POLICY AND RESOURCES SCRUTINY COMMITTEE
DATE: 5TH DECEMBER 2018

MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1ST April 2018 – 30TH September 2018

A. TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2018-2019 was approved by Council on 21st February 2018. 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 1st April 2018 to 30th September 2018 and satisfies the reporting requirement stated above.

There are no policy changes to the Treasury Management Policy and Strategy for this period and this report updates the position in light of the updated economic position and budgetary changes already approved.

2. Economic update

The first half of 2018-2019 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously vote 9-0 to increase Bank Rate on 2nd August 2018 from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June 2018 to 2.7% in August 2018 due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

3. Prospects for Interest Rates

Based on the average projection from a number of sources we can expect the trend in base rates over the year to be as follows:

	Apr 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019
Base Rate %	0.50	0.50	0.75	0.75	0.75

(Source: LINK Treasury Services)

Link Asset Services undertook its last review of interest rate forecasts on 7th August 2018 after the Quarterly Inflation Report of the Bank of England and Monetary Policy Committee (MPC) meeting 2 August 2018, where the decision was made to increase the Bank Rate to 0.75%

The flow of generally positive economic statistics after the end of the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision to make the first increase in Bank Rate above 0.5% since the financial crash. However, the MPC emphasised again, that future Bank Rate increases would be gradual. Link Asset Services do not believe that the MPC will increase the Bank Rate in February 2019, ahead of the deadline in March 2019 for Brexit.

The revised projection based on the recent review:

	2018-19	2019-20	2020-21
	%	**%**	**%**
Revised Average Bank Rate	0.67	0.94	1.38
Original Average Bank Rate (TM Strategy 2018-19)	0.63	0.88	1.19

4. 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 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.

The total investments at 1st April 2018 and 30th September 2018 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.18				30.9.18			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% wholly owned Subsidiaries	19.00	0.58	19.58	45	12.00	0.57	12.57	30
Building Societies	0.00	0.00	0.00	0	0.00	7.00	7.00	17
Money Market Funds	10.00	0.00	10.00	23	7.00	0.00	7.00	17
Local Authorities	0.00	14.00	14.00	32	0.00	15.00	15.00	36
TOTAL	**29.00**	**14.58**	**43.58**	**100**	**19.00**	**22.57**	**41.57**	**100**

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 30th November 2018.

The £41.57m includes £0.57m (14.25% 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 (turnover) amounted to £681.61m.This averaged approximately £26.07m per week or £3.72m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2018	43.58
Investments made during the period	339.80
Sub Total	**383.38**
Investments Repaid during the period	(341.81)
Total Investments 30th September 2018	**41.57**

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 2018-2019 the Council has compared its performance against this "7 day LIBID rate". For the period under review the average "7 day LIBID rate" was 0.44% whereas the actual rate the Council earned was 0.59%, an out performance of 0.15%.

This outperformance can be quantified to £54k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £0.206m.

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

5. Update on the investments with Kaupthing Singer & Friedlander (KSF)

In August 2018 the Council received a seventeenth dividend from the Administrators. This equated to 0.25p in the £ and amounted to £10k principal.

As at 30th September 2018 the sum of £3.43m principal and £210k interest had been received from the Administrators, which equates to 85.75% of the claim submitted. The Administrators' estimate of total dividends payable to non-preferential creditors remains at 86.25%.

A court hearing in July 2018 extended the term of the administration to the 7th October 2021. This is the fourth extension to the administration.

A further update will be provided in future reports.

6. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2018-2019, 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 at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.57m in KSF) as at 30th September 2018.

7. 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 1st April 2018 and 30th September 2018 are shown in the following table:

Loans	Balance at 01.04.18 £m	Balance at 30.09.18 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	392.11	385.42	(6.69)
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	4.74	4.68	(0.06)
TOTAL	**399.85**	**393.10**	**(6.75)**

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.

7.1 New Borrowing

No new loans were borrowed during the period.

7.2 Interest Paid

Interest paid on loans during the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
8.50	0.07	8.57

8. Rescheduling and Premature Loan Repayments

The current economic climate and the consequent structure of interest rates meant that no rescheduling opportunities arose during the period and there were no premature loan repayments.

9. Leasing

No leases were negotiated during the period 1st April 2018 to 30th September 2018.

B. PRUDENTIAL INDICATOR REPORT

1. Prudential Indicators

As part of the 2018-2019 Budget and the Treasury Management Policy and Strategy 2018-2019, the 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.

1.1 Affordability Prudential Indicator

1.1.1 Ratio of Financing Costs to Net Revenue Stream

The indicator set for 2018-2019 in the Budget was:

	2018-2019 %
Non-HRA	5.15
HRA	34.39

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

1.2 Prudence Prudential Indicators

1.2.1 Capital Financing Requirement (CFR)

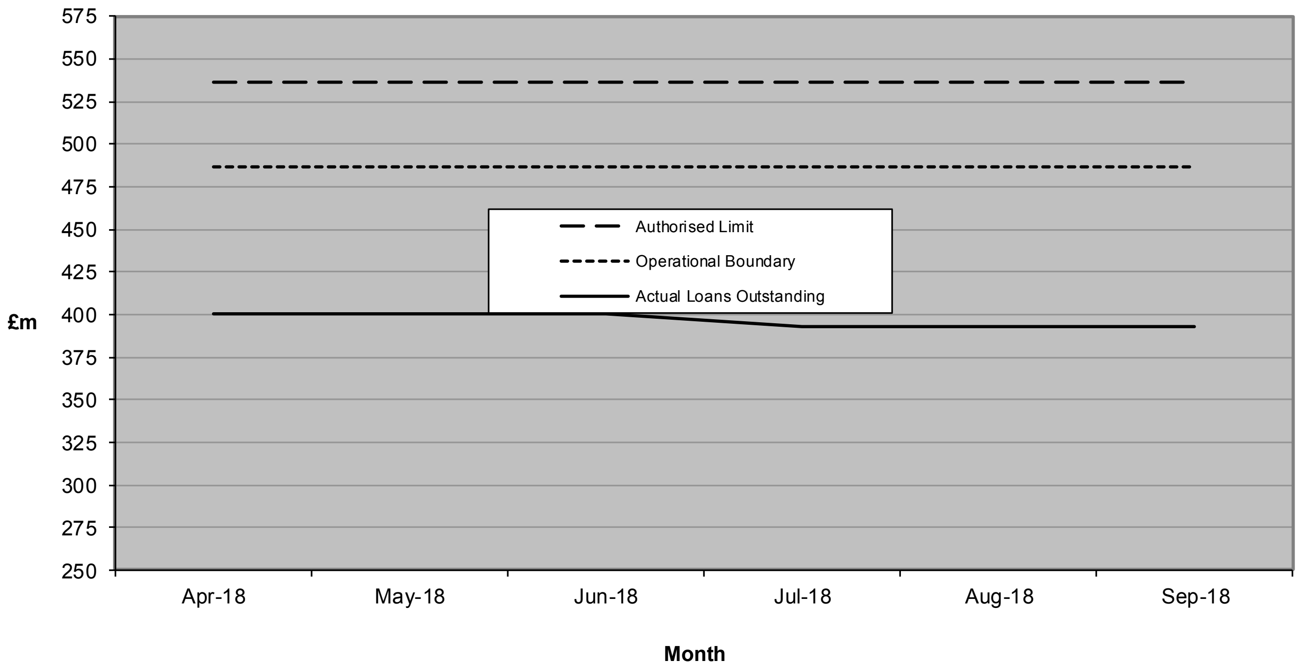
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2018-2019 Estimate £m	As at 30.09.18 £m	2018-2019 Forecast £m
Capital Financing Requirement			
CFR – non housing	271	271	275
CFR – housing	142	142	142
CFR - housing subsidy buy-out	74	74	74
Total CFR	**487**	**487**	**491**

1.2.2. 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.

	Authorised Limit for External Debt		Operational Boundary for External Debt	
	2018-2019 Estimate £m	2018-2019 Forecast £m	2018-2019 Estimate £m	2018-2019 Forecast £m
Borrowing	535.5	535.5	486.9	486.9
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	536	536	487	487



	Apr-18 £m	May-18 £m	Jun-18 £m	Jul-18 £m	Aug-18 £m	Sep-18 £m
Authorised Limit	536	536	536	536	536	536
Operational Boundary	487	487	487	487	487	487
Loans Outstanding	400	400	400	393	393	393

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

2.1 Treasury Management Prudential Indicators

2.1.1 Interest Rate Exposure

Position as at 30th September 2018:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	390.10	3.00	393.10
Invested	(22.57)	(19.00)	(41.57)
Net	**367.53**	**(16.00)**	**351.53**
Limit	467.00	47.00	
Proportion of Net Borrowing Actual	**104.55%**	**(4.55)%**	**100.00%**
Limit	125.00%	5.00%	

The authority is within limits set by the 2018-2019 indicators.

2.1.2 Maturity Structure Of Borrowing

	Structure at 30.09.18 %	Upper Limit %	Lower Limit %
Under 12 months	0.07	15	0
12 months to 2 years	1.35	25	0
2 years to 5 years	7.52	50	0
5 years to 10 years	10.17	50	0
10 years to 20 years	18.41	50	0
20 years to 30 years	20.61	50	0
30 years to 40 years	23.89	50	0
40 years and above	17.98	50	0

The authority is within the limits set by the 2018-2019 indicators.

2.1.3 Maximum principal sums invested longer than 365 days

	2018-2019 £m
Limit	10
Actual as at 30th September 2018	NIL

3. Conclusion

For the period 1st April 2018 to 30th September 2018 the actual Prudential Indicators to be monitored by the Executive Board are within the limits set by the Budget 2018-2019 and the Treasury Management Policy and Strategy 2018-2019. This is also true for the indicators being monitored by officers.