Appendix A

TREASURY MANAGEMENT INTERIM REPORT 2017/18

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to reports to Members. This report represents the interim report for 2017/18.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2017/18 as part of the Budget Proposals 2017/18 submitted to Members in March 2017. The strategy covered the following areas:

   (a) prospects for interest rates;
   (b) capital borrowing and debt rescheduling;
   (c) annual investment strategy;
   (d) external debt prudential indicators;
   (e) treasury management prudential indicators.
   (f) performance indicators;
   (g) treasury management advisers

PROSPECTS FOR INTEREST RATES

3. The Bank of England Monetary Policy Committee (MPC) increased the base rate by 0.25% to 0.50% at it's meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expect to increase the bank rate only twice more by 0.25% prior to 2020 with a view to a base rate of 1.00%. Latest forecasts anticipate that a further 0.25% increase is not expected before December 2018. However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the cpi statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak service sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

4. PWLB rates and gilt yields have continued to experience exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Despite this volatility PWLB rose slightly, from historically low levels, by 0.15 % during the first half of the financial year.

5. The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2017/18. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

6. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2017/18.

7. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, interest rate structures are continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

8. The investment strategy for 2017/18 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

9. Investments have been made with various counterparties including UK and foreign banks with higher credit ratings, the larger Building Societies, “nationalised” banks and AAA rated money market funds. This diversity has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 September 2017 the average rate of return achieved on average principal available was 0.52 %. This compares with an average seven day deposit (7 day libid) rate of 0.11 %.

EXTERNAL DEBT PRUDENTIAL INDICATORS

10. The external debt indicators of prudence for 2017/18 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£77 million
Operational boundary for external debt:	£59 million

Against these limits, the maximum amount of debt that was reached in the period April to September 2017 was £39.1 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

11. The treasury management indicators of prudence for 2017/18 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	50%

The maximum that was reached in the period April to September 2017 was as follows:

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period April to September 2017 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	3%	0%
12 months and within 24 months	50%	0%	2%	1%
24 months and within 5 years	50%	0%	10%	9%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	90%	0%	89%	86%

c) Total principal sums invested for periods longer than 364 days
The limit for investments of longer than 364 days was set at £2 million for 2017/18. No such investments have been placed in 2017/18.

12. **PERFORMANCE INDICATORS**
The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

13. The indicators for the treasury function are:

Borrowing – the indicator is the average rate of actual borrowing compared to the average available for the period of borrowing. However, there has been no borrowing in the period April to September 2017.

Investments – Internal returns compared to the 7 day LIBID rate. The return in the period April to September 2017 was 0.41 % above the benchmark.

TREASURY MANAGEMENT ADVISORS

14. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisors appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

15. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

16. Treasury Management activity in 2017/18 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.