Reigate & Banstead BOROUGH COUNCIL
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REPORT OF:	BILL PALLETT
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TO:	EXECUTIVE
DATE:	10 November 2016
EXECUTIVE MEMBER:	COUNCILLOR T. SCHOFIELD

KEY DECISION REQUIRED:	NO
WARD (S) AFFECTED:	ALL

SUBJECT:	**HALF YEARLY TREASURY MANAGEMENT REPORT FOR 2016/17**

RECOMMENDATIONS:

Note the Treasury Management Performance for the year to date and the prudential indicators.

REASONS FOR RECOMMENDATIONS:

To comply with the requirements of the regulatory framework for treasury management and meet the Council's reporting requirements.

EXECUTIVE SUMMARY:

The 2016/17 treasury management performance is currently forecast as a net under-spend of £4,000. This is due to the reduced need to borrow (and lower than budgeted transfer to trust funds due to low interest rates).

The update of the capital programme has not resulted in any changes to the Prudential Indicators, Investment Strategy, Borrowing Strategy or Cash Management Strategy at this time.

The above recommendations are subject to approval by Full Council.

STATUTORY POWERS

1. The Council operates its Treasury Management activity as an integral part of its statutory obligation to effectively manage the Council's finances under the Local Government Act 2003 and associated regulations.
2. The Council's Treasury Management activities are undertaken in accordance with Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities, and the Government's Investment Regulations.

3. Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the Annual Treasury Strategy and Annual Report on Treasury Management Activity required previously.

4. This report meets that requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the Capital Expenditure Plans and the Council's Prudential Indicators.

BACKGROUND

5. The Treasury Management Strategy and PI's were previously reported to the Executive on 31 March 2016.

KEY INFORMATION

Issues

6. The underlying economic environment continues to remain challenging for the Council, particularly in relation to investment counterparty risk (ie which institutions it is "safe" to invest with.) This has led to an approach of maintaining short-term investments with high quality counterparties. The consequences of this approach are that investments are limited to a small group of banks and building societies. The returns on investment continue to be low although we have taken advantage of 2- year deals where possible.

Current Treasury Position

7. The following shows the Council's net investment position as at 30 September 2016 and its projected position at 31 March 2017.

	Actual as at 31/3/16 £000	**Average Rate %**	**Current Position as at 30/9/16 £000**	**Estimated Position as at 31/3/17 £000**	**Anticipated Average Rate %**
Fixed Rate Borrowings	**0**	**0**	**0**	**0**	**0**
Variable Rate Borrowings	**0**	**0**	**0**	**0**	**0**
TOTAL BORROWINGS	**0**	**0**	**0**	**0**	**0**
Fixed rate Investments	**(48,000)**	**1.089**	**(48,000)**	**(48,000)**	**1.084**
Variable rate Investments	**0**	**0**	**0**	**0**	**0**
TOTAL INVESTMENTS	**(48,000)**	**1.089**	**(48,000)**	**(48,000)**	**1.084**
Net Investments	**(48,000)**		**(48,000)**	**(48,000)**	

8. It is anticipated that minor borrowing may be needed at the end of the financial year due to cash flow requirements.

9. The following table shows the projected earnings against the treasury budget at 30 September 2016. This shows a projected net underspend of £4,000.

Activity	Projection as at 30/9/16 £000	Budget 2016/17 £000	Variance Projected at 31/03/17 £000
Cash Managers – Investment Returns	(484)	(513)	29
Bank Deposit returns	(21)	(18)	(3)
Temporary Lending – Cash Flow Activity	(30)	(31)	1
Bank Charges, Borrowing Costs & Operational Costs	66	97	(31)
Net Interest	**(469)**	**(465)**	**(4)**

Conditions and Expected Movements in Interest Rates

10. A detailed commentary of the economy and interest rates, as provided by Capita (our treasury advisers), can be found in Annex 1 to this report.

Investment Strategy

11. No changes are proposed to the 2016/17 Investment Strategy. The Investment Strategy for 2017/18 will be reviewed in a separate report later in the year.

Borrowing Strategy

12. The Borrowing Strategy Remains unchanged.

Cash Management Strategy

13. The Cash Management Strategy sets out the Council's approach to the effective management of the processes handling the inflows and outflows of cash within the Council. Work continues in this area to ensure the efficiency and productivity of these systems and processes.

Prudential Indicators

14. The relevant Prudential Indicators are set out in each of the individual strategy documents. An update on the performance against these indicators is provided below.

15. **Capital Programme –** The Capital Programme has been revised to take account of carry forwards and reprofiling of projects to reflect updated expectations. The following table shows these revisions for 2016/17.

Capital Expenditure	2016/17 Original Budget £000	2016/17 Revised Budget £000	2017/18 Budget £000	2018/19 Budget £000
Waste Management & Recycling Improvements	20	818	20	10
Environment	104	114	104	84
Capital Grants	630	651	660	660
Regeneration	3,028	6,423	3,735	207
Leisure & Culture	522	711	356	520
Strategic Property	4,493	13,785	963	563
Organisational Change	213	898	0	0
Rolling Programmes	563	897	921	873
Total Capital Programme	**9,573**	**24,297**	**6,759**	**2,917**

16. Capital Financing – The table below shows the Capital Financing for the revised programme.

Capital Financing	2016/17 Original	2016/17 Revised	2017/18 Budget	2018/19 Budget
Total Capital Expenditure	**9,573**	**24,297**	**6,759**	**2,917**
Capital Receipts Reserve	6,917	18,241	5,592	1,750
Capital Grants	882	3,635	472	472
CIL / S106	1,274	1,274	195	195
New Homes Bonus	0	647	0	0
Contributions from Revenue	500	500	500	500
Total Financing	**9,573**	**24,297**	**6,759**	**2,917**
Borrowing Need (or Capital Financing Requirement)	**0**	**0**	**0**	**0**
Net Investments (see table in paragraph 7)	**(48,000)**	**(48,000)**	**(39,000)**	**(37,500)**

17. **Capital Financing Requirement –**There is currently no long term borrowing in 2016/17, which results in a Capital Financing Requirement (CFR) of zero. In addition, there will be no requirement to make a Minimum Revenue Provision (MRP) toward the repayment of borrowing in 2016/17.

18. There is also a requirement to ensure that total borrowing, net of any investments, does not, except in the short-term, exceed the total of the CFR for 2016/17 and the next 2 years. Since projected investment levels are greater than projected borrowing levels the Council complies with this.

20. **Borrowing Limits –** The Council sets limits on borrowing activity. These are set out below.

	2015/16 Actual £000	2016/17 Budget £000	2017/18 Budget £000	2018/19 Budget £000
Authorised Limit for External Debt	35,000	35,000	35,000	35,000
Operational Boundary for External Debt	25,000	25,000	25,000	25,000
Upper limit for fixed rate exposure	100%	100%	100%	100%
Upper limit for variable rate exposure	0%	0%	0%	0%

OPTIONS

21. The Executive has two options open to it.

Option 1 – accept and note the contents of the report.

Option 2 – accept the report, but ask Officers to provide more detail on some specific issues contained in the report.

22. The Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

23. There are no direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

24. There are no direct financial implications arising from this report.

25. The implications arising from treasury management activity have been taken into account in the budget and are reported through regular financial monitoring.

EQUALITIES IMPLICATIONS

26. There are no equality issues that need to be considered as part of this report.

CONSULTATION

27. There is no consultation required in this report. However this report will act as a starting point for discussions, later in the year, with the Treasury Member Panel regarding the Treasury Strategy 2016/17.

POLICY FRAMEWORK

28. This report is submitted in accordance with the Council’s Treasury Management Policy.

Background Papers: None

Economic Background & Interest Rate: a commentary from Capita

- UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

- The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

- The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

- The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

- In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

- Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest Rate Forecast

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25%. 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 could well turn negative when inflation rises during the next two years to exceed average pay increases.