

# Selby District Council

## REPORT

Reference: E/17/34

Item 7 - Public



**To:** Executive  
**Date:** 2 November 2017  
**Status:** Key Decision  
**Report Published:** 25 October 2017  
**Author:** John Raine, Head of Technical Finance  
**Executive Member:** Cllr Cliff Lunn, Executive Lead Member for Finance and Resources  
**Lead Officer:** Karen Iveson, Chief Finance Officer

**Title:** Treasury Management – Monitoring Report for Q2

### Summary:

This report reviews the Council's Treasury Management Activity for the 6 month period 1 April 2017 to 30 September 2017 and presents performance against the Prudential Indicators. During this period the Council complied with its legislative and regulatory requirements.

**Investments** – The latest Capita forecast is that the first increase in Bank Rate is not anticipated until the second quarter of 2019. However, there is increasing speculation that the Bank of England Bank Base Rate could increase before the end of 2017/18. Investment returns of 0.48 have been achieved up to the end of the second quarter. High balances are supporting the interest earned budget and income is forecast to exceed budget by £50k.

**Borrowing** – the council has long term borrowing of £59.3m at 30 September 2017. Interest payments of £2.5m are forecast for 2017/18 (£0.1m allocated to the General Fund; £2.4m to the Housing Revenue Account).

**Prudential Indicators** – the Council's affordable limits for borrowing were not breached during this period.

### Recommendation:

**That the Executive endorse the actions of officers on the Councils treasury activities for Q2 and approve the report.**

## Reasons for recommendation

To comply with the CIPFA Code of Practice for Treasury Management, the Executive is required to receive and review regular Treasury Management Monitoring Reports.

### 1. Introduction and background

1.1 Local Government Treasury Management is governed by the CIPFA Code of Practice and in this context is the management of the Council's cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.

### 2. The Report

2.1 The Council's treasury advisors Capita Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q2 2017/18 up to 30 September 2017:

- The economy struggled to pick up much pace;
- The labour market tightened further, but underlying wage pressures remained weak;
- Headline inflation picked up further;
- There was an increase in MPC members voting to raise interest rates;
- The public finances performed better than expected;
- Brexit negotiations did not progress significantly.

#### Interest Rate Forecasts

2.2 The interest rate forecasts (last update 29 September 2017) of Capita are as follows:

<i>Date</i>	<i>Bank rate</i>	<i>5 year PWLB*</i>	<i>10 year PWLB*</i>	<i>25 year PWLB*</i>	<i>50 year PWLB*</i>
Current rates	%	%	%	%	%
March 2018	0.25	1.32	1.63	2.48	2.75
Sept 2018	0.25	1.60	2.30	2.90	2.70
March 2019	0.25	1.70	2.40	3.00	2.80
Sept 2019	0.25	1.80	2.50	3.10	2.90
Sept 2019	0.50	1.90	2.60	3.20	3.00

\* Net of certainty rate 0.2% discount

2.3 The Monetary Policy Committee (MPC) cut the Bank Rate to 0.25% on 4 August 2016 in order to counteract a forecast sharp slowdown in growth. However, the MPC meeting of 14 September 2017 revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting.

2.4 The overall balance of risks to economic recovery in the UK is currently to the downside, with huge variable over the coming few years including what the final form Brexit will take, when finally agreed with the EU and when.

### Investments

2.5 The investment of cash balances of the Council are managed as part of the investment pool operated by North Yorkshire County Council (NYCC). In order to facilitate this pooling, the Council's Annual Investment Strategy and Lending List has been aligned to that of NYCC.

2.6 NYCC only invests in highly credit rated institutions using the information from Capita Asset Services. The approved limits within the Annual Investment Strategy were not breached during the first six months of the year.

2.7 The Council's investment activity in the NYCC investment pool up to Q2 2017/18 was as follows:

- Balance invested at 30 September 2017: £49.7m
- Average Daily Balance 2017/18 up to 30 September 2017: £45.2m
- Average Interest Rate Achieved up to 30 September 2017: 0.48%

2.8 Based on the low bank rate, NYCC's current target for investment returns is 0.4%. Interest rates have remained low throughout 2017 to date and the average rate of 0.48% is above the target. In addition the Council's cash balances remain high which is supporting the interest earned budget.

2.9 The Council's budget and current forecast for interest income is as follows:

	Budget	Current Forecast
General Fund	£100k	£140k
Housing Revenue Account	£25k	£35k
<b>Total</b>	<b>£125k</b>	<b>£175k</b>

2.10 The Approved Lending List for the NYCC managed investment pool as at 30 September 2017 is attached as **Appendix A**.

## **Debt and Borrowing**

2.11 The Council's outstanding external debt at 30 September 2017 is as follows:

- PWLB: £52.8m
- Money Market Loans: £6.5m
- Total debt: **£59.3m**
- Average interest rate: 4.19%

2.12 It is a statutory duty for the Council to determine and keep under review its 'Affordable Borrowing Limits'. The Council approved Borrowing Limits (including £1.0m for leases) are as follows:

- Operational Borrowing Limit: £76.0m
- Authorised Borrowing Limit: £81.0m

2.13 A list of the Council's approved Prudential Indicators are shown in **Appendix B**. Officers can confirm that the Prudential Indicators were not breached during Q2.

## **3. Legal/Financial Controls and other Policy matters**

### **Legal Issues**

3.1 There are no legal issues as a result of this report.

### **Financial Issues**

3.2 As set out in the report.

### **Impact Assessment**

3.3 There are no equality impacts as a result of this report.

## **4. Conclusion**

4.1 Whilst the bank rate remains low, investment returns continue to be depressed although high cash balances are supporting the interest earned budget. Based on current performance and future interest rate projections, interest earned is forecast to exceed budget by £50k (£40k GF and £10k HRA) although this will be kept under review as the year progresses.

4.2 The Council operated within its approved borrowing limits over the last quarter and prudential indicators were not breached.

## **5. Background Documents**

None

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**Appendices:**

Appendix A – NYCC approved lending list as at 30 September 2017  
Appendix B – Prudential Indicators as at 30 September 2017

Appendix A

NYCC Approved Lending List as at 30 September 2017

Maximum sum invested at any time (the overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
<b>UK "Nationalised" banks / UK banks with UK Central Government involvement</b>					
Royal Bank of Scotland	GBR	75.0	364 days	-	-
Natwest Bank	GBR				
<b>UK "Clearing Banks", other UK based banks and Building Societies</b>					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
Bank of Scotland	GBR	75.0	6 months	-	-
Lloyds	GBR				
HSBC	GBR	30.0	364 days		
Goldman Sachs International Bank	GBR	40.0	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
<b>High quality Foreign Banks</b>					
National Australia Bank	AUS	20.0	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	Temporarily suspended	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
<b>Local Authorities</b>					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
<b>Other Deposit Takers</b>					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

Based on data from 11 October 2017