TREASURY MANAGEMENT 2016 /17 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 2016 to 30 September 2016 in accordance with the Council's Treasury Management Policy and good practice in treasury management.

1.2 It is recommended that the Review Committee notes the Council's treasury activities for the period ending 30 September 2016 and provide comments on the information presented in this report, before it is presented for approval by Full Council on 13 December 2016.

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.

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'.

2.4 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 2016/17 financial year to 30 September 2016;
- 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

2.5 The Council employs treasury advisors, Capita Treasury Services Ltd (Capita), formerly known as Sector Treasury Services Ltd, to provide advice on its treasury management strategy and analysis of the economy and expectations for interest rates.

3 KEY MOVEMENT / CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

3.1 There are no changes to the Treasury Management Strategy (TMS) to report. However, with some institutions starting to re-establish themselves and credit rates starting to improve, it is felt useful to clarify part of the TMS to Members.

3.2 The credit worthiness policy in the TMS provides limits and duration of investments dependent on the colour status of an institution. The limits increase with the strength of the counterparty either in duration or the amount to be placed. For counterparty in one of the higher colour bandings, any limit in the colour bandings below it can also be applied. The limits and durations are as follows:-

Capita Colour Coding	Maximum Duration	Maximum Investment
No Colour	Not to be used	-
Green	100 days	£6m
Red	6 months 100 days	£3m £6m
Orange	1 year 6 months 100 days	£1m £3m £6m
Blue	1 year	£4m
Purple	2 years 100 days	£3m £6m

Prudential Indicator for Capital Expenditure

3.3 This table shows the forecasted outturn for capital expenditure as at 30 September 2016 and the changes since the Capital Programme was agreed in February 2016, as well as the indicative financing for the programme.

3.4 The major change to the Capital programme was the carry forward of 2015/16 schemes, mainly the Depot works.

Capital Expenditure	2016/17 Original Estimate £'000s	2016/17 Revised Estimate £'000s	2016/17 Latest & End of Year Forecast £'000s
Total	474	927	927
Financed by:			
Prudential Borrowing	0	0	0
Funded Internally	150	150	150
Capital Receipts	74	527	527
Grants	250	250	250

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

3.5 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 2016/17 and next two financial years. The Council currently has no external borrowing.

£000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
CFR	687	687	687	687
Movement in CFR	-	-	-*	-*

* There are a few projects that Members and Officers are working on that could impact the Capital Financing Requirement over the coming years. If agreed and progressed the following projects may have a borrowing cost attached to them. They are:

- Project Wyvern – A major investment opportunity in Rochford Town. To date, Members have agreed that the project can go forward with phase 1, that is, to seek Planning consent for property numbers 19 and 57 South Street.

- Public Conveniences – Members and Officers are considering all options with the ageing Public Conveniences: some of these options will require external borrowing.

- Leisure Premises – Officers are in discussions with Fusion, the leisure contractor, with a view to improve one of the ageing assets, Clements Hall. If agreed, this will require capital investment.

3.6 The anticipated borrowing position as indicated above will mean that a Minimum Revenue Provision charge (MRP) will be made to repay the borrowing and interest costs to the respected service areas.

3.7 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.

Economic performance to date

3.8 UK economic growth had already slowed from around 3% in 2014 to around 2% before the European Union (EU) referendum, due to slower global growth, but the vote to leave the EU is likely to lead to a significant further slow down.

3.9 UK growth is now projected to slow to around 1.6% in 2016 and 0.6% in 2017, largely due to the increased political and economic uncertainty following the 'Brexit' vote. The UK would narrowly avoid a recession in this scenario, although there are particularly large uncertainties around any such projections after the Brexit vote. The main reason for the slowdown will be a decline in business investment, particularly from overseas, in areas like commercial property. This is being driven by economic and political uncertainty in the short term as well as concerns about the UK's future trading relationships with the EU in the longer term.

3.10 Consumer spending growth is projected to hold up better, but will still slow from previous strong rates, dropping to around 1.3% in 2017. This reflects the impact of a weaker pound in pushing up import prices and squeezing the real spending power of households, as well as lower consumer confidence levels and slower jobs growth.

3.11 Business and financial services sector growth will slow but should remain positive in 2016/17. Construction companies and capital goods manufacturers will suffer from lower investment levels, although some manufacturing exporters will benefit from the weaker pound.

3.12 The Bank of England decided to cut the base rate from 0.50% to 0.25% on 4 August 2016 for the first time in more than seven years as the economy faltered in the wake of the vote to leave the EU.

3.13 The National Institute of Economic and Social Research has warned of a 50/50 chance of a recession over the next 18 months. It should not be ruled out that the Bank of England Base Rate may fall further to 0% or possibly turn negative over the second half of the year.

3.14 The latest forecast issued on 16 November on the Bank of England Base Rate as issued by Capita is shown in the table below; it is possible that the base rate may be cut further to 0.10% by the end of the financial year.

	Sept 2016 Actual %	Dec 2016 %	Mar 2017 %	Jun 2017 %	Sept 2017 %	Dec 2017 %	Mar 2018 %
Interest Rate Forecast February 2016	0.50	0.50	0.75	0.75	1.00	1.00	1.25
Current Forecast	0.50	0.25	0.25	0.25	0.25	0.25	0.25
5 Year PWLB Forecast	2.10	1.60	1.60	1.60	1.60	1.70	1.70
10 Year PWLB Forecast	2.58	2.30	2.30	2.30	2.30	2.30	2.30
25 Year PWLB Forecast	3.30	2.90	2.90	2.90	2.90	3.00	3.00

Treasury Management Strategy Statement and Annual Investment Strategy update

3.15 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council in April 2016. All areas of the TMSS including Prudential Indicators remain the same. No changes to the Capital Indicators have been reported.

Investment Portfolio 2016/17

3.16 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 that is consistent with the Council's risk appetite. Given this risk environment, investment returns are likely to remain low.

3.17 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 no investments and £4.81m in its main current account. The balance of investments held as at 30 September 2016 was £6.60m, plus £0.53m 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 2016	-	4,806	-
Investments placed 01/04/16 – 30/09/16	34,110		
Investments realised 01/04/15 – 30/09/15	27,500		
Balance on Investments 30 Sept 2015	6,610	571	5

3.18 The 5 investments comprising the balance of £6.61m were placed with the following counterparties:

Counterparty	£000's of Investments	% of Investments including current account
Santander 31 day account	1,000	13.9
Santander 60 day account	2,000	27.9
Svenska Handlesbanken	1,000	13.9
Money Market Prime	2,600	36.2
Barclays	10	0.1
Lloyds	571	8.0

3.19 Forecast investment return for 2016/17 is £30,000, around £55,000 lower than 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.

3.20 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 2016/17. A review of the Council's investment strategy will be undertaken in the new tear and strategy considered that seeks to maximise returns on investment.

Investment Counterparty Criteria

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

3.22 The financial institutions that the Authority is investing with are monitored on a regular basis in line with the risk document issued by Capita, the treasury advisors.

4 RISK IMPLICATIONS

4.1 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. TMS outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.

5 RECOMMENDATION

5.1 It is proposed that the Review Committee **RESOLVES** to:

(1) Recommend the contents of the Treasury Management Mid Year Report to Full Council.

(2) Identify any issues on this topic for further consideration and discussion by the Committee.

Rob Manning
Section 151 Officer

Background Papers:

None.

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