POLICY & RESOURCES SCRUTINY COMMITTEE

DATE: 19TH JULY 2018

ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT 2017-2018

1. Introduction

The Treasury Management Policy and Strategy for 2017-2018 was approved by Council on 22nd February 2017. Section B 1.1(2) stated that a year end annual report would be produced.

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code) and outlines the Treasury Management activities in the 2017-2018 financial year.

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 Funds, 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 with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a 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.

For 2017-2018 investments to individual counterparties were limited to:

	Maximum to Lend £m
Upper Limit Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term	10
Middle Limit Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
UK Banks Part Nationalised Included as investment counterparties, as long as they continue to have appropriate UK Government support	7
Any one Local Authority	10
Any one AAA Rated Money Market Fund	5
Debt Management Office	40

The total investments at 1st April 2017 and 31st March 2018 are shown in the following table:

Investments	01.04.17				31.03.18			
	Call and notice £m	Fixed Term £m	Total £m	%	Call and notice £m	Fixed Term £m	Total £m	%
Banks and 100% Wholly Owned Subsidiaries	15.00	5.63	20.63	51	19.00	0.58	19.58	45
Building Societies	0.00	0.00	0.00	0	0.00	0.00	0.00	0
Money Market Funds	15.00	0.00	15.00	37	10.00	0.00	10.00	23
Local Authorities	0.00	5.00	5.00	12	0.00	14.00	14.00	32
TOTAL	**30.00**	**10.63**	**40.63**	**100**	**29.00**	**14.58**	**43.58**	**100**

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £36.48m and the maximum balance lent was £92.49m. The average balance for the year was £65.67m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,215.85m.This averaged approximately £23.32m per week or £3.33m per day. A summary of the turnover is shown below:

	£m
Total Investments 1st April 2017	40.63
Investments made during the year	609.40
Sub Total	650.03
Investments Repaid during the year	(606.45)
Total Investments 31st March 2018	**43.58**

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

The benchmark return for the money market is the "7 day LIBID rate". For 2017-2018 the Council has compared its performance against this "7 day LIBID rate". The average "7 day LIBID rate" was 0.22% whereas the actual rate the Council earned was 0.38%, an out performance of 0.16%.

This outperformance can be quantified as £110k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for 2017-2018 amounted to £0.244m, which was more than the estimated figure of £0.200m. The Bank of England Official Rate was increased from 0.25% to 0.50% on the 2nd November 2017 which resulted in an increase in investment returns.

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)

The latest position with the Council's investments with KSF was reported in the Quarterly Treasury Management and Prudential Indicator Reports to Executive Board during the year.

In June 2017 the Council received a fifteenth dividend from the Administrators. This equated to 0.9p in the £ and amounted to £36k principal.

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 31st March 2018 the sum of £3.42m principal and £210k interest had been received from the Administrators, which equates to 85.50% of the claim submitted. Further dividends are expected to be paid in 2018-2019 and 2019-20. The Administrators estimate total dividends payable to non-preferential creditors at 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 still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments (excluding the £0.58m in KSF) held as at the 31st March 2018 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

5. Borrowing

As Members are aware the Authority has a substantial capital investment programme. For 2017-2018 actual capital expenditure was £66.4m. This was financed from:

	£m
Borrowing	25.78
Grants and Contributions	26.57
Usable Capital Receipts Applied	8.52
Revenue and Reserves	5.56
Total	**66.43**

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.

- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2017-18 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
506864	2.00	2.47%	31st January 2018	44yrs	28th March 2062
507082	2.00	2.40%	19th March 2018	42yrs	28th March 2060
507083	2.00	2.39%	19th March 2018	43yrs	28th March 2061
Total	**21.00**				

The weighted average interest rate of these new loans was 2.39% which compares favourably with the weighted average rate of the respective loan periods throughout the year.

The total loans outstanding at 1st April 2017 and 31st March 2018 were:

Loans	Balance at 01.04.17 £m	Balance at 31.03.18 £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	4.74	0.59
Total	**387.97**	**399.85**	**11.88**

In 2017-18 the Council received £0.895m from the Welsh Government in relation to Town Centre Loans (TCL). The purpose of the scheme is 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. The term of the funding is until 31st March 2033, with advances to third parties repayable interest free.

The total external interest paid in 2017-2018 amounted to £17.62m, which compares favourably with the budget of £19.77m. The savings have arisen due to a reduction in the borrowing for the Modernisation Education Programme for current and previous years.

6. <u>Treasury Management Prudential Indicators</u>

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2017-2018. The indicators set and the performance against those indicators is shown below:

6.1 The estimated and actual interest exposure limits as at 31st March 2018 were:

	Estimate 31.03.18 £m			**Actual 31.03.18 £m**		
	Fixed Interest Rate	**Variable Interest Rate**	**Total**	**Fixed Interest Rate**	**Variable Interest Rate**	**Total**
Borrowed	401.00	3.00	404.00	396.85	3.00	399.85
Invested	(20.00)	(30.00)	(50.00)	(14.58)	(29.00)	(43.58)
Net	**381.00**	**(27.00)**	**354.00**	**382.27**	**(26.00)**	**356.27**
Proportion of Total Net Borrowing	108%	(8%)	100%	107%	(7%)	100%
Limit	**125%**	**5%**				

6.2 Maximum principal sums invested > 365 days

	2017-2018 Limit £m	**2017-2018 Actual £m**
Maximum principal sums invested > 365 days	10	NIL

6.3 Interest rate exposure limits

	2017-2018 Limit £m	**2017-2018 Actual £m**
Limits on fixed interest rates based on net debt	444.00	382.27
Limits on variable interest rates based on net debt	20.00	(26.00)

6.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31st March 2018.

	Estimated Upper Limit 2017-2018 %	Estimated Lower Limit 2017-2018 %	Actual 31.03.18 %
Under 12 months	15	0	1.76
12 months to 2 years	25	0	1.32
2 years to 5 years	50	0	7.40
5 years to 10 years	50	0	10.00
10 years to 20 years	50	0	18.10
20 years to 30 years	50	0	20.26
30 years to 40 years	50	0	23.48
40 years and above	50	0	17.68
Total			**100.00**

Details of the above maturity structure are shown below:

Loan Maturities	PWLB Debt £m	Average Interest Rate %	Market Loans/ Invest to Save/Salix/ HILS/TCL £m	Average Rate %	Total Debt Outstanding £m
Before 1st April 2019	6.69	9.87	0.34	0	7.03
1st April 2019 to 31st March 2020	5.00	5.00	0.29	0	5.29
1st April 2020 to 31st March 2023	28.81	6.14	0.75	0	29.56
1st April 2023 to 31st March 2028	39.98	4.73	0	0	39.98
1st April 2028 to 31st March 2038	69.03	4.53	3.36	0	72.39
1st April 2038 to 31st March 2048	81.00	4.04	0	0	81.00
1st April 2048 to 31st March 2058	90.90	5.29	3.00	4.72	93.90
After March 2058	70.70	2.81	0	0	70.70
Total as at 31.03.18	**392.11**		**7.74**		**399.85**

7. Prudential Indicators

7.1 Affordability

7.1.1 Actual and estimated ratio of financing costs to net revenue stream.

Ratio of Financing Costs to Revenue Stream		
	2017-2018 Estimate %	**2017-2018 Actual %**
Non-HRA	5.98	4.58
HRA	34.98	34.58

The indicator shows the proportion of income taken up by capital financing costs.

7.2 Prudence

7.2.1 The Capital Financing Requirement (CFR).

	31.03.18 Estimate £m	**31.03.18 Actual £m**
Non-HRA	265	263
HRA	143	145
HRAS	76	76
Total	**484**	**484**

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

7.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2017-2018 plus the expected changes to the CFR over 2018-2019 and 2019-2020 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	2017-2018 Estimate	2017-2018 Actual
Debt at 1st April 2017	390	388
Expected Change in Debt	26	12
Gross debt at 31st March 2018	**416**	**400**
CFR	**484**	**484**
Under / (Over) borrowing	**68**	**84**

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2017-2018.

7.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the “Affordable Borrowing Limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2017-2018 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2017-2018 £m
Authorised Limit	532.00
Gross borrowing	399.85
Operational Boundary	484.00
Average gross borrowing position	391.94
Financing costs as a proportion of net revenue stream	7.70%

8. <u>Revised CIPFA Codes</u>

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

The main recommendation, from 2018-2019, is that local authorities produce a capital strategy to members which is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.

9. <u>Leasing</u>

No finance leases were negotiated during the year.

10. <u>Rescheduling</u>

No rescheduling was undertaken during the year.

11. <u>Conclusion</u>

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.