REPORT OF:	Joss Convey
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TO:	EXECUTIVE
DATE:	9 November 2017
EXECUTIVE MEMBER:	COUNCILLOR T. SCHOFIELD

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

SUBJECT:	**HALF YEARLY TREASURY MANAGEMENT REPORT FOR 2017/18**

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 2017/18 treasury management performance is currently forecast as on budget.

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 2017.

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 two - year deals where possible.

Current Treasury Position

7. The following shows the Council's net investment position as at 30 September 2017 and its projected position at 31 March 2018.

	Actual as at 31/3/17 £000	Average Rate %	Current Position as at 30/9/17 £000	Estimated Position as at 31/3/18 £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	0.9608	48,000	48,000	0.9608
Variable rate Investments	0	0	0	0	0
TOTAL INVESTMENTS	48,000	0.9601	48,000	48,000	0.9601
Net Investments	48,000		48,000	48,000	

8. Due to cash flow requirements arising in particular from property investments, forecasted cash requirements will be closely monitored to assess any borrowing requirements required by the end of the financial year.

9. The following table shows the projected earnings against the treasury budget at 30 September 2017. This shows that the forecast performance is on budget.

Activity	Projection as at 30/9/17 £000	Budget 2017/18 £000	Variance Projected at 31/03/18 £000
Cash Managers – Investment Returns	(433)	(433)	0
Bank Deposit returns	(7)	(17)	10
Temporary Lending – Cash Flow Activity	(32)	(32)	0
Bank Charges, Borrowing Costs & Operational Costs	86	97	(11)
Net Interest	**(386)**	**(385)**	**(1)**

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 2017/18 Investment Strategy at this time. The Investment Strategy for 2018/19 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.

Capital Programme

15. 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 2017/18.

Capital Expenditure	2017/18 Original Budget £000	2017/18 Revised Budget £000	2018/19 Budget £000	2019/20 Budget £000
Waste Management & Recycling Improvements	20	79	10	10
Environment	104	162	84	84
Capital Grants	660	1,200	1,185	1,185
Regeneration	3,823	7,023	6,800	0
Leisure & Culture	356	478	520	397
Strategic Property	963	18,545	563	0
Organisational Change	0	70	0	0
Rolling Programmes	921	997	1,011	1,031
Total Capital Programme	**6,847**	**28,554**	**10,173**	**2,707**

Capital Financing

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

Capital Financing	2017/18 Original	2017/8 Revised	2018/19 Budget	2019/20 Budget
Total Capital Expenditure	**6,847**	**28,554**	**10,173**	**2,707**
Capital Receipts Reserve	5,874	23,164	8,418	880
Capital Grants	472	1,521	965	965
CIL / S106	-195	277	290	362
New Homes Bonus	0	3,092	0	0
Contributions from Revenue	500	500	500	500
Total Financing	**6,847**	**28,554**	**10,173**	**2,707**
Borrowing Need (or Capital Financing Requirement)	**0**	**0**	**0**	**0**
Net Investments (see table in paragraph 7)	**(48,000)**	**(48,000)**	**(43,000)**	**(43,000)**

Capital Financing Requirement

17. There is currently no long term borrowing in 2017/18, 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 2017/18.

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 2017/18 and the next

2 years. Since projected investment levels are greater than projected borrowing levels the Council complies with this.

Borrowing Limits

19. The Council sets limits on borrowing activity. These are set out below.

	2016/17 Actual £000	2017/18 Budget £000	2018/19 Budget £000	2019/20 Budget £000
Authorised Limit for External Debt	35,000	80,000	80,000	80,000
Operational Boundary for External Debt	25,000	70,000	70,000	70,000
Upper limit for fixed rate exposure	100%	100%	100%	100%
Upper limit for variable rate exposure	0%	0%	0%	0%

OPTIONS

20. 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.

21. The Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

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

EQUALITIES IMPLICATIONS

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

CONSULTATION

26. 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 2018/19.

POLICY FRAMEWORK

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

Background Papers: None.

Economic Analysis

Introduction

Economic Analysis - extract from Capita's "Treasury Management Strategy Statement and Annual Investment Strategy (Mid-Year Report 2017/18)".

Capita provide treasury managements services to the Council.

The extract focuses on two key areas:

1. UK economic update
2. UK interest rate forecasts

UK economic update

- After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports.

- It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

- The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.

- In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

- It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

UK interest rate 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.