

**TO: GOVERNANCE AND AUDIT COMMITTEE  
27 JANUARY 2016**

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**TREASURY MANAGEMENT REPORT 2016/17 AND MID-YEAR REVIEW  
Borough Treasurer**

**1 PURPOSE OF DECISION**

- 1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.
- 1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.4 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.
- 1.5 This report seeks to achieve both these requirements of updating Members on progress in 2015/16 and to review the Treasury Management Report for 2016/17.

**2 RECOMMENDATIONS**

- 2.1 That the Committee consider and review the Mid-Year Review Report.**
- 2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.**
- 2.3 That the Committee review the Treasury Management Report for 2016/17 prior to its approval by Council.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 The reasons for the recommendations are set out in the report.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

## **5 SUPPORTING INFORMATION**

### **Mid-Year Review**

- 5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- An economic update for the first nine months of 2015/16
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy
  - The Council's capital expenditure
  - A review of the Council's investment portfolio for 2015/16
  - A review of compliance with Treasury and Prudential Limits for 2015/16

### **Economic Update**

- 5.2 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% though there was a rebound in quarter 2 to +0.7%. Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme
- 5.3 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.
- 5.4 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

### **Treasury Management Strategy Statement Review**

- 5.5 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the Council on 25th February 2015. There are no policy changes to the TMSS.

## Capital Expenditure

- 5.6 The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed by Full Council. No external borrowing is forecast for the year. The majority of the underspend relates to timing differences on larger schemes including schools, Coral Reef and the Town Centre redevelopment.

Department	Approved Budget 2015/16 £'000s	Cash Budget 2015/16 £'000s	Estimated Out-turn 2015/16 £'000s	Cash Budget 2016/17 £'000s	(Under) /Over Spend £'000s
Adult Social Care, Health & Housing	5,290.1	5,290.1	2,996.3	0.0	0.0
Children, Young People and Learning	24,839.0	23,064.8	14,242.1	1,774.3	0.0
Council Wide	13,974.5	8,546.7	5,653.4	5,427.8	-474.1
Corporate Services	616.4	412.9	386.6	203.5	0.0
Environment, Culture & Communities	21,999.4	18,150.0	6,909.7	3,780.5	-67.7
<b>TOTAL CAPITAL PROGRAMME</b>	<b>66,719.4</b>	<b>55,464.5</b>	<b>30,188.1</b>	<b>11,186.1</b>	<b>- 541.8</b>

## Review of Investment Portfolio 2015/16

- 5.7 The Council held £36.878m of investments as at 31 December 2015 and the investment portfolio yield for the first nine months of the year is 0.55% against a benchmark (Local Authority 7-Day Rate) of 0.35%.

Investment	Maturity	Amount (£)	Average Rate (%)
<b>Money Market Funds</b>			
Standard Life Liquidity Fund	1 Day	5,669,000	0.4970
Black Rock Sterling Liquidity	1 Day	100,000	0.4416
Federated Prime Rate	1 Day	4,412,000	0.4991
Goldman Sachs	1 Day	100,000	0.4357
Aberdeen Liquidity	1 Day	6,997,000	0.5139
Deutsche Managed Sterling Fund	1 Day	100,000	0.4403
		<b>17,378,000</b>	
<b>Fixed Term Deposits</b>			
Nationwide	11/02/2016	3,000,000	0.6600
Santander	29/02/2016	3,500,000	0.5500
Barclays	31/03/2016	3,500,000	0.6080
Santander	29/02/2016	2,500,000	0.5500
Lloyds	07/06/2016	3,500,000	0.7500
Lloyds	29/04/2016	3,500,000	0.6500
		<b>19,500,000</b>	
<b>Total Investments</b>		<b>36,878,000</b>	

- 5.8 The 2015/16 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. The Bank Rate (set monthly by the Bank of England) has remained at an historical low of 0.5% and, given the current economic situation outlined above, is likely to remain at this level for some months to come.

- 5.9 Cash balances however remain significantly on the upside, creating additional opportunities to deposit surplus cash at fixed term maturities, rather than having to limit investments to overnight low-yielding money market funds although the Council is limited by the number of counterparties available to it. The Council continues to invest in only the most highly rated UK financial institutions, or those part-nationalised UK Banks. Notwithstanding this low-risk approach, the opportunities presented by the additional cash-flow will contribute to the investment projections for 2015/16 and as such at least an additional £100,000 of investment income has been projected for the year, against a budget of £124,000.

### **Compliance with Treasury and Prudential Limits for 2015/16**

- 5.10 The Borough Treasurer can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2015/16 and no changes to these limits are proposed for the remaining 3 months.

### **Treasury Management Report 2016/17**

- 5.11 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.
- 5.12 The attached Treasury Management Report 2016/17 (annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 15 December 2015 and outlines the Council's Prudential Indicators for 2016/17 to 2018/19 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 24 February 2016.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 None.

### Borough Treasurer

- 6.2 The financial implications are contained within the report.

### Equalities Impact Assessment

- 6.3 None.

### Strategic Risk Management Issues

- 6.4 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities

## **7 CONSULTATION**

### Principal Groups Consulted

- 7.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

Background Papers

None

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