

Treasury Management Update Quarter 3 (October-December), 2016-17

Purpose:

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in November 2009; it recommends that Councillors should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

Economic climate:

In summary, the fourth quarter of 2016 (calendar year) saw:

- With the terms of the UK Brexit deal to leave the EU still undecided, this continues to cause widespread market uncertainty;
- Global GDP concerns remain, particularly given the continued slowdown in the Chinese economy, the US presidential election result and the aftermath of the UK EU referendum vote;
- The Bank of England Monetary Policy Committee (MPC) maintained base rate at 0.25%, and unanimously voted to continue with the programme of £60 billion of UK government bond and £10 billion of corporate bond purchases announced in August.
- The significant fall in the pound since August is likely to push up inflation for years to come. This, along with past depreciation of the pound, means that inflation is projected to rise above the 2% target over the next twelve months and will only begin to fall back around the middle of 2018.
- Unemployment levels are forecast to remain stable in the near term;

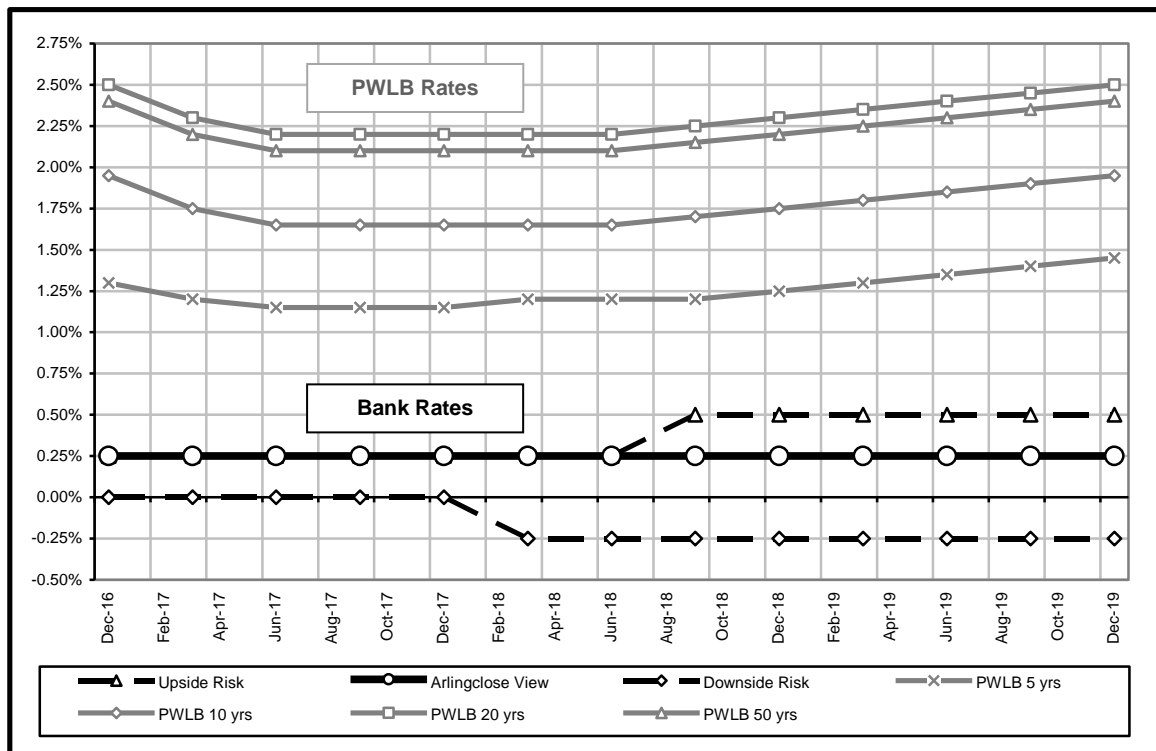
Interest rate forecast:

The latest forecast for interest rates of treasury advisors Arlingclose over the next three years is set out below, along with a sensitivity analysis of potential upside and downside risk to official bank rate.

Table 1: Interest Rate Forecast

	Dec 2016	Mar 2017	Jun 2017	Sept 2017	Dec 2017	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Jun 2019	Sept 2019	Dec 2019
Official Bank Rate													
Upside Risk	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Arlingclose View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Downside Risk	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
Public Works Loans Board Implied Rates (Certainty Rate)													
5 years	1.30%	1.20%	1.15%	1.15%	1.15%	1.20%	1.20%	1.20%	1.25%	1.30%	1.35%	1.40%	1.45%
10 years	1.95%	1.75%	1.65%	1.65%	1.65%	1.65%	1.65%	1.70%	1.75%	1.80%	1.85%	1.90%	1.95%
20 years	2.50%	2.30%	2.20%	2.20%	2.20%	2.20%	2.20%	2.25%	2.30%	2.35%	2.40%	2.45%	2.50%
50 years	2.40%	2.20%	2.10%	2.10%	2.10%	2.10%	2.10%	2.15%	2.20%	2.25%	2.30%	2.35%	2.40%

Chart 1: Interest Rate Forecast



There are many risks to the forecast set out above, principally around the uncertain outlook for the UK economy. Budget estimates prudently include sensitivity analysis of the impact that a slower than forecast economic recovery would have upon the Council.

Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 17th February 2016. It sets out the Council's investment priorities as being:

1. **Security of Capital;**
2. **Liquidity; and**
3. **Yield**

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

The table, over the page, summarises the forecast investment maturity position at 31 December 2016.

Table 2: Forecast Investment Maturity Position at 31st December 2016

Period	Product type / Maturity	Amount	
		£	%
Instant Access	Banks	£2,384	0.0
	Money Market Funds	£96,000,000	32.1
		£96,002,384	32.1
Fixed Term – Building Societies	0-3 months to maturity	£1,000,000	0.3
Fixed Term - Local Authorities	0-3 months to maturity	£20,000,000	6.7
	3-6 months to maturity	£15,500,000	5.2
	6-9 months to maturity	£2,000,000	0.7
	9-12 months to maturity	£22,000,000	7.4
	>12 months to maturity	£18,500,000	6.2
		£78,000,000	26.2
Certificates of Deposit – Banks	0-3 months to maturity	£72,000,000	24.1
	3-6 months to maturity	£23,000,000	7.7
		£95,000,000	31.8
Covered Bonds – Fixed Rate	1-2 years to maturity	£5,357,357	1.8
Covered Bonds – Floating Rate	1-2 years to maturity	£5,004,464	1.7
	2-3 years to maturity	£4,002,182	1.3
		£9,006,646	3.0
Property Fund	4-5 years to maturity*	£14,260,218	4.8
Total Investment Portfolio		£298,626,605	100.0

* In order to recoup initial BID/OFFER pricing spread. Monthly valuation dates for purchase/sale of units - redemptions may be delayed should the fund be required to raise cash to meet this commitment.

Investment rates available in the market continue to be low for short-term durations, with some pickup in value in longer durations. In particular, the rates offered by banking institutions filtered by the Council's lending criteria have markedly reduced post-Brexit, and in most cases are now below comparable lending levels with other local authorities.

Investment balances at 31 March 2016 were £262.373m. Due to the front-loaded nature of various government funding streams the average level of funds available for investment purposes during this quarter is forecast at £303.870m. Balances are forecast to fall to circa £250m by 31 March 2017, higher than previously anticipated

due to delays on the Residual Waste Treatment Facility project payment, as internal resources are applied to fund capital expenditure demands in lieu of further borrowing so effectively reducing the cost of carrying debt at higher cost than income generated through investment of balances.

Table 3: Forecast Benchmark Performance – Q3

Benchmark	Benchmark Return	Council Performance
3 month LIBID	0.36%	0.73%

As illustrated, the authority outperformed the benchmark by 37 basis points. Market rates have dropped significantly in the wake of the Brexit vote; however the Council's pre-existing medium and long term investment returns have provided some protection from immediate volatility. Latest projections for the financial year are reported through the Budget Monitoring process.

New Borrowing

No new borrowing for capital purposes was undertaken during the quarter.

Below is a table setting out the profile of existing borrowing as at 31 December 2016.

Table 4: Borrowing Profile as at 31 December 2016

	Borrowing	
	£m	%
Under 12 months	2.520	0.5
1-2 years	9.024	1.8
2-5 years	23.491	4.8
5-10 years	63.650	12.9
Over 10 years	393.244	80.0
	491.929	100.0

Debt Restructuring

Debt rescheduling opportunities have been limited due to the current economic climate and consequent structure of interest rates following increases in PWLB new borrowing rates in October 2010. Officers continue to monitor the position regularly.

No debt rescheduling was undertaken during the quarter.

Compliance with Treasury and Prudential Limits

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) were approved alongside the TMSS on 17 February 2016.

During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement.

The Prudential and Treasury Indicators are shown in the attached **Appendix**.