and Operational Borrowing Limits and any affected Capital Indicators.

5 PRUDENTIAL INDICATOR FOR CAPITAL INVESTMENT

5.1 This table shows the forecasted outturn for capital expenditure as at 30 September 2017 and the changes since the Capital Programme was agreed in February 17, as well as the indicative financing for the programme.

Capital Expenditure	**2017/18 Original Estimate £’000s**	**2017/18 Latest & End of Year Forecast £’000s**
Total	1,024	1,558
Financed by:		
General Fund Reserve	-	363
Funded internally from revenue	285	285
Capital Receipts Reserve	100	245
Capital Grants	375	375
Other Earmarked Reserves	264	290

Changes to the Prudential Indicators for the Capital Financing requirement and the Operational Boundary

5.2 Net external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. The Council currently has no external borrowing.

£000s	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
CFR	687	687	687	687
Movement in CFR	-	-	-*	-*

* No movement is projected in the current estimates; however, this could potentially change pending agreement on capital projects that are currently being worked up for Member approval. These could impact the Capital Financing Requirement over the coming years and may have a borrowing cost attached to them.

5.3 The 2008 Capital Finance and Accounting Regulations include a requirement to make prudent annual provision for repayment of debt arising from capital expenditure (known as a Minimum Revenue Provision or MRP). This is to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits. If the Council does decide to borrow externally in future an MRP policy will need to be agreed and implemented. This would be set out in the relevant Treasury Management Strategy Statement for the year.

5.4 There are no changes to the authorised and Operational limits (upper limit beyond which external debt is prohibited) which is outlined in the Treasury Management Strategy and can only be revised by full Council.

6 INVESTMENT PORTFOLIO 2017/18

6.1 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. Given this risk environment, investment returns are likely to remain low.

6.2 The Council's cash flow position is generally such that it has scope to undertake only short term investments of surplus funds. The Council started the year with £5.0m of investments and £1.92m in its main current account. The balance of investments held as at 30 September 2016 was £8.0m, plus £0.41m in the main current account. The table below summarises the investment transactions that have taken place.

	Investments £000's	Current Account £000's	No. of Investments
Balance on Investments 1 April 2017	5,000	1,923	2
Investments placed 01/04/17 – 30/09/17	12,000		
Investments realised 01/04/17 – 30/09/17	9,000		
Balance on Investments 30 Sept 2017	8,000	413	3

6.3 The three investments comprising the balance of £8.0m were placed with the following counterparties:

Counterparty	£000's of Investments	% of Investments
Santander 60 day account	3,000	37
Svenska Handlesbanken	3,000	37
Money Market Prime	2,000	26

6.4 Forecast investment return for 2017/18 is £30,000 - £35,000, in line with that originally anticipated. The investment rates on offer for short term deposits have remained low during the year primarily as a consequence of general economic conditions.

6.5 The Chief Financial Officer (Section 151 Officer) confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18. A review of the Council's investment strategy will be undertaken in the New Year and reported in the Annual Investment Strategy..

Investment Counterparty criteria

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

6.7 The financial institutions that the Authority is investing with are monitored on a regular basis in line with the risk document issued by Link (formerly Capita Asset Services), the treasury advisors.

7 RISK IMPLICATIONS

7.1 There are no new risk management implications arising from the contents of this report. However, Members will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks that this may have in general. The Treasury Management Strategy outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.

8 EQUALITY & DIVERSITY

8.1 None.