Meeting:	**Audit and Governance Committee** **Cabinet**	**19 June 2017** **21 June 2017**
Subject:	**Treasury Management Update – Annual Report 2016/17**	
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 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code.

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.3 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.

1.4 The body of the report provides an overview of the Councils performance for 2016/17;

- **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.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 24th March 2016. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

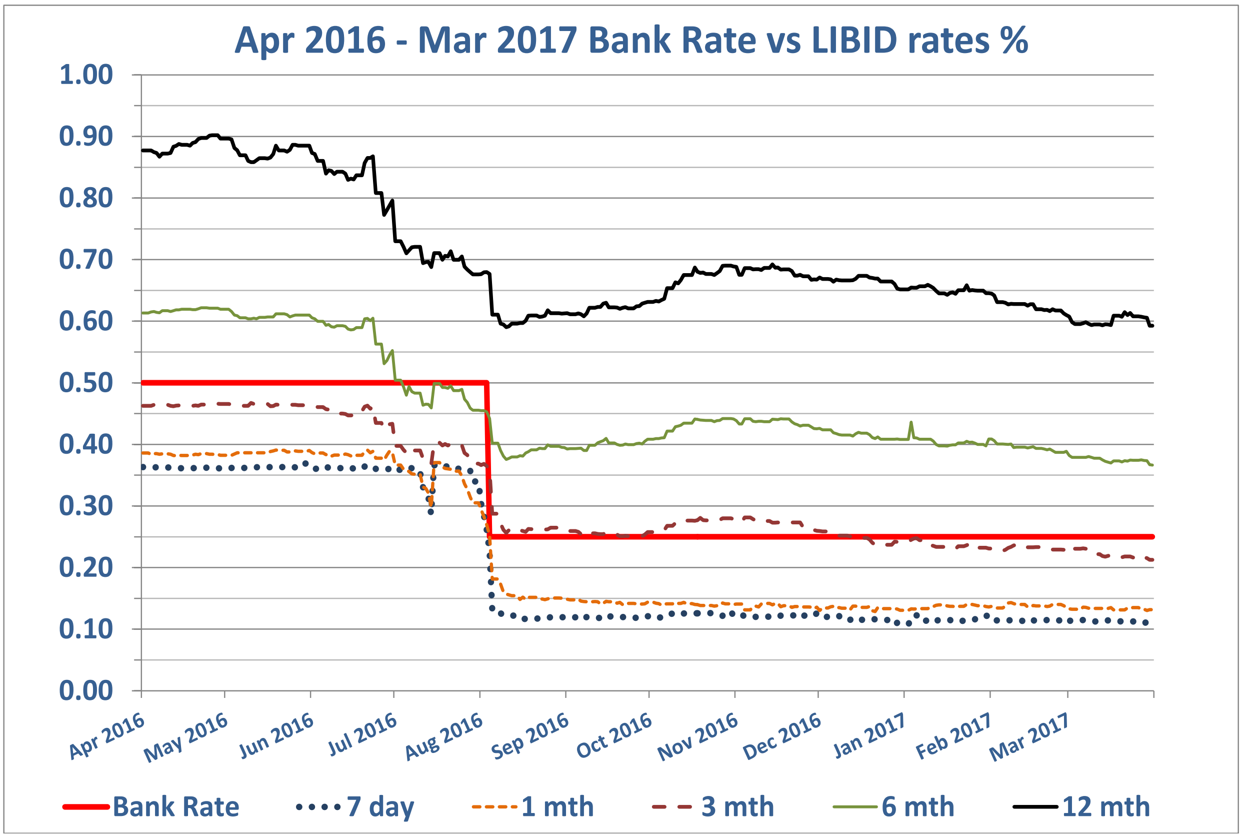
3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available 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 were broadly stable during the year continuing at historically low levels as a result of the ultra-low Bank Rate. The Council maintained an average balance of £7.4M internally managed funds. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20%. The Council investment 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 month).

Investment performance for the financial year 2016/2017

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.20	0.28	£21k
3 month	0.32	N/A	N/A

As illustrated, the Council outperformed the benchmark by 0.08 bps.



4.0 New Borrowing

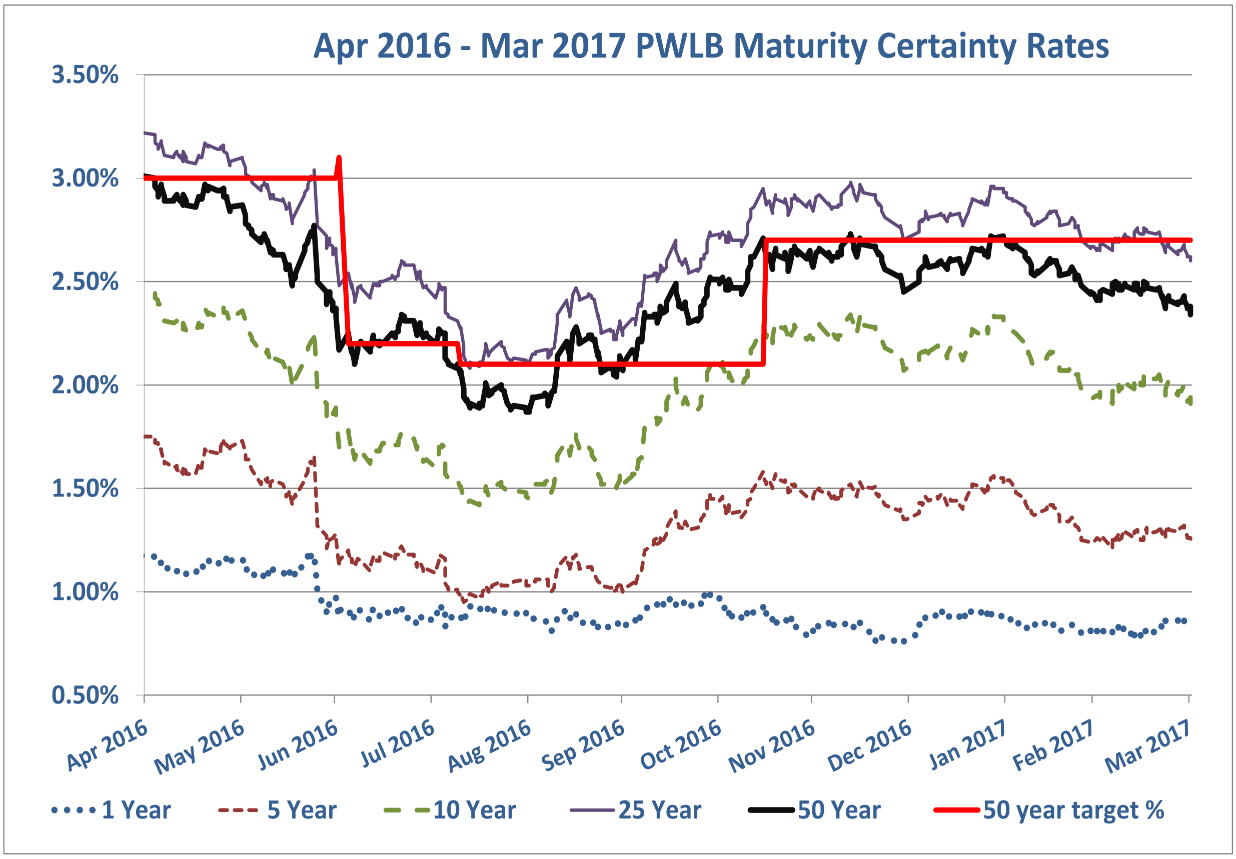
4.1 As depicted in the graph below, there has been major volatility in PLWB rates during 2016/17. Rates fell during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

4.2 No long term borrowing was undertaken during the period.

4.3 **PWLB certainty rates, for the financial year to the 31st March 2017**

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016

Average	0.93%	1.36%	2.01%	2.72%	2.49%



4.4 **Borrowing in advance of need.**

The Council has not borrowed in advance of need during the period ended 31st March 2017.

5.0 Debt Rescheduling

5.1 During the year ended 31st March 2017, 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 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. 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 2016/17.

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 2016/17 as part of its overall borrowing strategy, this policy has allowed the Council to benefit from lower interest rates available over the short term, reducing borrowing costs significantly in the short term. Over our current 2016/17 borrowing requirement, the Council has been able to obtain short term borrowing at 0.33% compared to current long term rates at 1.60% for 10 year. Over this period the policy has reduced annual borrowing costs by £190k.

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 which impact 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
(Legal Services 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

Community Safety

13.1 None

Sustainability

13.2 None

Staffing & Trade Union

13.3 None

Appendix 1

Prudential and Treasury Indicators as at 31st March 2017

Treasury Indicators	2016/17 Budget £'000	Annual (Apr-Mar) Actual £'000
Authorised limit for external debt	£30M	£30M
Operational boundary for external debt	£25M	£25M
Gross external debt	£25M	£19.5M
Investments	N/A	£0M
Net borrowing	£25M	£19.5M

Maturity structure of fixed and variable rate borrowing - upper and lower limits		
Under 12 months	0% - 100%	74.36%
12 months to 2 years	0% - 100%	0%
2 years to 5 years	0% - 100%	0%
5 years to 10 years	0% - 100%	25.64%
10 years to 20 years	0% - 100%	0%
20 years to 30 years	0% - 100%	0%
30 years to 40 years	0% - 100%	0%
40 years to 50 years	0% - 100%	0%
Upper limit of fixed interest rates based on net debt	100%	74.36%
Upper limit of variable interest rates based on net debt	100%	25.64.%

Appendix 2

INTEREST RATES FORECASTS

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

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	0.75%
5yr PWLB rate	1.40%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%
10yr PWLB rate	2.10%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
25yr PWLB rate	2.70%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
50yr PWLB rate	2.50%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. At that juncture, it also gave a strong steer that it was likely to cut Bank Rate again by the end of 2016. However, since August, growth has been robust; also, inflation forecasts have risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, Bank Rate has not been cut again, and, on current trends, it now appears unlikely that there will be another cut. Nevertheless, that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is unlikely that the MPC will do anything to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.