



To: The Executive Councillor for Finance & Resources:
Councillor George Owers
Report by: Caroline Ryba – Head of Finance & S151 Officer
Relevant scrutiny committee: Strategy & Resources
12/10/2015
Scrutiny Committee
Wards affected: All Wards

TREASURY MANAGEMENT HALF YEARLY UPDATE REPORT 2015/16

Key Decision

1. Executive summary

- 1.1 The Council has adopted The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2011).
- 1.2 The Code requires as a minimum receipt by full Council of an Annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a half-year review report and an Annual Report (stewardship report) covering activities in the previous year.
- 1.3 This half-year report has been prepared in accordance with CIPFA's Code of Practice on Treasury Management and covers the following:-
 - The Council's capital expenditure (prudential indicators);
 - A review of compliance with Treasury and Prudential Limits for 2015/16;
 - A review of the Council's borrowing strategy for 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; and;
 - An update on interest rate forecasts following economic news in the first half of the 2015/16 financial year.
- 1.4 In line with the Code of Practice, all treasury management reports have been presented to both Strategy & Resources Scrutiny Committee and to full Council.

2. Recommendations

- 2.1 The Executive Councillor is asked to recommend this report to Council, which includes the Council's estimated Prudential and Treasury Indicators 2015/16 to 2018/19.

3. Background

- 3.1 The Council is required to comply with the CIPFA Prudential Code (May 2013 edition) and the CIPFA Treasury Management Code of Practice (Revised November 2011). The Council is required to set prudential and treasury indicators, including an Authorised Limit for borrowing, for a three year period and should ensure that its capital plans are affordable, prudent and sustainable.
- 3.2 The Council is currently supported in its treasury management functions by specialist advisors who are Capita Asset Services. Capita's services include the provision of advice to the Council on developments and best practice in this area and provide information on the creditworthiness of potential counterparties, deposits, borrowing, interest rates and the economy.

4 The Council's Capital Expenditure and Financing 2015/16 to 2018/19

- 4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
 - If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.
- 4.2 Details of capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it will be financed. It also includes any re-phasing during 2015/16 and is in line with the agreed Capital Plan.

	2015/16 Probable Outturn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
General Fund Capital Expenditure	35,712	1,437	1,540	836
HRA Capital Expenditure	43,560	30,949	13,082	9,213
Total Capital Expenditure	79,272	32,386	14,622	10,049
Resourced by:				
• Capital receipts	-9,946	-4,412	-1,053	-532
• Other contributions	-69,326	-27,974	-13,569	-9,517
Total available resources for financing capital expenditure	-79,272	-32,386	-14,622	-10,049
Un-financed capital expenditure	0	0	0	0

5. The Council's Prudential and Treasury Management Indicators

- 5.1 The table below shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Capital Financing Requirement & Cumulative External Borrowing	2015/16 Probable Outturn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
General Fund Capital Financing Requirement	1,264	1,264	1,264	1,264
HRA Capital Financing Requirement	214,748	214,748	214,748	214,748
Total Capital Financing Requirement	216,012	216,012	216,012	216,012
Movement in the Capital Financing Requirement	0	0	0	0
Estimated External Gross				

Capital Financing Requirement & Cumulative External Borrowing	2015/16 Probable Outturn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Debt/Borrowing (Including HRA Reform)	213,572	213,572	213,572	213,572
Authorised Limit for External Debt	250,000	250,000	250,000	250,000
Operational Boundary for External Debt	216,012	216,012	216,012	216,012

- 5.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members.
- 5.3 The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

	Principal (£'000)
Authorised Borrowing Limit (A) – Agreed by Council on 20 th October 2011	250,000
HRA Debt Limit (B)	230,839
2011/12 Borrowing (for HRA Self-Financing, C)	213,572
General Fund Headroom (A minus B)	19,161
HRA Headroom (B minus C)	17,267
2012/13 Borrowing	NIL
2013/14 Borrowing	NIL
2014/15 Borrowing	NIL
2015/16 Borrowing	NIL
Total Current Headroom (A minus C)	36,428

- 5.4 During this financial year the Council has operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The anticipated Prudential & Treasury indicators are shown in Appendix A.

6. Borrowing

- 6.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1st April 2004.
- 6.2 At present the only debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA taken out in 2012 totalling £213,572,000.
- 6.3 The Council does not currently anticipate any new external borrowing for the period 2015/16 to 2018/19, inclusive.
- 6.4 The provision for the repayment of debt is known as the Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a policy by which MRP will be determined.
- 6.5 As no borrowing is envisaged for the General Fund during 2015/16 to 2018/19, inclusive, no MRP allowances against budgets will be required and no change to the existing policy is proposed.
- 6.6 In the event that external borrowing is undertaken the Council is able as an eligible local authority to access funds at the PWLB Certainty Rate (a 0.20% discount on loans) until 31 October 2016.

7. Investment Portfolio

- 7.1 The Council takes a cautious approach within its Treasury Management Strategy. As part of the Treasury Management outturn report agreed by Council on 23 July 2015 the following changes were made:-

- Included other UK Banks with a limit of £20m.

The detailed counterparty list with limits is shown within Appendix B. These limits have not been breached to date in 2015/16.

- 7.2 No changes to the counterparty list or limits are proposed as part of this half-year review.
- 7.3 Deposits at 31 August 2015 were £115,160,000. The estimated average rate of return for all deposits in 2015/16 is 1.16%, compared to an actual of 0.72% for 2014/15. The Council is on target to achieving its annual interest receipts budget of £1.167m

- 7.4 The table below shows the Council's predicted cash balances apportioned between short term (up to 3 months), medium term (up to 1 year) and long term (core cash, up to 5 years) deposits.

SUMMARY DEPOSIT ANALYSIS	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Short Term	49,400	50,200	49,300	51,400
Medium Term	27,300	27,700	27,300	28,400
Long Term	39,500	40,100	39,500	41,100
TOTAL PREDICTED CASH DEPOSITS:-	116,200*	118,000*	116,100*	120,900*

***Based on current estimated net cash inflow trends**

The above table is represented graphically at Appendix C.

- 7.5 The Council's balances, both earmarked and un-earmarked, have generally increased during the last year mainly as a result of Housing Reform. This change in regulations means the Council does not pay a subsidy into the National Pool, allowing its rents to be kept.
- 7.6 An analysis of the sources of the Council's deposits is prepared from the audited balance sheet at the end of each financial year. The analysis for 31 March 2015 is shown at Appendix D.

8 . Interest Rates

- 8.1 Capita Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on treasury management issues for the Council. Capita's opinion on interest rates is presented at Appendix E, and confirms those currently predicted by the Bank of England's Monetary Policy Committee.

9. Implications

(a) Financial Implications

The prudential and treasury indicators have been amended to take account of known financial activities. Interest receipts have increased due to the revisions to the Council's Counterparty list agreed by Council in the last 12 months.

(b) Staffing Implications

None.

- (c) **Equal & Poverty Implications**
No negative impacts identified.
- (d) **Environmental Implications**
None.
- (e) **Procurement**
None.
- (f) **Consultation and communication**
None required.
- (g) **Community Safety**
No community safety implications.

12. Background Papers

12.1 None were used in preparing this report.

13. Appendices

- 13.1 Appendix A – Prudential and Treasury Management Indicators
Appendix B – The Council's current Counterparty list
Appendix C – The Council's cash balances represented graphically
Appendix D – Sources of the Council's Deposits
Appendix E – Capita's opinion on UK Forecast Interest Rates
Appendix F – Glossary of Terms and Abbreviations

14. Inspection of Papers

14.1 If you have any queries about this report please contact:

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PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Probable 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
PRUDENTIAL INDICATORS				
Capital expenditure				
- General Fund	35,712	1,437	1,540	836
- HRA	43,560	30,949	13,082	9,213
Total	79,272	32,386	14,622	10,049
Incremental impact of capital deposit decisions on:				
Band D Council Tax (City element)	0.00	0.00	0.00	0.00
Average weekly housing rent	0.00	0.00	0.00	0.00
Capital Financing Requirement (CFR) as at 31 March				
- General Fund	1,264	1,264	1,264	1,264
- HRA	214,748	214,748	214,748	214,748
Total	216,012	216,012	216,012	216,012
Change in the CFR	0	0	0	0
Deposits at 31 March	116,200	118,000	116,100	120,900
External Gross Debt	213,572	213,572	213,572	213,572
Ratio of financing costs to net revenue stream				
-General Fund	-2.76%	-6.50%	-7.86%	-7.88%
-HRA	17.45%	17.61%	13.52%	13.75%
Total	14.69%	11.11%	5.66%	5.87%

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Probable 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
TREASURY INDICATORS				
Authorised limit				
for borrowing	250,000	250,000	250,000	250,000
for other long term liabilities	0	0	0	0
Total	250,000	250,000	250,000	250,000
HRA Debt Limit	230,839	230,839	230,839	230,839
Operational boundary				
for borrowing	216,012	216,012	216,012	216,012
for other long term liabilities	0	0	0	0
Total	216,012	216,012	216,012	216,012
Upper limit for total principal sums deposited for over 364 days & up to 5 years	40,000	40,000	40,000	40,000
Upper limit for fixed & variable interest rate exposure				
Net interest on fixed rate borrowing/deposits	6,610	6,627	6,744	6,744
Net interest on variable rate borrowing/deposits	-23	-23	-23	-23
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit	
10 years and above (PWLB borrowing for HRA Reform)		100%	100%	

Treasury Management Annual Investment Strategy

Current Counterparty List

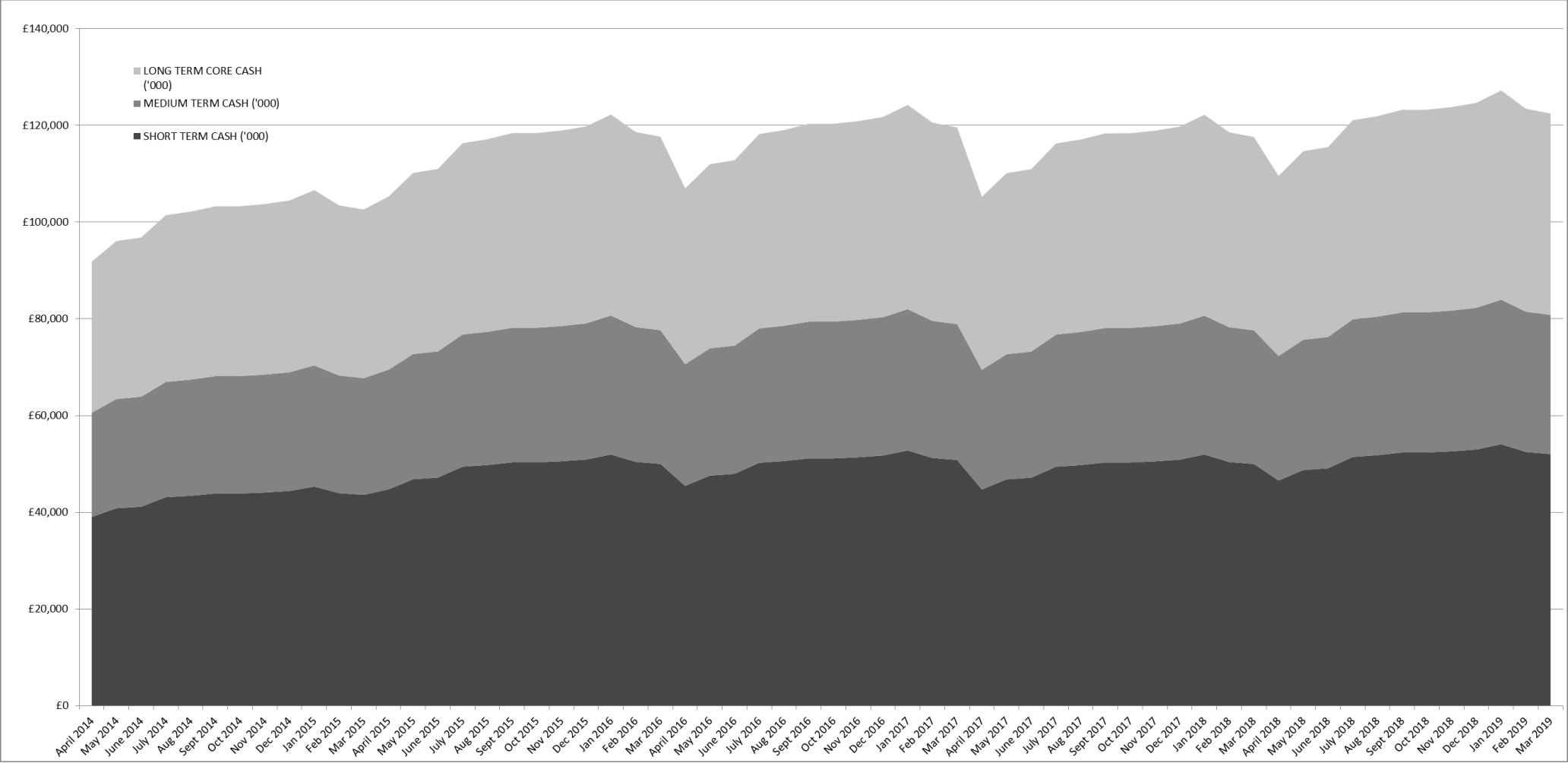
The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits.

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments:-			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
HSBC Bank Plc	Using Capita's Credit Criteria	UK Bank	25m
Standard Chartered Bank	Using Capita's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS)	Using Capita's Credit Criteria	UK Bank	20m
Lloyds TSB Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
National Westminster Bank Plc (NWB)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Capita's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Other UK Banks	Using Capita's Credit Criteria	UK Banks	20m
Members of a Banking Group (BoS Group includes Lloyds, RBS Group includes NWB)	Using Capita's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Deutsche Bank	Using Capita's Credit Criteria	Non-UK Bank	5m

Name	Council's Current Deposit Period	Category	Limit (£)
Svenska Handelsbanken	Using Capita's Credit Criteria	Non-UK Bank	5m
Money Market Funds	Liquid Rolling Balance	Financial Instrument	15m (per fund)
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
Other Specified Investments - UK Building Societies:-			
Name	Council's Current Deposit Period	Asset Value (£'m) – as at 23 rd April 2015	Limit (£)
Nationwide Building Society	1 month or in line with Capita's Credit Criteria, if longer	188,889	Assets greater than £100,000m - £20m
Yorkshire Building Society		41,779	
Coventry Building Society		30,890	Assets between £50,000m and £99,999m - £5m
Skipton Building Society		15,336	
Leeds Building Society		12,220	
Principality Building Society		7,108	Assets between £5,000m and £49,999m - £2m
West Bromwich Building Society		5,630	
Non-Specified Investments:-			
Name	Council's Current Deposit Period	Category	Limit (£)
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 30m (in total)
CCLA Local Authorities' Property Fund*	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000

Name	Council's Current Deposit Period	Category	Limit (£)
Supranational Bonds – AAA	Using Capita's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

Cash Balances Represented Graphically



Sources of the Council's Deposits.

Local authorities are free to deposit surplus funds not immediately required in order to meet the costs of providing its services. The Council deposits amounts set aside in its general reserves and earmarked reserves.

The interest earned on these deposits is credited to the General Fund and Housing Revenue Account respectively and helps to fund the cost of providing services. This currently amounts to around £1.2m each year based on current deposit and interest rate levels.

At 1st April 2015, the Council had deposits of £109.020m. The table below provides a sources breakdown of the funds deposited at that date:-

Funds Deposited as at 1 April 2015	£'000	£'000
Working capital		17,062
General Fund:		
General Reserve	12,037	
Asset Renewal Reserves	14,363	
Other Earmarked Reserves	10,479	36,879
Housing Revenue Account (HRA):-		
General Reserve	14,865	
Asset Renewal Reserves	1,829	
Major Repairs Reserve	2,220	
Other Earmarked Reserves	2,342	
Capital Financing Requirement (Including HRA Reform)	-216,008	
PWLB Borrowing for HRA Reform	213,572	18,820
Capital:		
Capital Contributions Unapplied	14,176	
Usable Capital Receipts	22,083	36,259
Total Deposited		109,020

The HRA accounts for around 50% of reserves deposited.

Capita's Opinion on Forecast UK Interest Rates – As Currently Predicted

Introduction

The paragraphs that follow reflect the views of the Council's Treasury Management advisors (Capita) on UK Interest Rates as currently predicted.

Interest rates

Members of the Bank of England Monetary Policy Committee (MPC) kept the bank rate at 0.50% and Quantitative Easing (QE) at £375bn during 2015/16. Going-forward, the Council's treasury advisor, Capita, has provided the following interest rate forecasts issued on 11th August 2015:-

	Now	Sep-15	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%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
3 month LIBID	0.46%	0.50%	0.60%	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%
6 month LIBID	0.63%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%
12 month LIBID	0.94%	1.00%	1.10%	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%
5yr PWLB rate	2.19%	2.30%	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	2.77%	2.90%	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	3.31%	3.40%	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	3.17%	3.40%	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita's interest rate forecast is for the first increase in the bank rate to be in June 2016. With higher growth predictions and lower un-employment forecasts for the U.K, are the main reasons for this change in interest rates overall.

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Counter-parties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DCLG	Department for Communities & Local Government
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed

Term	Definition
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Yield	Interest, or rate of return, on an investment