Meeting:	**SMT**	**6th November 2018**
	Cabinet Briefing	**14th November 2018**
	Audit and Governance Committee	**19th November 2018**
	Cabinet	**5th December 2018**
Subject:	**Treasury Management Update – Mid Year Report 2018/19**	
Report Of:	**Cabinet Member for Performance and Resources**	
Wards Affected:	**All**	
Key Decision:	**No** **Budget/Policy Framework: No**	
Contact Officer:	**Jon Topping, Head of Policy & Resources**	
	Email:jon.topping@gloucester.gov.uk	**Tel: 396242**
Appendices:	**1. Prudential and Treasury Indicators** **2. Interest rate forecasts**	

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1st April 2018 to 30th September 2018 and therefore, ensures this Council is implementing best practice in accordance with the Code.

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 Link Asset Services.

1.3 The body of the report provides an overview of the Councils performance for the first half of 18/19;

- **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 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 22nd March 2018. 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 The average level of funds available for investment purposes during the period was £6.5m. 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 holds £10m core cash balances for investment purposes (i.e. funds available for more than one year).

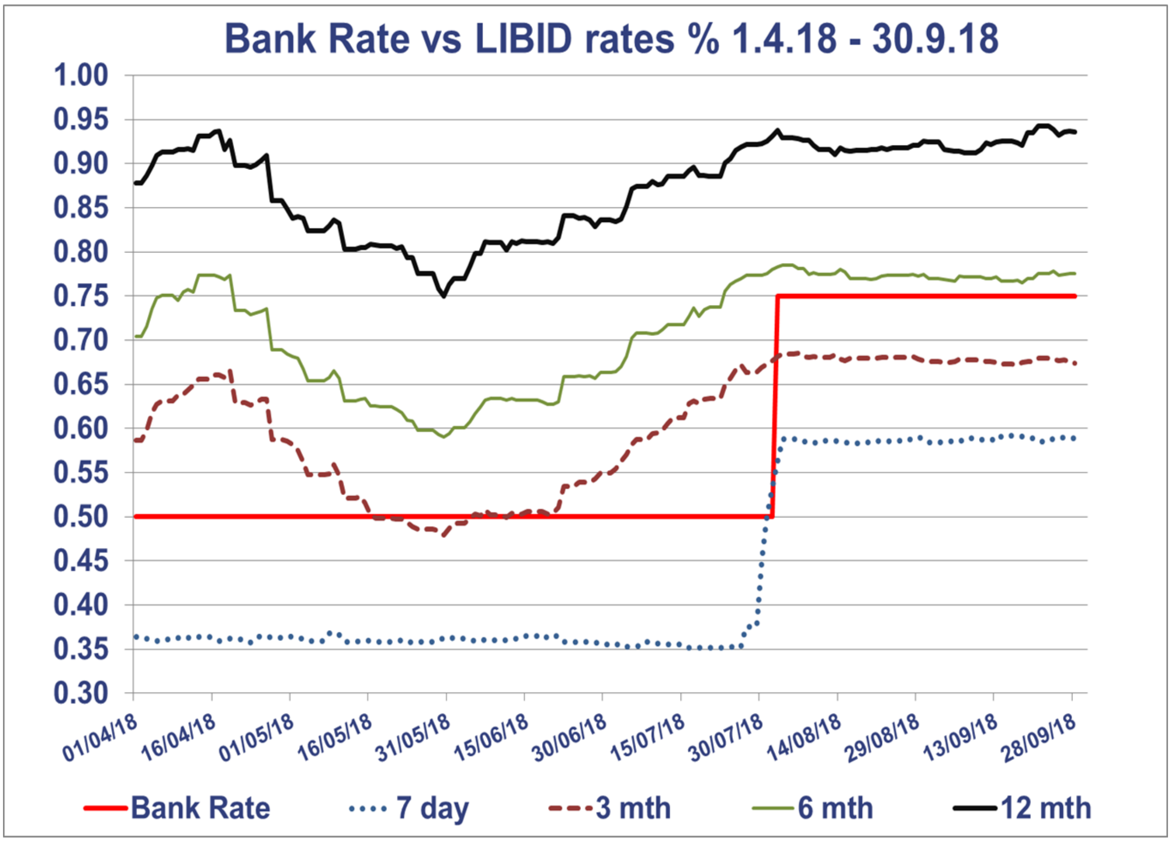
3.3 Investment rates have risen during the period as a result of the increase in Bank Rate in August.

Investment performance for the financial year to date as at 30th September 2018

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.44	0.53	£34,470.10
1 month	0.47	n/a	n/a
3 month	0.61	0.61	£23,915.62
6 month	0.71	n/a	n/a
12 month	0.94	n/a	n/a

As illustrated, the Council outperformed the benchmark by 9 bps on 7 day investment returns and matched the benchmark for 3 month investment returns. The Council's budgeted net investment performance for the year to date is in line with the budget.

Interest Rate Profile - Half year ended 30 September 2018



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.59	0.60	0.68	0.78	0.94
High Date	02/08/2018	14/09/2018	18/09/2018	06/08/2018	03/08/2018	21/09/2018
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.58	0.43	0.47	0.61	0.71	0.87
Spread	0.25	0.24	0.23	0.21	0.19	0.19

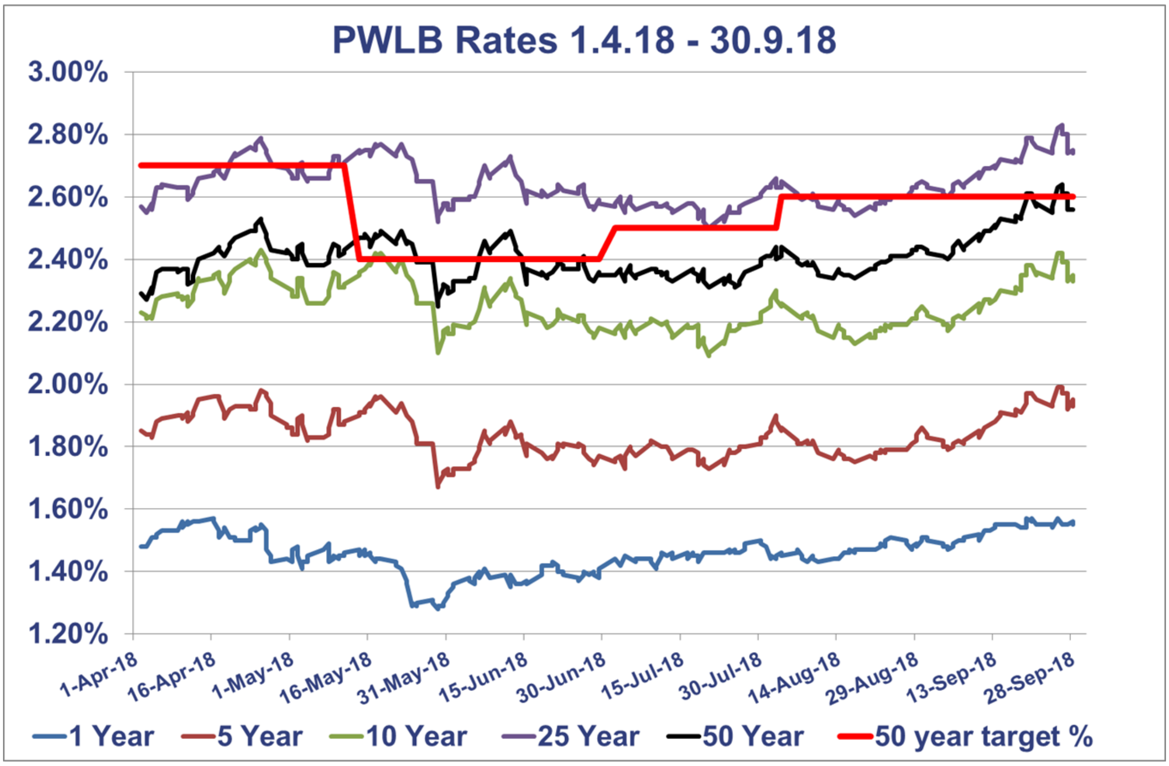
4.0 New Borrowing

4.1 It is anticipated that further borrowing will not be undertaken during this financial year.

4.2 No long term borrowing was undertaken during the period.

4.3 **PWLB certainty rates, for the financial year to the 30th September 2018**

PWLB rates have not been on any consistent trend during this period. The 50 year PWLB target (certainty) rate for new long term borrowing varied between 2.40% and 2.70% during this period.



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

4.4 **Borrowing in advance of need.**

The Council has not borrowed in advance of need during the period ended 30th September 2018.

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 period ended 30th September 2018, 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.

6.3 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 2018/19.

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 2018/19 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 2018/19 borrowing requirement, the Council has been able to obtain short term borrowing at 0.56% compared to current long term rates at 2.25% for 10 year.

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.

7.6 **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

7.7 **IFRS9 accounting standard**
This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact of this on the Council is in the process of being quantified.

7.8 The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.

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.

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