

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 7 November 2016

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Treasury Management Monitoring Report 2016/17</b>
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	Finance Strategy
<b>Corporate Objective:</b>	A dynamic, prudent and progressive Council

#### **Purpose:**

This report summarises the Council's investment activity up to 30 September 2016 and provides details of the Council's money market transactions.

Under the Code of Conduct that governs the operation of the money markets, it is not possible to make public details of specific transactions. For this reason, Appendix B is included in the confidential part of the agenda.

#### **Executive summary:**

This report gives the Executive the opportunity to review the treasury management activity up to 30 September 2016 along with the Treasury and Prudential Indicators.

Council borrowing at 30 September was £42m and the overall investment position is set out in the following table:

<b>Investments</b>	<b>Externally Managed £m</b>	<b>Internally Managed £m</b>	<b>Call Accounts £m</b>	<b>Money Market Funds £m</b>	<b>Total £m</b>
<b>At 1 April 2016</b>	<b>10.0</b>	<b>20.0</b>	<b>4.4</b>	<b>0</b>	<b>34.4</b>
New	0	12.0	58.0	16.5	86.5
Repaid	5.0	18.0	55.4	11.5	89.9
<b>At 30 Sept 2016</b>	<b>5.0</b>	<b>14.0</b>	<b>7.0</b>	<b>5.0</b>	<b>31.0</b>

During the first half of the year the Council operated within the Treasury and Prudential Indicators.

**Recommendation:**

That the Executive notes the Treasury Management Monitoring Report for 2016/17.

**Reason:**

To inform the Executive of the Council's investment, borrowing and repayment activity up to 30 September 2016.

**Cost of proposals:**

Not applicable.

**Appendices:**

**A:** Economic Commentary and Outlook by Arlingclose

**B:** Investment Activity (Confidential Appendix)

**C:** Treasury and Prudential Indicators

**Background papers:****Reference papers:**

8 February 2016 Executive Report - Treasury Management Strategy and Prudential Indicators 2016/17

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## BOROUGH COUNCIL

### Executive Briefing Paper

<b>Date:</b>	7 November 2016
<b>Subject:</b>	Treasury Management Monitoring Report 2016/17
<b>Briefing by:</b>	Director of Finance and Resources
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management at least twice yearly (mid-year and at year end). This report therefore ensures the Council is implementing best practice in accordance with the Code.
2. The Council's Treasury Management Strategy for 2016/17 was approved by full Council on 19 February 2016.
3. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
4. In April 2016, the Council changed Treasury Advisor from Capita Asset Services to Arlingclose. An economic commentary and outlook by Arlingclose can be found in Appendix A.

#### BORROWING ACTIVITY

5. At 30 September 2016 the Council held £42 million of loans, (a decrease of £2.8 million on 31 March 2016).
6. The Council expects to borrow externally up to £5 million in 2016/17 to part fund the capital programme.
7. The Council's main objective when borrowing continues to be striking an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.
8. Affordability and the 'cost of carry' remained important influences on the Council's

borrowing strategy alongside the consideration that, any borrowing undertaken ahead of need, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term interest rates, the Council determines it is more cost effective in the short term to use internal resources (internal borrowing) and short-term loans instead.

9. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's treasury advisors assist with this 'cost of carry' and breakeven analysis.
10. Borrowing activity to 30 September 2016 was:

	<b>Balance on 31 March 2016 £'000</b>	<b>Balance on 30 Sept 2016 £'000</b>	<b>Average Rate</b>
Long Term Borrowing	40,000	40,000	3.50%
Temporary Borrowing	3,000	0	0.50%
Hampshire County Council	200	200	0.00%
Portchester Crematorium	1,333	1,541	0.25%
Charity of Winifred Nellie Cocks	286	287	0.50%
<b>Total Borrowing</b>	<b>44,819</b>	<b>42,028</b>	

The Council holds investments from Portchester Crematorium Joint Committee and the Charity of Miss Winifred Nellie Cocks which are treated as temporary loans.

## **INVESTMENT ACTIVITY**

11. The Council holds large invested funds, representing income received in advance of expenditure plus balances and reserves held.
12. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.
13. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.
14. Details on investment activity to 30 September 2016 are in Appendix B and summarised in the table below:

<b>Investments</b>	<b>Externally Managed £m</b>	<b>Internally Managed £m</b>	<b>Call Accounts £m</b>	<b>Money Market Funds £m</b>	<b>Total £m</b>
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15. The £3.4 million decrease in investments during the first half of the year was mainly due to the timing of precept payments, receipts of grants and progress on the Capital Programme.

### **COUNTERPARTY UPDATE**

16. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union.
17. Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK.
18. Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.
19. There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

### **BUDGETED INCOME AND OUTTURN**

20. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels.
21. The Council's budgeted investment income for the year is estimated at £569,900.
22. The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As all of the Council's surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the year.

### **COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS**

23. The Council confirms compliance with its Treasury and Prudential Indicators for 2016/17, which was set on 21 February 2016 as part of the Council's Treasury Management Strategy Statement.
24. Performance for the first half of the year is shown in Appendix C. During the

financial year to date the Council has operated within the treasury limits and prudential indicators.

### **MEMBER TRAINING**

25. Member training on Treasury Management, to be delivered by Arlingclose, has been arranged for 28 November prior to the Audit and Governance Committee meeting.

### **RISK ASSESSMENT**

26. In the current economic climate, there are risks that financial institutions holding Council investments could default and be unable to fulfil their commitments to repay the sums invested with them.
27. To help mitigate this risk, the Council maintains a list of approved institutions based on a grading system operated by the Council's treasury management advisers. Maximum limits are also set for investments with individual institutions.

### **Enquiries:**

For further information on this report please contact Caroline Hancock. (Ext 4589)