

Committee: Cabinet

Agenda Item

Date: 1st December 2016

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Title: 2016/17 Treasury Management Mid-Year Review

Portfolio Holder: Councillor Simon Howell

Key decision: No

Summary

Economic Background

1. Whilst the previous year saw economic resilience, it will not have escaped Members' notice that following the vote to leave the EU., the economic forecast for the UK has been immeasurably altered, with the short to medium-term outlook more downbeat due to the uncertainty generated by the result and the forthcoming negotiations.

According to UDC's Treasury Management consultants, Arlingclose Ltd., negative Bank Rate is currently perceived by policymakers to be counterproductive, but there is a possibility of close-to-zero Bank Rate, with Quantitative Easing used to limit the upward movement in bond yields.

Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected. The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rates to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Recommendation

2. The Cabinet is recommended to approve
 - a. The 2016/17 Treasury Management Strategy counterparty list for UK Local Authorities, including Fire and Police are revised;
 - i. The investment limit of £5m to be increased to unlimited
 - ii. The % of the portfolio investments to be increased from 70% to 100%
 - iii. The maximum number of days from 365 days to 730 days
 - b. The Operational Boundary be increased from £101.5m to £250.0m

Financial Implications

3. None.

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

4. Treasury Management activity has been routine and compliant with the 2016/17 Strategy as approved by Members in February 2016.
5. During a period of staff changes, recruitment and training in May and June there was a short period of time when the council's current account overnight balance exceeded the £2m limit. Dedicated Treasury staff are now in place and have received full training, no further breaches have occurred.
6. A Treasury Management update is provided to Members quarterly as part of the Budget Monitoring cabinet reports.
7. The council's entire capital programme is financed through internal borrowing, revenue contributions or grants. There is no requirement for external borrowing.

Borrowing Cap

8. As part of the creation of the councils wholly owned subsidiaries, Aspire Holdings (UDC) Ltd, the council will provide the company with a loan.
9. The council will borrow the monies from the PWLB and then loan this to Aspire, due to the sums involved we will need to increase our operational boundary from £101.5m to £250.0m.
10. The current operational boundary of £101.5m covers the HRA self-financing loan, the PFI contract and gives a small amount of headroom for unexpected events.

11. By increasing the operational boundary the council will have full flexibility to support Aspire with cost effective borrowing whilst still generating a return for the council.

Counterparty Limits

12. To increase the limits imposed on UK Local Authorities (LA's) including Fire and Police (irrespective of credit rating) from

- a. £5m to unlimited amounts
- b. 70% of the total investment portfolio to 100%
- c. 365 days to 730 days (2 years)

13. This is based on advice from our expert consultants, Arlingclose Close as it is deemed that UK Local Authorities are as safe and risk free as the Debt Management Office (DMO).

14. The DMO rates have fallen in the last quarter to 0.15% and LA's offer a higher rate, on average this is between 0.37% and 0.44% depending on the length of investment, with a potential of 0.55% for 2 year investment deals.

15. In view of the council's requirement to generate income the imposed limits on LA's is reducing the councils potential to maximise its investment income.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Loss of council funds through failure of banking counterparty	1 (minimal risk due to nature of institutions used)	4 (significant sums are placed on deposit)	Treasury Management Strategy and regular monitoring with independent advice from Arlingclose Treasury consultants.