Meeting:	**Audit and Governance Committee** **Cabinet**	**20 June 2016** **22 June 2016**
Subject:	**Treasury Management Annual Update 2015/16**	
Report Of:	**Cabinet Member for Performance and Resources**	
Wards Affected:	**All**	
Key Decision:	**No** **Budget/Policy Framework:** **No**	
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Appendices:	**1. Prudential and Treasury Indicators** **2. Interest rate forecasts**	

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 One of the requirements of the revised Code of Practice for Treasury Management in November 2011 recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report covers quarter 4, 1st January 2016 to 31st March 2016 and provides a summary of 2015/16.

1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Capita Asset Services.

1.3 The body of the report provides an overview of the Councils performance in quarter 4;

- **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
- **Appendix 2** Interest Rate Forecast.

2.0 Recommendations

2.1 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.

2.2 Cabinet is asked to **RESOLVE** that the contents of the report be noted subject to any comments subsequently received by Audit and Governance Committee.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 18th March 2015. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. 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, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

3.2 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate. The average level of funds available for investment purposes during the quarter was £6.8M. These funds were available on a temporary basis, and 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 does not hold cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for quarter ended 31st March 2016

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36	N/A	N/A
1 month	0.38	0.35	£793.98
3 month	0.46	0.41	£876.16
6 month	0.62	N/A	N/A
12 month	0.89	N/A	N/A

As illustrated, the Council was slightly behind the benchmark by 03 bps over 1 month investments and 05bps on investments over 3 months, as the investments were utilised for cashflow purposes.

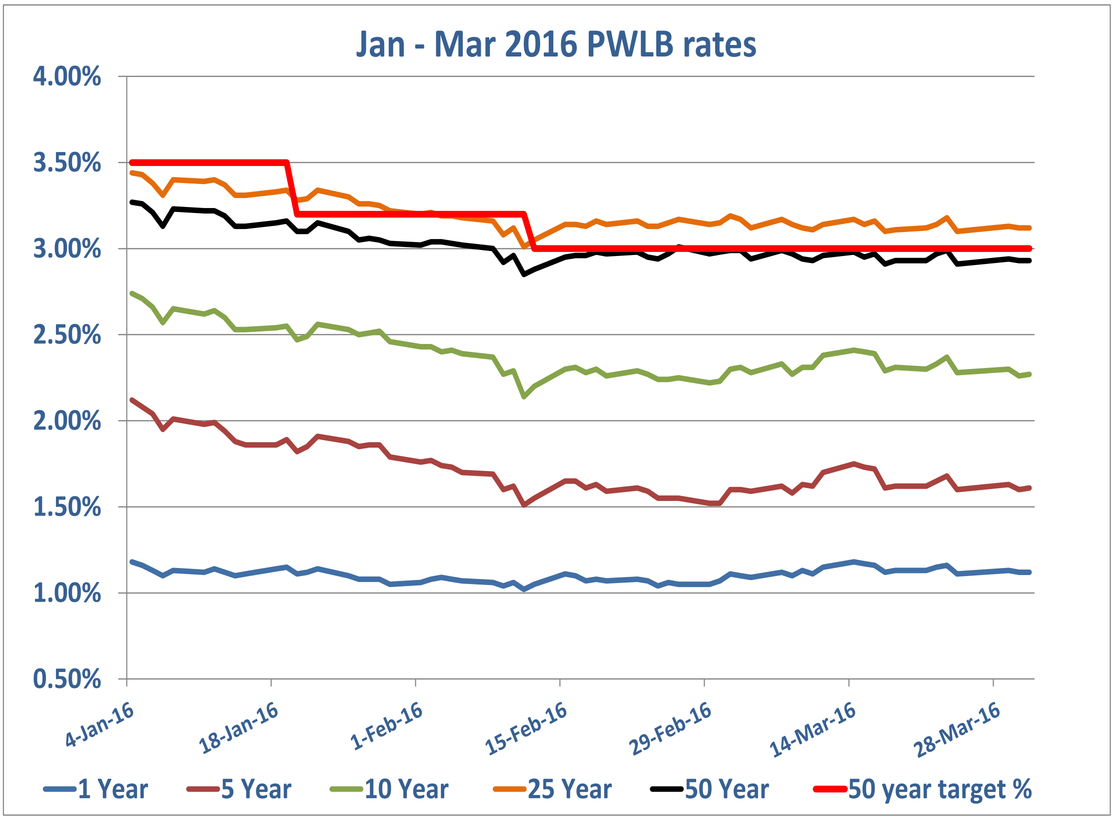
4.0 New Borrowing

4.1 As depicted in the graph below, the general trend in PWLB rates during 2015/16 was an increase in interest rates during the first quarter followed by marked bouts of sharp volatility since 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year. During the quarter ended 31st March 2016, the 50 year PWLB target (certainty) rate for new long term borrowing fell from 3.50% to 3.00%.

4.2 No long term borrowing was undertaken during the quarter.

4.3 **PWLB certainty rates, quarter ended 31st March 2016**

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.02%	1.51%	2.14%	3.01%	2.85%
Date	11/02/2016	11/02/2016	11/02/2015	11/02/2016	11/02/2016
High	1.18%	2.12%	2.74%	3.44%	3.27%
Date	04/01/2016	04/01/2016	04/01/2016	04/01/2016	04/01/2016
Average	1.10%	1.72%	2.39%	3.20%	3.02%



4.4 **Borrowing in advance of need.**

The Council has not borrowed in advance of need during the quarter ended 31st March 2016.

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 31st march 2016, no debt rescheduling was undertaken.

6.0 Compliance with Treasury and Prudential Limits

6.1 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) are included in the approved TMSS.

6.2 During the financial year to date the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Council debt profile is currently structured on short term borrowing. The Council is able to benefit from reduced costs associated with short term borrowing compared to longer term rates while operating within the Councils borrowing requirements, this strategy will continue to be reviewed in line with market expectations.

6.3 The Council has a prudential indicator set at 50% for fixed rate borrowing <12 months. The treasury strategy notes that if limits are too restrictive they will impair the opportunities to reduce costs. In quarter 4 the Council has exceeded the indicator but remained within its approved limits, this policy of borrowing has allowed the Council to benefit from lower interest rates available via short term agreements. The Council will continue to monitor its prudential indicators to ensure that they do not restrict performance in light of the Councils debt profile. The prudential and treasury Indicators are shown within appendix 1.

7.0 Other

7.1 The Council continued to maintain an under-borrowed position in quarter 4.

7.2 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

7.3 The Council will continue to monitor its approach to under borrowing in light of market movement and future events.

7.4 The Council has utilised short term borrowing in 2015/16 as part of its overall borrowing strategy, this policy has allowed the Council to benefit from lower interest rates available over the short term, this policy has allowed the Council to reduce its borrowing costs significantly in the short term. Over our current 2015/16 borrowing requirement, the Council has been able to obtain short term borrowing at 0.38% compared to current long term rates at 2.4% for 10 year. This reduces the annual borrowing costs by £200k.

7.5 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events implementing on the Council borrowing requirement.

8.0 Asset Based Community Development (ABCD) Considerations

8.1 This report notes the treasury management performance of the Council. There are no anticipated ABCD implications from this report.

9.0 Financial Implications

9.1 Contained in the report

(Financial Services have been consulted in the preparation this report.)

10.0 Legal Implications

10.1 There are no legal implications from this report

(One Legal have been consulted in the preparation this report.)

11.0 Risk & Opportunity Management Implications

11.1 There are no specific risks or opportunities as a result of this report

12.0 People Impact Assessment (PIA):

12.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

13.0 Other Corporate Implications

<u>Community Safety</u>

13.1 None

<u>Sustainability</u>

13.2 None

<u>Staffing & Trade Union</u>

13.3 None

Appendix 1

Prudential and Treasury Indicators as at 31st March 2016

Treasury Indicators	2015/16 Budget £'000	Quarter 4 (Jan-Mar) Actual £'000
Authorised limit for external debt	£35M	£15M
Operational boundary for external debt	£30M	£15M
Gross external debt	£30M	£15M
Investments	N/A	£0M
Net borrowing	£30M	£15M

Maturity structure of fixed and variable rate borrowing - upper and lower limits		
Under 12 months	0% - 50%	66.67%
12 months to 2 years	0% - 50%	0%
2 years to 5 years	0% - 50%	0%
5 years to 10 years	0% - 80%	33.33%
10 years to 20 years	0% - 80%	0%
20 years to 30 years	0% - 80%	0%
30 years to 40 years	0% - 80%	0%
40 years to 50 years	0% - 80%	0%
Upper limit of fixed interest rates based on net debt	100%	66.67%
Upper limit of variable interest rates based on net debt	100%	33.33%

Appendix 2

INTEREST RATES FORECASTS

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
10yr PWLB rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.30%	3.40%	3.50%	3.60%
25yr PWLB rate	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%	3.70%	3.70%	3.80%	3.80%
50yr PWLB rate	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.60%	3.70%	3.70%

Capita Asset Services undertook an early quarterly review of its interest rate forecasts on 20 January 2016, before the quarterly Bank of England Inflation Report issued on 4 February, due to the run of recent downbeat UK and world economic news and the extreme volatility in financial markets. However, a further revised forecast was then done on 12 February due to a further resurgence of various fears and renewed extreme volatility in markets. Consequently, the forecast for the timing of the first increase in Bank Rate was overall moved from quarter 2 of 2016 to quarter 1 2017. With CPI inflation now expected to be between 0% and 1% during the whole of 2016, it is likely to be very difficult for the MPC to make a start on increasing Bank Rate in 2016. The Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. In addition, average weekly earnings excluding bonuses were weak at only 2.2% in the three months to January and so this is unlikely to provide ammunition for the MPC to take action to dampen inflationary pressures as labour productivity growth would mean that net labour unit costs are still not rising by the significantly more than 2% level which the MPC wants to see before starting to raise Bank Rate.

The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and for some consumers, who have had no increases in pay, could be non-existent (other than through some falls in prices).