

For: (x) <table border="1"> <tr> <td>Executive</td> <td><input type="checkbox"/></td> </tr> <tr> <td>CLMT</td> <td><input type="checkbox"/></td> </tr> </table> Meeting Date: 17 November 2014 Report of: Report of: Head of Finance Report author: Barry Crick	Executive	<input type="checkbox"/>	CLMT	<input type="checkbox"/>	Agenda Item Number: 12
Executive	<input type="checkbox"/>				
CLMT	<input type="checkbox"/>				

Subject: Treasury Management Mid Year Report – half Year Ended 30th September 2014 (For Executive Only) Lead Executive Member(s): Councillor Ashraf Wards Affected: None	Consultations: Councillors <input type="checkbox"/> Scrutiny <input type="checkbox"/> Stakeholders <input type="checkbox"/> Others <input type="checkbox"/>	(x) <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
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Recommendations 1. That the Executive approve, for submission to full Council, the Mid Year Report on Treasury Management for the year ended 30 th September 2014, which summarises and reviews the Council's Treasury Management activities along with changes required to prudential indicators for capital Expenditure, Capital Financing requirement and Gross Borrowing shown in tables at paragraphs 10 and 12 and 13.
Background 2. This report is submitted in accordance with Treasury Management Strategy Statement for 2014/15 approved at decision EX/15/14 and the Annual Investment Strategy approved by Full Council at minute 36/14.
The current position 3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management was updated in November 2011). The primary requirements of the code are as follows: <ul style="list-style-type: none"> • 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 the Treasury Management Practices which set out the manner in which the Council seek to achieve those policies and objectives; • receipt by the full Council of the Annual Treasury Management Strategy Statement including the Annual Investment Strategy (including the Minimum Revenue Provision Policy, a Mid Year Report and an Annual Report covering activities in the previous year; • delegation by the Council of responsibilities for implementing and monitoring treasury management policies and for the execution and administration of treasury management decisions; • delegation by the Council of the role of scrutiny of treasury management strategy and policies to Audit and Governance Committee. 4. The mid-year report has been prepared in accordance with the CIPFA Code of Practice and

covers the following:

- an economic update for the first six months of 2014/15
- a review of the Treasury Management Strategy Statement and Annual Investment Strategy
- the Council's capital expenditure (prudential indicators)
- a review of the Council's investment portfolio for 2014/15
- a review of the Council's borrowing strategy for 2014/15
- a review of debt restructuring undertaken during 2014/15
- a review of compliance with Treasury and Prudential Limits for 2014/15

Economic Update

5. The recovery in UK growth has been strong since quarter 2 2013 but continued encouraging news in respect of the UK has been dampened by recent International Money Fund forecasts of low and in some cases negative global growth. The Monetary Policy Committee (MPC) have reacted to this by indicating that there will be a cautious approach to any increase in the Bank Rate so as to protect growth in the UK. Financial markets have also reacted to this situation and have shifted their first increase from quarter 1 to quarter 2 2015 as have the Council's advisors Capita Assets Services.
6. CPI (Consumer Price Index) inflation has fallen sharply during 2014 reaching 1.2% by the end of September, the lowest rate since 2009 and forward indications are that it is likely to fall further in 2014 to possibly near to 1%.

Interest rate forecasts

7. The Council retains Capita Assets Services (formerly Sector Treasury Services) as treasury adviser and part of their service is to assist the Council to formulate a view on interest rates. Recent events have changed the sentiment in financial markets from investing in equities to investing in the safe haven of government bonds causing the bond prices to rise , yields to fall and a knock on reduction in Public Works Loan Board borrowing rates.. The table below gives Sector's central view on both short and long term rates. It should be noted that the figures included for PWLB incorporate the introduction of a ' certainty rate' in November 2012 which will reduce PWLB borrowing rates by 0.20% for most Local authorities.

	28.10.14 %	Dec14 %	Mar15 %	Jun15 %	Sep15 %	Dec15 %	Mar16 %	Jun16 %	Sep16 %	Dec16 %
Bank Rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
5yr PWLB rate	2.40	2.50	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.30
10 yr PWLB rate	3.05	3.20	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10

	25 yr PWL rate	3.75	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70
	50yr PWL rate	3.75	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70

Goals and Objectives

Treasury Management Strategy Statement and Annual Investment Strategy update

8. The Treasury Management Strategy Statement and the Annual Investment Strategy was approved by this council on 10 February 2014 and there are no proposed policy changes to that report. The current treasury position is shown at Appendix A.

Capital position (Prudential Indicators)

- 9.. This part of the report is structured to update :

- the Councils capital expenditure plans;
- how these plans are being financed;
- the impact of changes in capital expenditure plans on the prudential indicators and the underlying need to borrow;
- compliance with the limits in place for borrowing activity.

10. Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at budget. The increase in capital expenditure of £14.8m, due to rephasing and additional schemes will require approval by Executive and Full council

Capital Expenditure 2014/15	Original Indicator £'000	Revised Indicator £'000
General Fund	69,094	85,536
HRA	26,103	24,487
Total	95,197	110,023

11. Changes to the financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans shown above and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the CFR although this will be reduced in part by revenue charges for the repayment of debt (Minimum Revenue Provision) .

Capital Expenditure 2014/15	Original Estimate £'000	Revised Estimate £'000
Total spend	95,197	110,023

Financed by:		
Capital Grants	44,849	57,250
Cap /Rev Reserves, RCCO. Cap Receipts	32,635	26,953
Total financing	77,484	84,203
Borrowing need	17,713	25,820

12. Prudential Indicators for the CFR , and the Operational Boundary.

This table shows the CFR, which is the underlying external need to incur borrowing for capital purpose. It also shows the expected debt position over the period which is termed the Operational Boundary. The increased CFR of £315.4 is due to re-phasing of capital expenditure related to borrowing will require approval by the Executive and Full council.

Prudential Indicators – 2014/15	Original Indicator £'000	Revised Indicator £'000
Capital Financing Requirement		
CFR - non HRA	188,594	204,166
CFR - HRA	116,258	111,296
Total CFR	304,852	315,462
Net movement in CFR		10,610
Operational Boundary		
Borrowing	336,228	336,228
Other Long Term Liabilities	23,599	23,599
Total Operational Boundary	359,827	359,827

13. Limits to Borrowing Activity.

The first 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. Gross external borrowing should not, except in the short term, exceed total CFR in the preceding year plus estimates of any additional CFR for 2014/15 and the next two financial years..

Gross borrowing	2014/15 Original Estimate £'000	2014/15 Revised Estimate £'000
Borrowing	293,211	295,411
Other Long Term Liabilities	23,599	23,599
Gross Borrowing	316,810	319,010
CFR (including OLTL)	328,169	339,061

Authorised Limit for external debt	2014/15 Original Estimate £'000	2014/15 Revised Estimate £'000
Borrowing	346,228	346,228
Other Long Term Liabilities	23,599	23,599
Total	369,827	369,827

Investment Portfolio

14. In accordance with the Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity and to obtain a level of return consistent with the Council's risk appetite.
15. The current investment counterparty criteria approved in the Annual Investment Strategy meets the requirements of the treasury management function. Treasury management advisors Arlingclose, though, who provide advice to a number of authorities have recommended their clients to suspend making any new investments with Royal Bank of Scotland (RBS) despite their part government owned status. With this recommendation in mind the Head of Finance has stopped making any further investments with the RBS at this time. In recent years the added value to the council's return on investment has been derived from using both the part government owned banks, RBS and Lloyds, and so there will be added pressure on this year's overall performance with the loss of RBS.
16. The Council held £121.9m investments at 30 September 2014 representing a £5m decrease since the beginning of the financial year. This balance is expected to reduce considerably by the end of the financial year. The return for the first six months was 0.67% being 0.32% above the benchmark of 0.35%..
17. The Council's budgeted investment return for 2014/15 is £525k and the latest projected outturn figure for the financial year is £675k. This improved position reflects unexpected additional balances along with the considerable revenue and capital underspend for 2014/15
18. Investments were also made on behalf of both Schools and London Luton Airport Limited and the return on these investments is shown at Appendix A.
19. On no occasion during the first six months of 2014/15 have any approved limits within the Annual Investment Strategy been breached.
20. A full list of investments held at 30 September 2014 is shown at Appendix B.

Borrowing

21. The Council's capital financing requirement (CFR) 2014/15 is £315.4m, this figure denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from PWLB or the Money Market (external borrowing) or from internal balances on a temporary basis (internal borrowing).
22. There was been no additional borrowing during the first half of the financial year, which is in line with the Council's strategy to use maturing investments to fund cash flow and it is not envisaged that any borrowing will be undertaken between now and the end of the financial year.
23. One Public Works Loan Board loan of £10.3m was repaid in May

Debt Rescheduling

24. Due to the current economic climate and consequent structure of interest rates no debt rescheduling was undertaken during the first half of the financial year.

Other issues

26. Subsequent to the period of this report the council borrowed £20m in October ,from the Public Works Loan Board, for HRA purposes to fund the Marsh Farm housing development..
Proposal
27. That Executive note the report.
Key Risks
28. Treasury Management is an area of significant risk. In relation to security and probity of investments all activity has been undertaken in accordance with the provisions of the Council's treasury Management Practices (TMP's) which include a substantial section on risk, in order to manage and minimise , so far as possible , the risks involved.
Consultations
29. None
Appendices attached:
Appendix A & B
Background Papers:
None

IMPLICATIONS

For Executive reports

- grey boxes must be completed
- all statements must be cleared by an appropriate officer

For CLMT Reports

Clearance is not required

		Clearance – agreed by:
Legal	There are no legal implications in respect of this report.	Kemi Onakoya Principal Solicitor Property & Planning – 30.10.14
Finance	The financial implications are included in the body of the report'	David Kempson on 28.10.14
Integrated Impact Assessment (IIA) – Key Points		
Equalities/ Cohesion/Inclusion (Social Justice)	The report has no direct or indirect equality, cohesion or inclusion implications except as far as it reports on investments and borrowings which may directly or indirectly have implications dependant upon how those investments are managed and how that borrowing is used	Mauren Drummond-Social Services Adviser – 29.10.14
Environment	The report has no direct or indirect environmental implications except as far as it reports on investments and borrowings which may directly or indirectly have implications dependant upon how those investments are managed and how that borrowing is used	Strategy & Sustainability Officer – 31.10.14
Health	The report has no direct health implications	Morag Stewart-Public Health – 29.10.14
Community Safety		
Staffing		
Other		

FOR EXECUTIVE ONLY - Options:

- a) Executive has the option to note the report, or:
- b) ask for further information