



AGENDA ITEM: 13

SUMMARY

Report for:	Cabinet
Date of meeting:	Tuesday 16th December
Part:	I
If Part II, reason:	

Title of report:	Treasury Management Mid-Year Performance Report
Contact:	Cllr Nicholas Tiley – Portfolio Holder for Finance and Resources James Deane - Assistant Director Finance and Resources Richard Baker – Group Manager Financial Services
Purpose of report:	To provide Members with mid-year information on Treasury Management performance.
Recommendations:	That Cabinet considers and agrees the half-year report on targets and performance, in Sections 4-7.
Corporate Objectives:	Dacorum Delivers
Implications:	<u>Financial</u> A summary of performance against the Council's budgeted investment income is included in Section 5 of the report.
'Value For Money Implications':	<u>Value for Money</u> The Council is required to invest surplus funds to ensure that it maximises the benefit of cash flows.
Risk Implications:	Failures in the banking sector have increased the risk of investment being lost. A prudent approach to investment is required to minimise the risk to the Council of investment losses. Currently all DBC investments are in prime UK banks or in UK Government bodies; such as the DMO and other local authorities.
Community Impact Assessment:	There are no community impact implications.

Health And Safety Implications:	There are no health and safety implications.
Monitoring Officer/S.151 Officer Comments:	<p>Deputy Monitoring Officer:</p> <p>No comments to add to the report</p> <p>S.151 Officer</p> <p>This is a Section 151 Officer Report</p>
Consultees:	Capita Asset Services
Background papers:	Treasury Management Strategy (Budget Report Appendix N) - Cabinet 11 February 2014
Glossary of acronyms and any other abbreviations used in this report:	

1. **Background**

- 1.1 The Treasury Management team manages the Council's cash-flows in order to strike the optimal balance between the following three elements:
- The liquidity requirements for the Council's day-to-day business;
 - Funding the Council's capital programme;
 - Investing surplus monies in line with the Treasury Management Strategy.
- 1.2 The purpose of this report is to update Cabinet on the economic environment in which the Treasury team is operating, highlighting some of the key challenges, and to provide details of the current investment position (see Section 5).

2. **Governance**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2011 (the Code) was adopted by this Council in 2011.
- 2.2 The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
 - Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
 - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum

Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
- This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

Mid-year Report

2.3 This mid-year report has been prepared in compliance with the Code, and covers the following areas:

- An economic update for the first six months of 2014/15;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- The Council's capital expenditure (prudential indicators).

3. Economic update

3.1 The commentary in this section reflects analysis provided by Capita Asset Services, the Council's treasury management advisers. It updates Members on the key factors around the economic conditions in which the Council is currently operating.

3.2 After strong UK Gross domestic product (GDP) quarterly growth in 2013, and the first half of 2014, it appears very likely that strong growth will continue through 2014 and into 2015.

3.3 This overall growth has resulted in unemployment falling much faster than expected. Last August the Monetary Policy Committee (MPC) said it would start to consider an increase in Bank Rate when unemployment reached 7%. It has since broadened its guidance looking at a much wider range of indicators.

3.4 Markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers at a time when inflationary pressures are weak. A first increase in Bank Rate is not expected until at least Q2 2015, with slow pace increases to lower levels than the prevailing rates before 2008.

3.5 The Council's treasury advisor has provided the following rate forecasts:

	Dec-14	Mar-15	Jun-15	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%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

4. Treasury Management Strategy Statement and Annual Investment Strategy update

4.1 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 11th February 2014.

4.2 The Council's Annual Investment Strategy, which is incorporated within the TMSS, outlines the Council's investment priorities as follows:

- Security of capital;
- Liquidity;
- Return on investment.

4.3 The Council aims to achieve the optimum return on investments within the context of the first two priorities. A breakdown of the Council's investment portfolio, as at 30 September 2014, is shown in Appendix 1 of this report. Capita's full counterparty credit list as at September 2014 is shown in Appendix 2.

4.4 All the Councils Investments during the first six months of the year have been placed in accordance with the approved strategy.

4.5 As a result of the Co-operative Bank decision to remove themselves from the local authority banking market, as well as the downgrading of the bank in recent years, the Council have tendered for a new banking provider. The Royal Bank of Scotland/NatWest was the successful bidder; and there is an expected go-live date of February 2015 for the new contract.

5. Investment Portfolio 2014/15

5.1 As explained in Section 3, it is a very difficult investment market as rates are very low, in line with the 0.5% Bank Rate.

5.2 The potential prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

5.3 The Council held £64.435M of investments as at 30 September 2014 (£55.294M at 31 March 2014). The investment return for the first six months of the year was 0.70% against a 1 month LIBID rate of 0.44%.

- 5.4 The Council's investment return for Q1 and Q2 2014/15 displays a £126,000 favourable variance against the budgeted figure of £287,000. This is primarily due to higher than budgeted balances. One factor contributing to the increased balances is the level of Right to Buy receipts; £4.75M was budgeted for the whole of 2014/15, but this figure has already been exceeded, with £6.3M having been received by the mid-point in the year. Another factor has been the profile of capital expenditure throughout the year; the concentration of expenditure in the second half of the year has resulted in higher than anticipated balances being available for investment in the first two quarters.

6. Borrowing

- 6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes, and is currently forecast to be £349.557M at the end of the year. This includes the borrowing from the Public Works Loan Board following the introduction of Self Financing.
- 6.2 As a Local Authority, the Council is able to borrow funds from the Public Works Loan Board (PWLB), which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.
- 6.3 The PWLB charges interest rates, based on gilt yields, which are lower than the Council would be able to achieve by raising funds through the capital markets. Following completion of a voluntary return on future borrowing requirements, the Council can borrow at 20 basis points below the published PWLB rates.

7. The Council's Capital Expenditure (Prudential Indicators)

- 7.1 This part of the report is structured to update:
- The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators, and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.
- 7.2 Prudential Indicators for Capital Expenditure:

The table below shows the revised estimates for capital expenditure with the changes since the capital programme was agreed at the Budget in February 2014, and the expected financing arrangements of this capital expenditure.

Capital Expenditure by Service	2014/15 Original Estimate £M	Current Position £M	2014/15 Revised Estimate £M
General Fund	17.663	3.735	18.234
HRA	34.454	6.949	33.454
Total	52.117	10.684	52.688
Financed by:			
Capital receipts	24.474		20.739
Capital grants & S106	2.727		2.205
Capital reserves	7.959		7.959
Revenue	16.957		19.155
Total financing	52.117		50.058
Borrowing need	0		2.630

7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to revision of the Capital Programme, and incorporation of the actual outturn position from 2013/14.

	2014/15 Original Estimate £M	2014/15 Revised Estimate £M
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	0.188	0.188
CFR – HRA	346.739	349.369
Total CFR	346.927	349.557
Net movement in CFR	0.319	2.949
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	346.739	349.369
Other long term liabilities	0.188	0.188
Total debt 31 March	346.927	349.557

7.4 Prudential Indicator for Borrowing Activity:

The key control over treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and next two financial years.

7.5 The table below demonstrates that, in line with this prudential indicator, the Council's forecast net borrowing does not exceed the CFR for 2014/15.

	2014/15 Original Estimate £M	2014/15 Revised Estimate £M
Gross borrowing	346.739	349.557
Plus other long term liabilities	0.188	0.188
Less investments	(37.270)	(50.430)
Net borrowing	309.657	299.315
CFR (year-end position)	346.927	349.557

Appendix 1 - Investment Portfolio as at 30 September 2014

Borrower	Deposit Type	Principal	Date Lent	Date Repayable	Interest Rate	Duration (Days)	Capita Colour	Approved Duration	DBC Limit(M)
Co-operative Bank plc	Call Account	435,000	30/09/2014	01/10/2014	0.38%	1	N/C	N/A	N/A
Goldman Sachs	MMF	3,500,000	30/09/2014	01/10/2014	0.42%	1	Green	100 days	7
Insight	MMF	2,500,000	30/09/2014	01/10/2014	0.44%	1	Green	100 days	7
Lloyds TSB Corporate Markets	Investment	2,000,000	04/10/2013	03/10/2014	0.98%	364	Blue	12 months	12.5
Coventry Building Society	Investment	4,500,000	15/07/2014	16/10/2014	0.45%	93	Green	100 days	7
Ulster Bank Ltd	Investment	5,000,000	18/10/2013	17/10/2014	0.85%	364	N/C	N/A	N/A
Coventry Building Society	Investment	2,500,000	01/08/2014	24/10/2014	0.44%	84	Green	100 days	7
Lloyds TSB Corporate Markets	Investment	1,500,000	31/10/2013	31/10/2014	0.98%	365	Blue	12 months	12.5
Conwy County Council	Investment	3,000,000	01/07/2014	14/11/2014	0.29%	136	Yellow	5 years	N/A
Nationwide Building Society	Investment	1,000,000	03/07/2014	14/11/2014	0.55%	134	Red	6 months	9
West Dunbartonshire Council	Investment	2,000,000	01/07/2014	14/11/2014	0.29%	136	Yellow	5 years	N/A
Nationwide Building Society	Investment	1,000,000	10/07/2014	19/11/2014	0.55%	132	Red	6 months	9
Lloyds TSB Corporate Markets	Investment	1,500,000	07/05/2014	15/12/2014	0.73%	222	Blue	12 months	12.5
Lloyds TSB Corporate Markets	Investment	3,500,000	15/05/2014	19/12/2014	0.72%	218	Blue	12 months	12.5
Nationwide Building Society	Investment	6,000,000	01/09/2014	22/12/2014	0.53%	112	Red	6 months	9
Lloyds TSB Corporate Markets	Investment	2,000,000	07/01/2014	07/01/2015	0.95%	365	Blue	12 months	12.5
Lancashire County Council	Investment	3,000,000	17/07/2014	16/01/2015	0.48%	183	Yellow	5 years	N/A
Santander UK plc	Investment	5,500,000	01/08/2014	16/01/2015	0.65%	168	Red	6 months	9
BARCLAYS (DIRECT)	Investment	2,000,000	01/09/2014	19/01/2015	0.54%	140	Red	6 months	9
Birmingham City Council	Investment	2,500,000	24/07/2014	19/01/2015	0.45%	179	Yellow	5 years	N/A
Santander UK plc	Investment	1,500,000	01/09/2014	23/01/2015	0.61%	144	Red	6 months	9
Santander UK plc	Investment	2,000,000	21/08/2014	16/02/2015	0.64%	179	Red	6 months	9
Nationwide Building Society	Investment	1,000,000	29/08/2014	25/02/2015	0.64%	180	Red	6 months	9
Ulster Bank Ltd	Investment	1,000,000	06/03/2014	06/03/2015	0.82%	365	N/C	N/A	N/A
Ulster Bank Ltd	Investment	3,000,000	13/03/2014	13/03/2015	0.80%	365	N/C	N/A	N/A
Lloyds TSB Corporate Markets	Investment	1,000,000	17/03/2014	17/03/2015	0.95%	365	Blue	12 months	12.5

Appendix 2 - Sector Approved Lending List – UK Banks and Financial Institutions

Country	Counterparty	Sector Colour	Approved Duration	DBC Limit (M)
U.K	Abbey National Treasury Services plc	RED	6 months	9
U.K	Bank of New York Mellon (International) Ltd	ORANGE	12 Months	10
U.K	Barclays Bank plc	RED	6 months	9
U.K	Cater Allen	RED	6 months	9
U.K	Citibank International Plc	GREEN	100 days	7
U.K	Close Brothers Ltd	GREEN	100 days	7
U.K	Co-operative Bank Plc	NO COLOUR	NA	NA
U.K	Credit Suisse International	RED	6 months	9
U.K	Goldman Sachs International	GREEN	100 days	7
U.K	Goldman Sachs International Bank	GREEN	100 days	7
U.K	HSBC Bank plc	ORANGE	12 Months	10
U.K	MBNA Europe Bank	GREEN	3	7
U.K	Santander UK plc	RED	6 months	9
U.K	Standard Chartered Bank	RED	6 months	9
U.K	Sumitomo Mitsui Banking Corporation Europe Ltd	RED	6 months	9
U.K	UBS Ltd	RED	6 months	9
U.K	Coventry BS	GREEN	100 days	7
U.K	Leeds BS	GREEN	100 days	7
U.K	Nationwide BS	RED	6 months	9
U.K	Newcastle BS	NO COLOUR	NA	NA
U.K	Nottingham BS	NO COLOUR	NA	NA
U.K	Principality BS	NO COLOUR	NA	NA
U.K	Skipton BS	NO COLOUR	NA	NA
U.K	West Bromwich BS	NO COLOUR	NA	NA
U.K	Yorkshire BS	NO COLOUR	NA	NA
U.K	Lloyds Banking Group plc	BLUE	12	12.5
U.K	Bank of Scotland Plc	BLUE	12	12.5
U.K	Lloyds TSB Bank Plc	BLUE	12	12.5
U.K	Royal Bank of Scotland Group plc	BLUE	12	12.5
U.K	National Westminster Bank Plc	BLUE	12	12.5
U.K	The Royal Bank of Scotland Plc	BLUE	12	12.5
U.K	Ulster Bank Ltd	NO COLOUR	NA	N/A