Agenda Item 10

Audit Committee

25th September 2015

Report of: Section 151 Officer

Report Title: Treasury Management Quarter 1 Report 2015/16

Ward: Citywide

Officer presenting report: **Peter Gillett**

Contact telephone number: **0117 92 22419**

RECOMMENDATION

1. That the committee note the report.

Purpose of the report:

2. 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. This report provides a quarterly update for the Council's Treasury Management function to the end of June 2015.

   There are no policy changes to the strategy, the details in this report update the current Treasury position.

Current Strategy

3. The 2015–2018 Treasury Strategy identified a medium term borrowing requirement of £150m to support the existing and future Capital Programme with the additional debt servicing costs met from revenue savings from capital investment and the economic development fund.

   The Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£237m at June 2015), £140m estimated for March 2016). This strategy is prudent as investment returns are low and counterparty risk is relatively high. No change to this policy is proposed and no borrowings are currently anticipated in the current financial year, but recognise borrowing rates remain at historic low levels.

   However, if there is a significant change in markets and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk.

Analysis of Debt and Investments

4. A summary of the of the Council's debt and Investment position as at 30th July 2015 (including a forecast to 31st March 2016) is shown in the table below:

Debt & Investments	31st March 2015		30th July 2015		31st March 2016	
	£	Rate	£	Rate	£	Rate
Long Term Debt - PWLB	£292m	5.09%	£292m	5.09%	£292m	5.09%
Long Term Debt – Market	£123m	4.14%	£123m	4.14%	£123m	4.14%
Short Term Borrowing	-	-	-	-	-	-
Total Debt	**£415m**	**4.81%**	**£415m**	**4.81%**	**£415m**	**4.81%**
Investment	£191m	0.69%	£238m	0.60%	£140m	0.60%
Net Borrowing Position	**£224m**		**£177m**		**£275m**	

Interest Rate Forecast and Economic Background

The Council's treasury advisor has provided the following forecast:

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%

5. After strong UK GDP growth in 2013 at an annual rate of 2.7% and 3.0% in 2014, quarter 1 of 2015 was disappointing at only 0.4%, though subsequent data indicates that this could well be revised up, with stronger growth anticipated for quarter 2.

   This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 1 of 2016 to quarter 2 of 2016 as a result primarily of poor growth in quarter 1.

   The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual.

Annual Investment Strategy

6. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2015.

   Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was £254m. The return for period was 0.60% compared to the recognised benchmark of 0.36% (7 day Libid).

Borrowing

7. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The authority is required by regulation to have regard to the Prudential Code to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

8. The authority will consider proposals for capital investment to be funded by long term borrowing if the scheme can demonstrate -

   - positive income streams to meet the debt servicing costs, or
   - have identified alternative revenue savings to meet the debt servicing costs.

9. As mentioned in paragraph 3, long term borrowing has been deferred while the authority has significant cash resources, in order to reduce its exposure to counterparty risk.

10. A key Prudential Code indicator is the Council's borrowing need (the Capital Financing Requirement also known as the CFR). The CFR is a measure of the Council's underlying borrowing need, essentially capital expenditure planned to be funded by long term borrowing commonly known as Prudential Borrowing. The CFR over the medium term is £694m including the borrowing required for capital projects on the Capital Programme (tier1), primarily the Arena and Metrobus. Long term borrowing is currently £415m, representing a borrowing headroom of £279m.

Risk Assessment

Borrowing and lending activity is reported.

The principal risks associated with treasury management are:

- The risk of loss as a result of failure of counterparties.

- This is mitigated by limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties;

- The risk of loss as a result of borrowing at high rates of interest/lending at low rates of interest.

This is mitigated by planning and undertaking borrowing and lending in the light of advisers' assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Public sector equality duties:

There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Environmental checklist / eco impact assessment

Not applicable

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

Legal advice provided by Shahzia Daya

Financial

(a) Revenue

The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.

Advice given by Jon Clayton

(b) Capital

None Sought

Land

None.

Personnel

None.

Appendices: None

Access to Information (Background Papers): None