



## AGENDA ITEM: 7

### SUMMARY

<b>Report for:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>Tuesday 15<sup>th</sup> December</b>
<b>Part:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Treasury Management Mid-Year Performance Report</b>
Contact:	Cllr Graeme Elliot – Portfolio Holder for Finance & Resources David Skinner – 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 – Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objectives.
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	There are no community impact implications.

Assessment:	
Health And Safety Implications:	There are no health and safety implications.
Monitoring Officer/S.151 Officer Comments:	<p><b>Monitoring Officer:</b></p> <p>No comments to add.</p> <p><b>S.151 Officer</b></p> <p>This is a Section 151 Officer Report.</p>
Consultees:	Capita Asset Services
Background papers:	Treasury Management Strategy (Budget Report Appendix K) - Cabinet 10 February 2015
Glossary of acronyms and any other abbreviations used in this report:	<p>Chartered Institute of Public Finance and Accountancy (CIPFA)</p> <p>Capital Financing Requirement (CFR)</p> <p>Gross Domestic Product (GDP)</p> <p>Monetary Policy Committee (MPC)</p> <p>Treasury Management Strategy Statement (TMSS)</p> <p>London Interbank Bid Rate (LIBID)</p> <p>Debt Management Office (DMO)</p> <p>Public Works Loan Board (PWLB)</p> <p>Housing Revenue Account (HRA)</p>

## 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 2015/16;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- 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 The UK Gross Domestic Product (GDP) growth rate in 2014 was the strongest UK growth rate since 2006, at 2.9%. The Bank of England is forecasting growth to remain around 2.4 – 2.8% over the next three years.

3.3 This overall growth has resulted in unemployment falling more quickly than expected over the last few years. Despite average weekly earnings increasing by 2.9% in the three months to July compared to last year, this is unlikely to prompt the Monetary Policy Committee (MPC) to take action on raising Bank Rate as

labour productivity growth meant that net labour unit costs are still only rising by about 1% year on year.

- 3.4 The forecast for the first increase in Bank Rate has been pushed back from Q1 to Q2 2016, and it is expected that rate increases will be at a slow pace as the MPC will want to protect heavily indebted consumers at a time when inflationary pressures are still weak.
- 3.5 The Council's treasury advisor has provided the following rate forecasts. The budget and forecasts contained within the Medium Term Financial Strategy are based on these forecasts. Fluctuations in the bank rate will impact on investment returns. Fluctuations on the PWLB rates will directly impact on future borrowing costs.:

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

#### 4. **Treasury Management Strategy Statement and Annual Investment Strategy update**

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by Council on 10<sup>th</sup> February 2015.
- 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 2015, is shown in Appendix 1 of this report. Capita's full counterparty credit list as at September 2015, which identifies those organisations with which the Council is able to place funds, 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.

#### 5. **Investment Portfolio 2015/16**

- 5.1 The Bank of England base rate remains low (as outlined in section 3). Because of this, the market rates banks are willing to pay on investments also remains low.

- 5.2 There continues to be concerns of another Eurozone sovereign debt crisis. This would have significant impact on banks, and enforces the need for the Council to continue with a low risk and short term investment strategy. This strategy generates lower returns for the Council but ensures the protection of the principal investment.
- 5.3 The Council held £75.648m of investments as at 30 September 2015 (£59.242m at 31 March 2015). The investment return for the first six months of the year was 0.65%.
- 5.4 The Council's investment return for Q1 and Q2 2015/16 displays a £196k favourable variance against the budgeted figure of £313k. This is due to the Council holding higher than budgeted cash balances, principally, the £19.78m Council borrowed from the PWLB in advance of need in order to take advantage of historically low interest rates. Another factor contributing to the increased balances is the level of Right to Buy receipts. The Government has continued to increase discounts and publicise the scheme, generating £5.9m in sales by the end of September, against a budget of £3.4m for the year. The scheme take up shows no signs of slowing down, and following the Government's 'pay to stay' policy announcement, it is likely to increase in future years.

## **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 £358.560m at the end of the year. This includes the borrowing from the Public Works Loan Board (PWLB) following the introduction of Self Financing, and the £19.7m borrowing taken up in the current year for general fund capital expenditure requirements, referred to in paragraph 5.4.
- 6.2 As a Local Authority, the Council is able to borrow funds from PWLB, which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.
- 6.3 The PWLB charges interest rates, 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 the 'certainty rate' for all new borrowing, which is 20 basis points below the published PWLB rates. The Council applied to the Local Enterprise Partnership for access to the 'project rate', which is 40 basis points below the published PWLB rates. This application was successful and the £19.7m borrowing undertaken in May 2015, was at the project rate.

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

- 7.1 Prudential indicators are set each year as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing, and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.
- 7.2 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.

### 7.3 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 2015, and the expected financing arrangements of this capital expenditure.

<b>Capital Expenditure by Service</b>	<b>2015/16 Original Budget £M</b>	<b>Current Budget £M</b>	<b>2015/16 Revised Forecast £M</b>
General Fund	27.328	29.052	24.302
HRA	36.310	35.589	35.702
<b>Total</b>	<b>63.639</b>	<b>64.641</b>	<b>60.004</b>
Financed by:			
Capital grants & S106	4.779		5.548
Capital receipts & reserves	26.992		23.800
Revenue	18.835		18.835
<b>Total financing</b>	<b>50.606</b>		<b>48.183</b>
<b>Borrowing need</b>	<b>13.033</b>		<b>11.821</b>

7.4 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 2014/15.

	<b>2015/16 Original Estimate £M</b>	<b>2015/16 Revised Estimate £M</b>
<b>Prudential Indicator – Capital Financing Requirement</b>		
CFR – General Fund	15.226	11.821
CFR – HRA	346.739	346.739
Total CFR	361.965	358.560
<b>Net movement in CFR</b>	<b>13.188</b>	<b>11.821</b>
<b>Prudential Indicator – External Debt / the Operational Boundary</b>		
Borrowing	366.567	366.567
Other long term liabilities	0.188	0.188
<b>Total debt 31 March</b>	<b>366.755</b>	<b>366.755</b>

### 7.5 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 2015/16 and next two financial years.

- 7.6 The table below demonstrates that, in line with this prudential indicator, the Council's forecast net borrowing does not exceed the CFR for 2015/16.

	<b>2015/16 Original Estimate £M</b>	<b>2015/16 Revised Estimate £M</b>
Gross borrowing	366.567	366.439
Plus other long term liabilities	0.188	0.188
Less investments	(34.016)	(61.630)
Net borrowing	332.739	304.977
CFR (year-end position)	361.965	358.560

Appendix 1 - Investment Portfolio as at 30 September 2015

Borrower	Deposit Type	Principal	Date Lent	Date Repayable	Interest Rate	Duration (Days)	Capita Colour	Approved Duration	DBC Limit(M)
Royal Bank of Scotland plc	Call Account	647,746	30/09/2015	01/10/2015	0.25%	1	Blue	12 months	12.5
Yorkshire Building Society	Investment	3,000,000	07/07/2015	14/10/2015	0.47%	99	Green	100 days	7
Nationwide Building Society	Investment	5,000,000	01/06/2015	19/10/2015	0.59%	140	Red	6 months	9
Coventry Building Society	Investment	2,000,000	21/07/2015	23/10/2015	0.45%	94	Red	6 months	9
Leeds Building Society	Investment	1,000,000	09/06/2015	09/11/2015	0.50%	153	Red	6 months	9
BARCLAYS (DIRECT)	Investment	3,000,000	11/05/2015	11/11/2015	0.65%	184	Red	6 months	9
Lloyds TSB Corporate Markets	Investment	4,500,000	15/06/2015	17/11/2015	0.62%	155	Red	6 months	9
Coventry Building Society	Investment	1,500,000	25/08/2015	25/11/2015	0.45%	92	Red	6 months	9
Yorkshire Building Society	Investment	2,000,000	01/09/2015	04/12/2015	0.47%	94	Green	100 days	7
Lloyds TSB Corporate Markets	Investment	4,500,000	01/07/2015	16/12/2015	0.62%	168	Red	6 months	9
Coventry Building Society	Investment	2,000,000	01/07/2015	21/12/2015	0.58%	173	Red	6 months	9
Nationwide Building Society	Investment	1,000,000	15/07/2015	12/01/2016	0.65%	181	Red	6 months	9
BARCLAYS (DIRECT)	Investment	2,500,000	03/08/2015	19/01/2016	0.67%	169	Red	6 months	9
Nationwide Building Society	Investment	1,000,000	03/08/2015	19/01/2016	0.63%	169	Red	6 months	9
Santander UK plc	Investment	4,000,000	23/07/2015	19/01/2016	0.73%	180	Red	6 months	9
Coventry Building Society	Investment	1,000,000	03/08/2015	03/02/2016	0.60%	184	Red	6 months	9
Santander UK plc	Investment	1,000,000	11/08/2015	09/02/2016	0.73%	182	Red	6 months	9
Nationwide Building Society	Investment	1,000,000	15/09/2015	17/02/2016	0.60%	155	Red	6 months	9
Coventry Building Society	Investment	1,500,000	01/09/2015	25/02/2016	0.59%	177	Red	6 months	9
Nationwide Building Society	Investment	1,000,000	01/09/2015	26/02/2016	0.65%	178	Red	6 months	9
BARCLAYS (DIRECT)	Investment	2,000,000	01/09/2015	21/03/2016	0.72%	202	Red	6 months	9
Santander UK plc	Investment	4,000,000	01/09/2015	29/03/2016	0.72%	210	Red	6 months	9
Royal Bank of Scotland plc	Investment	5,000,000	11/05/2015	09/05/2016	0.85%	364	Blue	12 months	12.5
Royal Bank of Scotland plc	Investment	2,500,000	03/08/2015	02/08/2016	0.92%	365	Blue	12 months	12.5
Royal Bank of Scotland plc	Investment	2,000,000	17/08/2015	16/08/2016	0.85%	365	Blue	12 months	12.5
BlackRock	MMF	3,000,000	30/09/2015	01/10/2015	0.39%	1	Green	100 days	7
Goldman Sachs	MMF	7,000,000	30/09/2015	01/10/2015	0.44%	1	Red	6 months	9
Insight	MMF	7,000,000	30/09/2015	01/10/2015	0.46%	1	Green	100 days	7



Appendix 2 - Capita 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 Scotland plc	RED	6 months	9
U.K	Barclays Bank plc	RED	6 months	9
U.K	Close Brothers Ltd	RED	6 months	9
U.K	Goldman Sachs International Bank	RED	6 months	9
U.K	HSBC Bank plc	ORANGE	12 months	10
U.K	Lloyds Bank plc	RED	6 months	9
U.K	Santander UK plc	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	RED	6 months	9
U.K	Leeds BS	RED	6 months	9
U.K	Nationwide BS	RED	6 months	9
U.K	Yorkshire BS	GREEN	100 days	7
U.K	National Westminster Bank Plc	BLUE	12 months	12.5
U.K	The Royal Bank of Scotland Plc	BLUE	12 months	12.5
U.K	Ulster Bank Limited (Suspended)	NO COLOUR	N/A	N/A