Gloucester City Council

Meeting:	**Cabinet**	**6th December 2017**
Subject:	**Treasury Management Update – Mid Year Report 2017/18**	
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 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 2017 to 30th September 2017 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 Capita Asset Services.

1.3 The body of the report provides an overview of the Councils performance for the first half of 17/18;

- **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 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 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 23rd March 2017. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

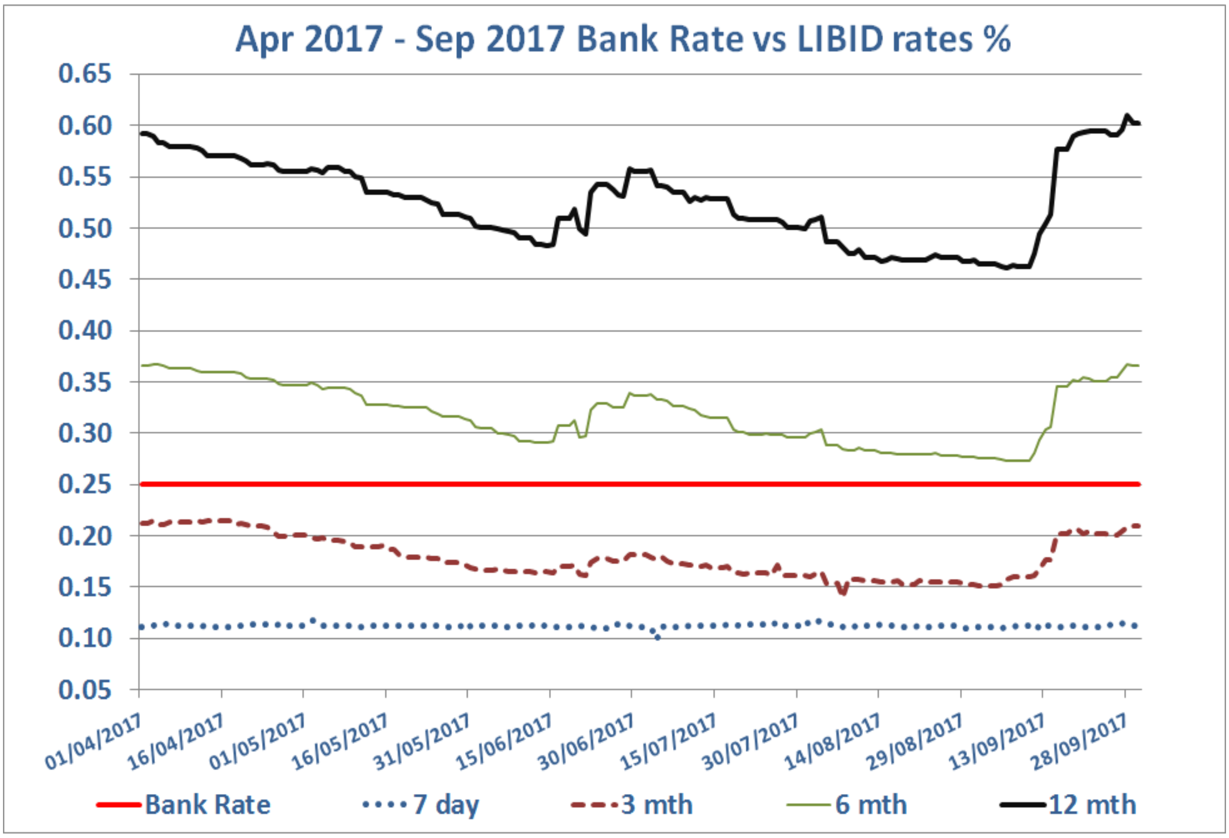
3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available 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 on a slight declining trend during most of quarter 1 and 2 but, apart from the seven day rate, moved up sharply in late June and then again after the MPC meeting of the 14 September abruptly raised expectations of how soon Bank Rate was likely to go up. The average level of funds available for investment purposes during the period was £9.1M. 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 £12m core cash balances for investment purposes (i.e. funds available for more than one year).

3.3 In July 2017, the Council entered into an agreement on the Kings Walk shopping centre. This agreement means investment into the shopping centre including the redevelopment of the old BHS unit which is currently vacant. The agreement also saw a cash injection into the Council. As reported to Council, where appropriate this cash injection will be earmarked to meet future liabilities as appropriate. In the short term it has enabled the Council to reduce its overall borrowing level and provided funds for investment. In the six month period, the Council has invested £5m in the CCLA property investment fund.

Investment performance for the financial year to date as at 30th September 2017

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.11	0.06	£5,704.91
1 month	0.13	N/A	N/A
3 month	0.18	0.22	£723
6 month	0.32	0.35	£855
12 month	0.53	N/A	N/A



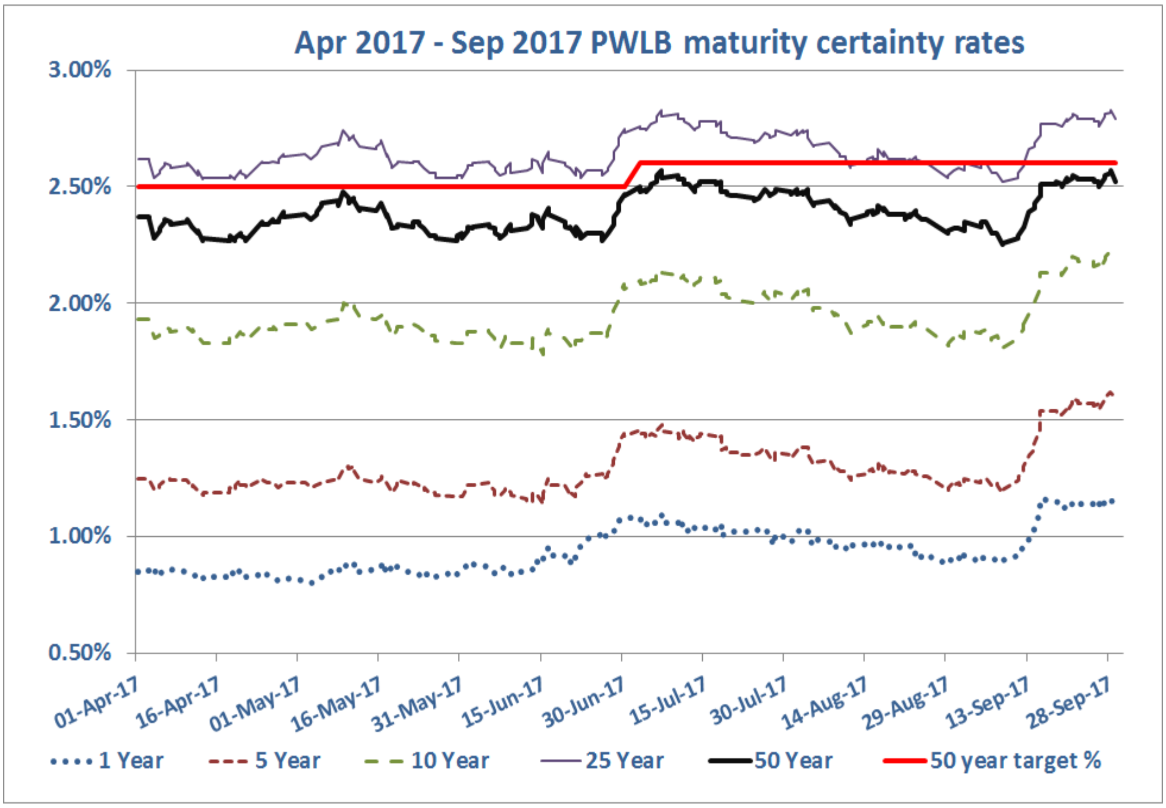
4.0 New Borrowing

4.1 As depicted in the graph below, there has been significant volatility in PLWB rates during final weeks of quarter 2 following the September MPC meeting and the suggestion that Bank Rates will need to increase sooner than markets initially anticipated, partly because of inflation concerns and also because of the tightening labour market.

4.2 No long term borrowing was undertaken during the period.

4.3 **PWLB certainty rates, for the financial year to the 30th September 2017**

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16%	1.62%	2.22%	2.83%	2.57%
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.94%	1.30%	1.95%	2.65%	2.39%



4.4 **Borrowing in advance of need.**

The Council has not borrowed in advance of need during the period ended 30th September 2017.

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 30^{th} September 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 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. 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 2017/18.

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 2017/18 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 2017/18 borrowing requirement, the Council has been able to obtain short term borrowing at 0.23% compared to current long term rates at 1.95% 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 The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use, apart from cash deposits with banks and building societies

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
<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 30th September 2017

Treasury Indicators	2017/18 Budget £'000	Mid-Year (Apr-Sep) Actual £'000
Authorised limit for external debt	£40M	£40M
Operational boundary for external debt	£35M	£35M
Gross external debt	£35M	£10M
Investments	N/A	£12M
Net borrowing	£35M	£-2M

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

Appendix 2

INTEREST RATES FORECASTS

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.