

**EXECUTIVE BOARD**  
**16<sup>TH</sup> FEBRUARY 2018**

**QUARTERLY TREASURY MANAGEMENT AND  
PRUDENTIAL INDICATOR REPORT**

**1<sup>st</sup> April 2017 – 31<sup>st</sup> December 2017**

**A QUARTERLY TREASURY MANAGEMENT REPORT**

**1. Introduction**

The Treasury Management Policy and Strategy for 2017-2018 was approved by Council on 22<sup>nd</sup> February 2017. Section B 1.1(2) stated that Treasury Management activity reports would be made during the year. This report outlines the Treasury Management activities in the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> December 2017 and satisfies the reporting requirement stated above.

**2. Investments**

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily on the London Money Markets. The security of the investments is the main priority. Appropriate liquidity should be maintained and return on investments the final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

The total investments at 1<sup>st</sup> April 2017 to 31<sup>st</sup> December 2017 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.17				31.12.17			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% wholly owned Subsidiaries	15.00	5.63	20.63	51	20.00	5.58	25.58	53
Building Societies	0.00	0.00	0.00	0	0.00	7.00	7.00	15
Money Market Fund	15.00	0.00	15.00	37	5.50	0.00	5.50	11
Local Authorities	0.00	5.00	5.00	12	0.00	10.00	10.00	21
<b>TOTAL</b>	<b>30.00</b>	<b>10.63</b>	<b>40.63</b>	<b>100</b>	<b>25.50</b>	<b>22.58</b>	<b>48.08</b>	<b>100</b>

Investments on call are available immediately on demand.  
Fixed term investments are fixed to a maturity date.

The £48.08m includes £0.58m (14.5% of original claim) invested in Kaupthing Singer and Friedlander which has been reduced from the original £4.0m by distributions.

During the period the total investments made by the Council and repaid to the Council (the turnover) amounted to £959.75m. This averaged approximately £24.43m per week or £3.49m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2017	40.63
Investments made during the period	483.60
Sub Total	524.23
Investments Repaid during the period	(476.15)
<b>Total Investments at 31st December 2017</b>	<b>48.08</b>

The main aims of the Treasury Management Strategy is to appropriately manage the cash flows of the Council, the required short term and longer term market transactions and the risks associated with this activity. Lending on the money market secures an optimum rate of return and also allows for diversification of investments and hence reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the London money market is the “7 day LIBID rate”. For 2017-2018 the Council has compared its performance against this “7 day LIBID rate”. For the period under review the average “7 day LIBID rate” was 0.17% whereas the actual rate the Council earned was 0.35%, an out performance of 0.18%.

This outperformance can be quantified to £98k additional interest earned compared to the “7 day LIBID rate”.

The gross interest earned on investments for the period amounted to £0.184m.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

### **3. Update on the investments with Kaupthing Singer & Friedlander (KSF)**

A sixteenth dividend was received from the Administrators in December 2017. This equated to 0.35p in the £ and amounted to £14k principal.

As at 31<sup>st</sup> December 2017 the sum of £3.42m principal and £210k interest had been received from the Administrators, which equates to 85.5% of the claim submitted. A further dividend is expected to be paid in 2018-2019. The Administrators have upgraded their estimate of total dividends to non-preferential creditors to a minimum of 86.25%.

### **4. Security, Liquidity and Yield (SLY)**

Within the Treasury Management Strategy Statement for 2017-2018, the Council’s investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions.

Attached in Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.58m in KSF) as at 31<sup>st</sup> December 2017.

### **5. Borrowing**

One of the methods used to fund capital expenditure is long term borrowing. The principal lender for Local Authorities is the Public Works Loan Board (PWLb).

Under the Treasury Management Strategy it was agreed to borrow when interest rates are at their most advantageous.

The total loans at 1<sup>st</sup> April 2017 and 31<sup>st</sup> December 2017 are shown in the following table:

Loans	Balance at 01.04.17 £m	Balance at 31.12.17 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	380.82	392.11	11.29
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	4.15	3.85	(0.30)
<b>TOTAL</b>	<b>387.97</b>	<b>398.96</b>	<b>10.99</b>

The Salix interest free loans have been provided by an independent publicly funded company dedicated to providing the public sector with loans for energy efficiency projects.

The interest free 'Invest-2-Save' funding is to assist in the conversion of traditional street lighting to LED, which will help deliver a legacy of reduced energy costs and associated carbon taxes.

The Home Improvement Loan Scheme (HILS) repayable funding is provided by the Welsh Government to help individual home owners, small portfolio landlords, developers and charities to improve homes and increase housing supply.

The Town Centre Loan (TCL) repayable funding is provided by the Welsh Government to provide loans to reduce the number of vacant, underutilised and redundant sites and premises in town centres and to support the diversification of the town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and for key services.

### 5.1 New Borrowing

The following loans were borrowed during the period to fund the capital programme:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
506262	2.00	2.38%	14th August 2017	46yrs	28th March 2063
506263	2.00	2.38%	14th August 2017	47yrs	28th March 2064
506264	2.00	2.38%	14th August 2017	48yrs	28th March 2065
506265	2.00	2.38%	14th August 2017	49yrs	28th March 2066
506266	2.00	2.38%	14th August 2017	50yrs	28th March 2067
506570	5.00	2.36%	10th November 2017	50yrs	28th September 2067
<b>Total</b>	<b>15.00</b>				

## **5.2 Interest Paid**

Interest paid on loans in the period was:

<b>PWLB Interest Paid £m</b>	<b>Market Loan Interest Paid £m</b>	<b>Total Interest Paid £m</b>
9.76	0.14	9.90

## **6. Rescheduling and Premature Loan Repayments**

No rescheduling opportunities arose during the period and there were no premature repayments of debt.

## **7. Leasing**

No leases were negotiated in the period ended 31<sup>st</sup> December 2017.

## **8. Training**

Treasury Management training was delivered to members by the Council's treasury management consultants (Link Asset Services) and council officers on 4<sup>th</sup> December 2017.

## **9. Conclusion**

The Treasury Management function for the period ended 31<sup>st</sup> December 2017 has been carried out within the policy and guidelines set in the Treasury Management Policy and Strategy 2017-2018.

## **B. QUARTERLY PRUDENTIAL INDICATOR REPORT**

### **1. Introduction**

As part of the 2017-2018 Budget and the Treasury Management Policy and Strategy 2017-2018 Council adopted a number of Prudential Indicators. These Indicators are designed to ensure that any borrowing or other long-term liabilities entered into for capital purposes were affordable, sustainable and prudent.

The Indicators are required by the Local Government Act 2003 and the Revised Prudential Code of Practice in order to control Capital Finance. The Prudential Code also required that those Prudential Indicators that were forward looking should be monitored and reported. Some of the indicators are monitored by officers monthly, and are only reported if they are likely to be breached, others are to be monitored quarterly by the Executive Board.

### **2. The Monitored Prudential Indicators**

#### **2.1 Affordability Prudential Indicator**

##### **2.1.1 Ratio of Financing Costs to Net Revenue Stream**

The indicator set for 2017-2018 in the Budget was:

	<b>2017-2018 %</b>
Non –HRA	5.98
HRA	34.98

An examination of the assumptions made in calculating this indicator concluded that there have been no changes in the period.

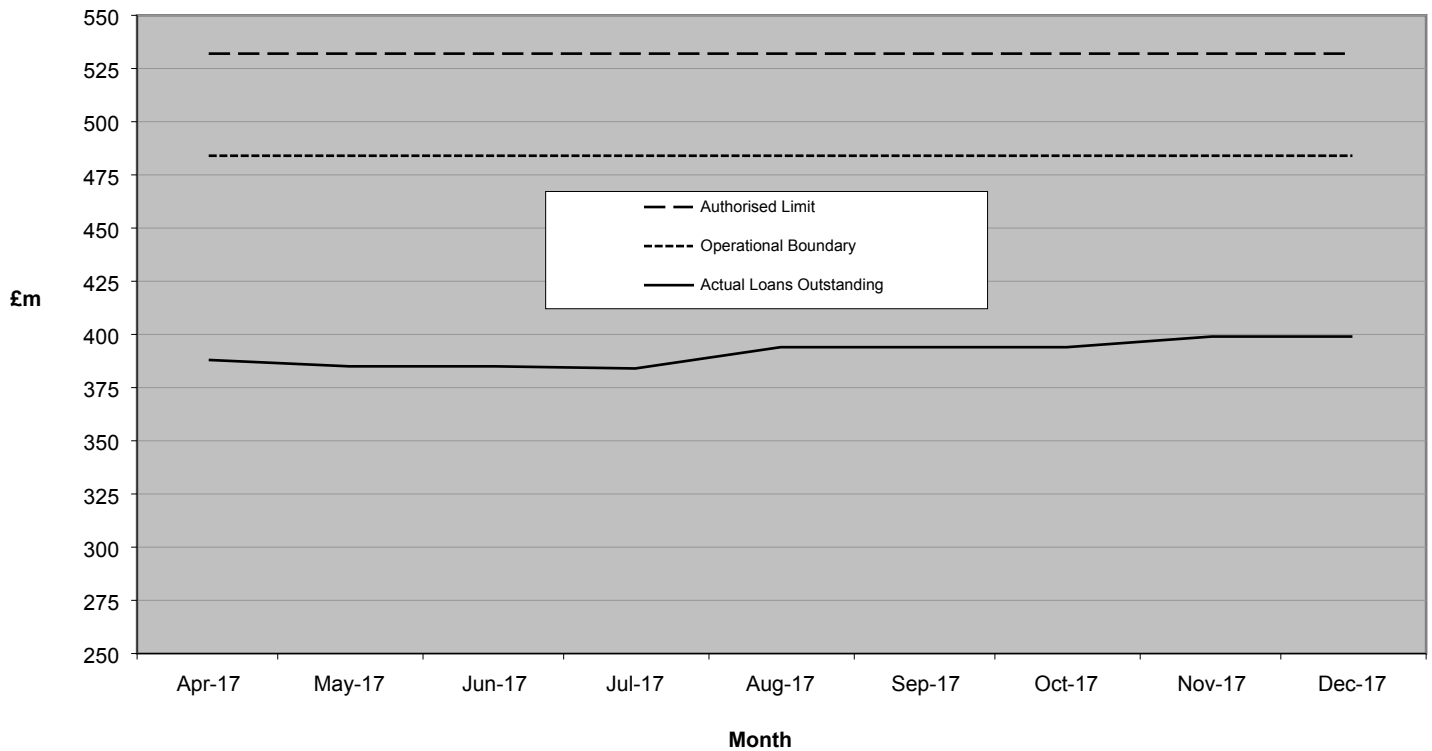
#### **2.2 Prudence Prudential Indicators**

##### **2.2.1 The Gross Borrowing and Capital Finance Requirement (CFR) indicator**

The indicator set by the Budget for Gross Borrowing and CFR was that the Director of Corporate Services envisaged no difficulty in meeting the requirement of the Gross Borrowing being less than the accumulated CFR for 2017-2018. An examination of assumptions made when calculating the Prudential Indicator show that there have been no material changes.

## 2.2.2 Authorised Limit and Operational Boundary

The actual value of loans outstanding must not exceed the Authorised Limit. In normal activity actual loans outstanding should be close but less than the Operational Boundary. The Operational Boundary can be breached in the short term due to adverse cash flows.



	<b>Apr-17</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Authorised Limit	532	532	532	532
Operational Boundary	484	484	484	484
Loans Outstanding	388	385	394	399

Neither the Authorised Limit nor the Operational Boundary have been breached.

## **2.3 Treasury Management Prudential Indicators**

### **2.3.1 Interest Rate Exposure**

Position as at 31<sup>st</sup> December 2017:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	395.96	3.00	398.96
Invested	(28.08)	(20.00)	(48.08)
<b>Net</b>	<b>367.88</b>	<b>(17.00)</b>	<b>350.88</b>
Limit	444.00	20.00	
<b>Proportion of Net Borrowing Actual</b>	<b>104.84%</b>	<b>(4.84)%</b>	<b>100.00%</b>
Limit	150.00%	10.00%	

The authority is within limits set by the 2017-2018 indicators.

### **2.3.2 Maturity Structure Of Borrowing**

	<b>Structure at 31.12.17 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	3.20	15	0
12 months to 2 years	1.32	25	0
2 years to 5 years	6.98	50	0
5 years to 10 years	10.27	50	0
10 years to 20 years	17.32	50	0
20 years to 30 years	20.15	50	0
30 years to 40 years	24.54	50	0
40 years and above	16.22	50	0

The authority is within the limits set by the 2017-2018 indicators.



### **2.3.3 Maximum principal sums invested longer than 364 days**

	<b>2017-2018 £m</b>
Limit	10
Actual as at 31 <sup>st</sup> December 2017	NIL

### **3. Conclusion**

For the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> December 2017 the actual Prudential Indicators to be monitored by the Executive Board are within the limits set by the Budget 2017-2018 and the Treasury Management Policy and Strategy 2017-2018.

### **RECOMMENDATION**

**That Executive Board considers and approves the report.**