Agenda Item

REPORT TO:	Executive Board
DATE:	15 June 2017
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Annual Report 2016-17
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

3.1 The following analysis of the economic situation has been provided by Capita Asset Services, the Council's treasury management advisors.

3.2 For the period ending 31st March 2017:

- The economy lost some momentum
- Rising inflation started to dent household consumption
- The labour market continued to tighten but wage growth softened
- One MPC member voted for an increase in Bank Rate as CPI inflation exceeded the 2% target
- The Brexit process started with the triggering of Article 50

3.3 Having finished 2016 strongly, the economy looks to have lost a little momentum in Q1 of 2017. Quarterly GDP growth of 0.7% in Q4 2016 marked an acceleration of growth from 0.5% in the preceding quarter but this dropped to 0.5% during Quarter 1.

3.4 A slowdown in consumer spending, which was the key driver of growth in 2016, looks to be behind this overall slowdown in growth. While retail sales rose by 1.4% on the month, this followed three consecutive monthly declines and retail sales would have to post a monthly increase of over 3% in March to prevent sales from falling on a quarterly basis in Q1. Though retail sales only account for around a third of household spending and recent evidence on other areas of household spending has been more encouraging.

3.5 Some marginal slowdown in household consumption seems inevitable. Q4's National Accounts revealed a second consecutive quarterly decline in households' real disposable incomes. As a result, the 0.7% rise in overall household spending in the same quarter had to be funded entirely through households reducing the proportion of income that they save. With wage growth still subdued and inflation continuing to rise, it seems unlikely that households will be able to maintain that pace of spending growth.

3.6 Wage growth slowed a touch in January. Headline annual average weekly earnings growth eased from 2.6% to 2.2%. However, that slowdown is at odds with the tight labour market with the unemployment rate falling from 4.8% to 4.7%, the equal-lowest since 1975.

3.7 Inflation has picked up faster than had been expected. CPI inflation rose from an average of 1.2% in Q4 2016, to 1.9% in January and 2.3% in February, breaching the MPC's 2% target for the first time since November 2013. The increase was mainly due to inflation on exchange rate-sensitive components as the pound's post Brexit-vote depreciation fed into higher prices on imported goods.

3.8 While the March MPC meeting came before the latest increase in inflation, the Committee's tolerance for higher inflation appeared to have already diminished somewhat. Kristen Forbes voted for a Bank Rate increase while it would reportedly take "little further upside news on the prospects for activity or inflation", for some other members to join her.

3.9 In contrast, the US Federal Reserve increased rates by 0.25% in March taking their funds target range to between 0.75% and 1.00%. Meanwhile, the European Central Bank continued with its plan of slowing the pace of its asset purchases from April 2017, and then continuing purchases at the lower level until December 2017. As a result, we have seen what we think will prove the beginnings of a historically-unusual divergence in Western monetary policy over the next year or so.

3.10 The public finances improved much faster than the OBR had forecast at the time of the Autumn Statement. Public Sector Net Borrowing for the first eleven months of the fiscal year of £47.8bn was 29% below that from a year earlier whereas the OBR had forecast a 10% reduction.

3.11 The UK Government triggered Article 50 at the end of March. The initial exchanges have been constructive, with both sides seemingly wanting to pursue a free trade deal, but talks on that will only begin once the EU is satisfied with progress on the terms of Britain's withdrawal. The withdrawal negotiations will begin in June with the UK's exit bill the first potential sticking point. The outcome of the negotiations is set to be ratified by the UK and EU parliaments in late 2018. But any future trade deal can't be officially agreed until the UK has left the EU. Therefore, upon the UK's exit in March 2019, a transitional arrangement is likely while the details of a future trading relationship are finalised.

Interest Rate Forecast

3.12 The following forecast has been provided by Capita Asset Services.

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	0.75%
5yr PWLB rate	1.40%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%
10yr PWLB rate	2.10%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
25yr PWLB rate	2.70%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
50yr PWLB rate	2.50%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

Short Term Borrowing Rates

3.13 The bank base rate remained at 0.25% during the last six months of the year.

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
Call Money (Market)	0.22	0.23	0.23	0.22	0.23	0.23	0.22
1 Month (Market)	0.27	0.27	0.26	0.26	0.26	0.26	0.26
3 Month (Market)	0.38	0.40	0.38	0.37	0.36	0.36	0.34

Longer Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
1 Year (Market)	0.76	0.81	0.79	0.78	0.77	0.74	0.72
10 Year (PWLB)	1.57	2.12	2.29	2.13	2.35	1.99	1.97
25 Year (PWLB)	2.27	2.71	2.84	2.71	2.91	2.67	2.60

3.14 Market rates are based on LIBOR rates and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

Borrowing and Investments

Turnover During the Year

	No of deals	Turnover £m
Short Term Borrowing	2	5
Short Term Investments	32	276

Position at Month End

	Sep £m	Oct £m	Nov £m	Dec £m	Jan £m	Feb £m	Mar £m
Total Borrowing	163	165	153	153	153	153	153
Total Investments	(153)	(113)	(123)	(123)	(123)	(123)	(103)
Call Account Balance	(27)	(25)	(14)	(14)	(20)	(9)	(18)

Investment Benchmarking

Benchmark	Benchmark Return %	Performance Oct - Mar %	Investment Interest Earned £000
7 day	0.12	0.42	59
1 month	0.14	0.00	-
3 month	0.24	0.72	50
6 month	0.40	0.72	239
12 month	0.63	0.76	129
Property Fund		4.30	157
Total			**634**

3.15 This shows the Council has over achieved the benchmark for all maturities for the second six months of the year.

3.16 As at 31st March 2017 the Council holds £5m invested in the CCLA Local Authority Property Fund. There is no benchmark available for this income.

Budget Monitoring

	Net Interest at 31st March 2017				
	Full Year Budget £000	**Actual Spend £000**	**Variance (o/spend) £000**		**Actual inc M Gateway £000**
Investment	(408)	(614)	206		(695)
Borrowing	1,141	1,217	(76)		4,370
Total	**733**	**603**	**130**		**3,675**

3.17 As the borrowing and investments in relation to the Mersey Gateway scheme are to be capitalised they will have no effect on the revenue budget and have therefore been excluded from the budget monitoring figures above.

New Long Term Borrowing

3.18 A £10m loan was taken from the PWLB (Public Works Loan Board) in April 2016, no further borrowing was taken in the last six months of the year.

Policy Guidelines

3.19 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 11 February 2016. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.20 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in in line with Sector's credit rating methodology.

Treasury Management Indicators

3.21 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

Debt Rescheduling

3.22 No debt rescheduling was undertaken during 2016/17.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 FINANCIAL IMPLICATIONS

5.1 The financial implications are as set out in the report.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 There are no background papers under the meaning of the Act.

Appendix 1

Treasury and Prudential Indicators – 2016/17

Prudential Indicators	2015/16 Full Year Actual £000	2016/17 Original Estimate £000	2016/17 Quarter 4 Actual £000
Capital Expenditure	29,841	107,715	84,796
Net Financing Need for the Year *(Borrowing Requirement)*	7,094	87,613	58,759
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	3,946	84,417	56,369
Ratio of Financing Costs to Net Revenue Stream *(Proportion of cost of borrowing to Council's net revenue)*	3.2%	2.2%	2.2%
Incremental Impact on band D Council Tax (£) *(net cost of borrowing compared to tax base)*	9.43	2.64	2.42
External Debt	183,000	153,000	153,000
Operational Boundary *(Limit of which external debit is not epected to exceed)*	252,600	255,313	255,313
Authorised Limit *(Limit beyound which external debit is prohibited)*	270,000	270,000	270,000

Upper Limit for Interest Rate Exposure	Exposure Limit %	2015/16 Actual %	2016/17 Actual %
Fixed Rate	100	100	100
Variable Rate	30	-	-

Maturity Structure of Fixed Rate Borrowing	Exposure Limit %	2015/16 Actual %	2016/17 Actual %
Under 12 months	40	7	7
12 months to 24 months	40	7	0
24 months to 5 years	40	0	0
5 years to 10 years	40	0	0
10 years and above	100	86	93

Maximum Principal invested > 365 days	Investment Limit £000	2015/16 Actual £000	2016/17 Estimate £000
Principal Sums Invested over 365 days	30,000	10,000	10,000