Agenda Item No

The Vale of Glamorgan Council

Cabinet Report 14th November 2016

Report of the Leader

Treasury Management

Purpose of the Report

1. To provide a mid year report on the Authority's treasury management operations for the period 1st April 2016 to 30th September 2016 which is a requirement of the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.

Recommendations

1. That the Treasury Management mid year report for the period 1st April 2016 to 30th September 2016 be noted.
2. The latest Treasury Management Indicators are noted.

Reasons for the Recommendations

1. To present the Treasury Management mid year report as required by the CIPFA Treasury Management in the Public Services: Code of Practice.
2. To present an update of the Treasury Management Indicators which are included in the treasury management strategy

Background

2. On 7th March 2012, Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Authority to approve a treasury management strategy before the start of each financial year, a mid year report and an annual report after the end of each financial year.
3. In addition, Welsh Government Guidance on Local Government Investments recommends that local authorities consider and amend where necessary their investment strategies in light of changing internal or external circumstances. This report therefore meets the requirements of both sets of guidance.

Treasury Management Strategy 2016-2017

4. Council approved the 2016/2017 treasury management strategy at its meeting on 2nd March 2016.

5. The Authority's investment strategy is to secure the best return on its investments whilst having regard to capital security within the parameters laid down.

6. The Authority's existing borrowing strategy estimated that it will borrow £24,879k of new loans to support the capital programme for 2016-2017. The sum will fluctuate dependent on the delivery of the Capital Programme, particularly WHQS. Given, the current and projected level of Council reserves it is likely that the sum required will be internally borrowed during 2016/17.

7. The council officers in conjunction with the treasury advisors have and will continually monitor the prevailing interest rates and the market forecasts and adopt a pragmatic approach to changing circumstances in respect of its borrowing needs.

8. The Head of Finance (Section 151 Officer) is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

Economic Review / Interest Rate Prospects

9. This section of the report has been provided by the Councils Treasury advisors:-

10. The UK economic outlook changed significantly on 23rd June 2016 with the surprise result of the referendum on EU membership prompting forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

11. The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

12. In response to the Bank of England’s policy announcement, money market rates and bond yields declined to new record lows.

13. The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

14. Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK’s future trade relations with the EU and the rest of the world will weigh on economic activity and business

investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

15. Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. However, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes and concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

16. Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. However, after an initial sharp drop, equity markets appear to have shrugged off the result of the referendum and have bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

Interim Report

17. The following tables summarise the treasury management transactions undertaken by the Authority during the first half of this financial year. All activities were in accordance with the Authority's approved strategy on Treasury Management. The following table sets out the monies borrowed / repaid during the period.

Loan Type	Opening Balance 01/04/2016 £'000	Received £'000	Repaid £'000	Closing Balance 30/09/2016 £'000
PWLB	151,211	0	(698)	150,513
Other Long Term Loans	6,000	0	0	6,000
Temporary Loans	100	0	0	100
WG Loans	2,100	0	0	2,100
Totals	159,411	0	(698)	158,713

- Loans borrowed from the PWLB are intended to assist Local Authorities in meeting their longer term borrowing requirements. The above loans are all at fixed rates of interest. The rate paid on each loan is largely dependent upon the original duration of the loan and date taken out. The loans taken out for the HRAS buyout were at a predetermined range of rates specified by HM Treasury.
- Other long term loans represent those non-PWLB loans that are repayable at least 1 year or more from the date they are advanced. The bulk of this debt is represented by two market loans of £2,000,000 and £4,000,000.
- Temporary Loans represent those loans that are borrowed for a period of less than 1 year. They are borrowed on 7 day notice.
- WG Loan is an interest free loan provided by WG to progress the Barry Island Link Road Scheme.

18. External interest at an average rate of 4.76% and amounting to £3,804,024 has been paid on these loans during the first 6 months of 2016/2017. This sum represents an increase on the equivalent 2015/16 sum due to the additional £63m borrowed under the arrangements for the Housing Subsidy Buyout.

19. The Authority has made the following investments for the period 1st April 2016 to 30th September 2016 as set out below:-

Borrowing Institution	Opening Balance 01/04/2016	Invested	Returned	Closing Balance 30/09/2016
	£'000	£'000	£'000	£'000
UK Local Authorities	48,000	69,000	(72,000)	45,000
Debt Management Office	30,600	904,300	(897,100)	37,800
Totals	78,600	973,300	(969,100)	82,800

20. Interest, at an average rate of 0.38% and amounting to £146,897, has been received from these investments for the first 6 months of 2016/2017.

Investment Strategy

21. As can be seen from the table above the Authority has invested with the Debt Management Office (DMO) or UK Local Authorities. This strategy is considered prudent considering the continuing pressures in the financial markets. The Head of Finance (Section 151 Officer) will always have regard to the security and liquidity of the investments before seeking the highest rate of return, or yield.

22. The Council working with the Investment Adviser to consider other Investment tools to increase return without otherwise compromising security.

Debt Management Strategy

23. In light of the very low level of short term investment interest rates currently available, internal funds have continued to be used to finance capital expenditure to date. Given the significant level of borrowing in the Capital Programme borrowing arrangements will need to be kept under review.

Treasury Management Indicators

24. The Authority measures its exposure to treasury management risks using the following indicators. Council is asked to note the following indicators as at 30th September 2016.

Interest Rate Exposure2

- This indicator is set to control the Authority's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed were:

	Limit	Actual	Met
Upper limit on fixed rate exposures	219m	153m	✓
Upper limit on variable rate exposures	0m	0m	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that either mature during the financial year or have a floating interest rate are classed as variable rate.

Maturity Structure of Borrowing

- This indicator is set to control the Authority's exposure to refinancing risk. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The maturity structure of fixed rate borrowing as at 30th September 2016 was:

	Upper Limit	Lower Limit	Actual	Met
Under 12 months	20%	0%	0.93%	✓
12 months and within 24 months	20%	0%	1.15%	✓
24 months and within five years	30%	0%	3.00%	✓
Five years and within 10 years	40%	0%	24.24%	✓
10 years and above	100%	0%	70.68%	✓

Principal Sums Invested for Periods Longer than 364 Days

- This indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long term investments. The total principal sums invested to final maturities beyond the period end were:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£15M	£15M	£15M
Actual principal invested beyond year end	0	0	0
Within limit?	✓	✓	✓

Resource Implications (Financial and Employment)

25. Money is borrowed for capital purposes and interest is charged to revenue accounts.

Sustainability and Climate Change Implications

26. There are no direct implications arising from the report.

Legal Implications (to Include Human Rights Implications)

27. Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

Crime and Disorder Implications

28. There are no crime and disorder implications resulting from this report

Equal Opportunities Implications (to include Welsh Language issues)

29. There are no equality implications resulting from this report.

Corporate/Service Objectives

30. This meets the objective to provide effective treasury management. This is linked to the corporate objectives generally in that any savings made can be used to assist other services in meeting their objectives

Policy Framework and Budget

31. This report is a matter for executive decision by Cabinet.

Consultation (including Ward Member Consultation)

32. None.

Background Papers

CIPFA's "Code of Practice for Treasury Management in the Public Services", "The Prudential Code" and WG guidance on local authority investments

Contact Officer

Principal Accountant.

Responsible Officer:

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Section 151 Officer