

INVESTMENTS HELD AS AT 30TH SEPTEMBER 2016

Counterparty	Start Date	Maturity Date	Rate of Interest %	Amount £m
FIXED DEPOSITS				
WARRINGTON BOROUGH COUNCIL	31/10/2013	31/10/2016	1.45000	5.0
LONDON FIRE & EMERGENCY PLANNING AUTHORITY	28/11/2013	28/11/2016	1.50000	5.0
LLOYDS BANK	04/12/2014	05/12/2016	1.09000	25.0
RBS (Certificate of Deposit)	13/02/2015	13/02/2017	1.34000	10.0
WEST DUMBARTONSHIRE COUNCIL	26/03/2014	24/03/2017	1.60000	2.5
PERTH & KINROSS COUNCIL	26/03/2014	24/03/2017	1.45000	5.0
GOLDMAN SACHS	03/08/2015	02/08/2017	0.75000	10.0
NORTHUMBERLAND COUNTY COUNCIL	15/08/2014	15/08/2017	1.50000	5.0
DONCASTER MBC	15/08/2014	15/08/2017	1.88000	5.0
GOLDMAN SACHS	18/08/2016	18/08/2017	0.74000	10.0
LB CROYDON	22/08/2014	22/08/2017	1.50000	10.0
RBS (Certificate of Deposit)	30/10/2014	30/10/2017	1.85000	40.0
BLAENAU GWENT CBC	04/12/2014	04/12/2017	1.90000	3.0
LLOYDS BANK	16/04/2015	16/04/2018	1.49000	30.0
LLOYDS BANK	26/05/2016	25/05/2018	1.48000	10.0
LLOYDS BANK	19/11/2015	19/11/2018	1.82000	5.0
LANCASHIRE COUNTY COUNCIL	18/12/2015	18/12/2018	1.50000	10.0
LLOYDS BANK	29/07/2016	31/07/2019	1.34000	2.5
LLOYDS BANK	18/08/2016	19/08/2019	1.14000	7.5
TOTAL FIXED INVESTMENTS				200.5
OTHER FUNDS				
STANDARD LIFE (IGNIS) LIQUIDITY FUND				15.0
LGIM STERLING LIQUIDITY FUND				2.7
FEDERATED (PRIME RATE) STERLING LIQUIDITY FUND				7.1
SANTANDER 180 DAYS CALL ACCOUNT	23/11/2015			10.0
SANTANDER 180 DAYS CALL ACCOUNT	03/08/2016			10.0
SANTANDER 180 DAYS CALL ACCOUNT	09/08/2016			10.0
CCLA LOCAL AUTHORITY PROPERTY FUND	30/01/2014			25.0
STANDARD LIFE - DIVERSIFIED GROWTH FUND	22/12/2014			5.0
NEWTON - DIVERSIFIED GROWTH FUND	22/12/2014			5.0
TOTAL INVESTMENTS				290.3
ICELANDIC BANK DEPOSIT				
HERITABLE BANK	28/06/2007	29/06/2009	6.42000	5.0

INVESTMENTS HELD AS AT 30TH SEPTEMBER 2016

	FROM	TO	RATE	£m	TOTAL £m	LIMIT	REMAINING
<u>UK BANKS</u>							
LLOYDS BANK	04/12/2014	05/12/2016	1.09000	25.0			
LLOYDS BANK	16/04/2015	16/04/2018	1.49000	30.0			
LLOYDS BANK	26/05/2016	25/05/2018	1.48000	10.0			
LLOYDS BANK	19/11/2015	19/11/2018	1.82000	5.0			
LLOYDS BANK	29/07/2016	31/07/2019	1.34000	2.5			
LLOYDS BANK	18/08/2016	19/08/2019	1.18000	7.5	80.0	80.0	0.0
ROYAL BANK OF SCOTLAND - CD	13/02/2015	13/02/2017	1.34000	10.0			
ROYAL BANK OF SCOTLAND - CD	30/10/2014	30/10/2017	1.85000	40.0	50.0	80.0	30.0
GOLDMAN SACHS INTERNATIONAL BANK	03/08/2016	02/08/2017	0.75000	10.0			
GOLDMAN SACHS INTERNATIONAL BANK	18/08/2016	18/08/2017	0.74000	10.0	20.0	20.0	0.0
<u>LOCAL AUTHORITIES</u>							
WARRINGTON BOROUGH COUNCIL	31/10/2013	31/10/2016	1.45000	5.0	5.0	15.0	10.0
NORTHUMBERLAND COUNTY COUNCIL	15/08/2014	15/08/2017	1.50000	5.0	5.0	15.0	10.0
WEST DUMBARTONSHIRE COUNCIL	26/03/2014	24/03/2017	1.60000	2.5	2.5	15.0	12.5
PERTH & KINROSS COUNCIL	26/03/2014	24/03/2017	1.45000	5.0	5.0	15.0	10.0
LB CROYDON	22/08/2014	22/08/2017	1.50000	10.0	10.0	15.0	5.0
BLAENAU GWENT CBC	04/12/2014	04/12/2017	1.90000	3.0	3.0	15.0	12.0
DONCASTER MBC	15/08/2014	15/08/2017	1.88000	5.0	5.0	15.0	10.0
LONDON FIRE & EMERGENCY PLANNING AUTHORITY	28/11/2013	28/11/2016	1.50000	5.0	5.0	15.0	10.0
LANCASHIRE COUNTY COUNCIL	18/12/2015	18/12/2018	1.50000	10.0	10.0	15.0	5.0
<u>OTHER INVESTMENTS</u>							
STANDARD LIFE (IGNIS) LIQUIDITY FUND	25/01/2010			15.0	15.0	15.0	0.0
LGIM STERLING LIQUIDITY FUND	23/08/2012			2.7	2.7	15.0	12.3
FEDERATED (PRIME RATE) STERLING LIQUIDITY FUND	15/06/2009			7.1	7.1	15.0	7.9
SANTANDER (180 DAYS CALL ACCOUNT)	23/11/2015		0.90000	10.0			
SANTANDER (180 DAYS CALL ACCOUNT)	03/08/2016		0.90000	10.0			
SANTANDER (180 DAYS CALL ACCOUNT)	09/08/2016		0.90000	10.0	30.0	30.0	0.0
CCLA LOCAL AUTHORITY PROPERTY FUND	30/01/2014			25.0			
STANDARD LIFE - DIVERSIFIED GROWTH FUND	22/12/2014			5.0			
NEWTON - DIVERSIFIED GROWTH FUND	22/12/2014			5.0	35.0	40.0	5.0
TOTAL INVESTMENTS					290.3	290.3	
HERITABLE BANK	28/06/2007	29/06/2009	6.42000	5.0	5.0	0.0	-5.0

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2016/17

1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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 borrowing need of the Council, essentially the longer term cash flow planning 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, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on (*insert date*).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Executive and Resources PDS Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2016/17 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

3 Economic update

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year 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. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping

inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and economic growth.

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by this Council on 22nd February 2016. A subsequent revision was approved by Council on 26th September 2016, which included the following:

- a reduction to the sovereign rating criteria to AA-;
- a reduction to the individual counterparty rating criteria to BBB+;
- an increase to the maximum investment period for UK banks in Banks 1C;
- the inclusion of investments with Housing Associations; and
- the inclusion of Variable Net Asset Value Money Market Funds.

5 Investment Portfolio

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

Details of the Council's investment activity during the first six months of 2016/17 are provided in paragraphs 3.2.2 to 3.4.2 of the covering report and lists of current investments are provided in Appendices 3 (in maturity date order) and 4 (by counterparty). Excluding the frozen Heritable investment of £5m (98% of which has now been recovered), the Council held £290.3m of investments as at 30th September 2016 (£285.2m as at 30th June 2016).

The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

The Council's budget for interest on investments in 2016/17 is £3.491m, which is based on an assumed interest rate of 1.00% for new investments. Despite the reduced interest rates being earned on new investments made on recent investments, higher levels of balances available for investment mean that a surplus of £250k is currently projected for the 2016/17 financial year.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

6 Borrowing

The Council's capital financing requirement (CFR) for 2016/17 is £3.8m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council does not borrow to finance its capital expenditure and has, in recent years, only had to borrow short-term (for cashflow purposes) on a very few occasions.

No borrowing is currently anticipated during this financial year or in any later financial year.

Prudential and Treasury Indicators – Mid-Year Review 2016/17

The old capital control system was replaced in April 2004 by a prudential system based largely on self-regulation by local authorities themselves. At the heart of the system is The Prudential Code for Capital Finance in Local Authorities, developed by CIPFA. The Code requires the Council to set a number of prudential indicators designed to monitor and control capital expenditure, financing and borrowing. The indicators for 2016/17 were approved by the Executive and the Council in February 2016 and this Annex sets out the actual performance against those indicators in the first six months, updating them where necessary. Prudential and Treasury Indicators are relevant for the purposes of setting an integrated treasury management strategy.

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted by the full Council in February 2002 and the revised 2011 Code was initially adopted by full Council in February 2012.

Prudential Indicators for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the Capital Programme for 2016/17 was agreed in February 2016. The decrease in the latest estimate for 2016/17 is mainly the result of slippage in expenditure originally planned for 2016/17 into future years, as highlighted in previous reports to the Executive and to PDS Committees.

Capital Expenditure by Portfolio	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
Education	36.3	18.7
Renewal & Recreation	5.2	3.4
Environment	8.2	10.4
Care Services	13.6	5.6
Resources	19.3	25.8
Public Protection & Safety	-	0.1
Less: estimated slippage	-5.0	-5.0
Total	77.6	59.0

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

Capital Expenditure	2016/17 Original Estimate £m	2015/16 Revised Estimate £m
Supported	77.6	59.0
Unsupported	-	-
Total spend	77.6	59.0
Financed by:		
Capital receipts	18.7	4.4
Capital grants/contributions	51.0	28.9

General Fund	-	-
Revenue contributions	7.9	25.7
Total financing	77.6	59.0
Borrowing need	-	-

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”, which comprise external / internal borrowing and other long-term liabilities, mainly finance leases. The Council’s approved Treasury and Capital Prudential Indicators (affordability limits) are outlined in the approved TMSS. The table below shows the expected “worst case” debt position over the period. This is termed the Operational Boundary. Bromley has an operational “borrowing” limit (Operational Boundary) of £30m, although in practice, this limit is never in danger of being breached.

The Authorised Limit, which represents the limit beyond which borrowing is prohibited, is another of the prudential indicators and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 and, for Bromley, this figure has been set at £60m.

The table also shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The Council’s capital financing requirement (CFR) as at 1st April 2016 was £3.8m. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council’s CFR relates to liabilities arising from finance leases entered into in recent years in respect of various items of plant and equipment. The Council currently has no external borrowing as such.

Prudential Indicators	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
CFR	2.6	3.8
Debt – Operational Boundary		
Borrowing	10.0	10.0
Other long-term liabilities	20.0	20.0
Total Operational Boundary	30.0	30.0
Debt – Authorised Boundary		
Borrowing	30.0	30.0
Other long-term liabilities	30.0	30.0
Total Operational Boundary	60.0	60.0

Other Prudential Indicators

Other indicators designed to control overall borrowing and exposures to interest rate movements are included in the summary table below, which will require the approval of full Council.

Prudential and Treasury Indicators - Summary

	2016/17	2016/17
	Original Estimate	Revised Estimate
Total Capital Expenditure	£77.6m	£59.0m
Ratio of financing costs to net revenue stream	0.0%	0.0%
Net borrowing requirement (net investments for Bromley)		
brought forward 1 April	£282.3m	£261.1m
carried forward 31 March	£245.3m	£244.4m
in year borrowing requirement (reduction in net investments for Bromley)	-£37.0m	-£16.7m
Estimated CFR as at 31 March (finance lease liability)	£2.6m	£3.8m
(NB. Actual CFR as at 31 March 2015 (finance lease liability) = £4.3m)		
Annual change in Cap. Financing Requirement	-£0.6m	+£0.6m
Incremental impact of capital investment decisions	£ p	£ p
Increase in council tax (band D) per annum	-	-

TREASURY MANAGEMENT INDICATORS	2016/17 Original Estimate	2016/17 Revised Estimate
Authorised Limit for external debt -		
borrowing	£30.0m	£30.0m
other long term liabilities	£30.0m	£30.0m
TOTAL	£60.0m	£60.0m
Operational Boundary for external debt -		
borrowing	£10.0m	£10.0m
other long term liabilities	£20.0m	£20.0m
TOTAL	£30.0m	£30.0m
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	20%	20%
Upper limit for total principal sums invested beyond year-end dates	£170.0m	£170.0m