

# MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1<sup>ST</sup> April 2015 – 30<sup>TH</sup> September 2015

## **A. TREASURY MANAGEMENT REPORT**

### **1. Introduction**

The Treasury Management Policy and Strategy for 2015-2016 was approved by Council on 24<sup>th</sup> February 2015. 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 2015 to 30<sup>th</sup> September 2015 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.

#### **1.1 HRA Reform in Wales**

As reported in the April - June 2015 quarterly report, the Council made a one off payment to the Welsh Government of £79m which removed the Authority's obligation to the Housing Subsidy system. The equivalent figure was borrowed from the PWLB on 2<sup>nd</sup> April 2015 and met the requirements of the HRA business plan and the overall requirements of the Council. These loans were detailed in the April - June 2015 quarterly report.

### **2. Economic update**

The UK GDP growth rate in the June 2015 quarter was +0.7% and is expected to weaken marginally to about +0.5% in September 2015 quarter. The economy faces headwinds for exporters from the appreciation 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, although the pace of reductions was eased in the May 2015 Budget. Despite these headwinds, the Bank of England is forecasting growth to remain around 2.4 to 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter.

The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction there could be several more months of low inflation still to come, especially as world commodity prices have generally been suppressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected.

### **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 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016
Base Rate %	0.50	0.50	0.50	0.50	0.50

(Source: CAPITA Treasury Services)

Capita Asset Services undertook a review of its interest rate forecasts in August 2015, after the Bank of England's Inflation Report. Interest rate rises are expected between 2016 and 2018.

Revised projection based on the recent review:

	2015-16	2016-17	2017-18
	%	%	%
Revised Average Bank Rate	0.50	0.88	1.50
Original Average Bank Rate (TM Strategy 2015-16)	0.63	1.13	1.75

### **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 1<sup>st</sup> April 2015 and 30<sup>th</sup> September 2015 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.15				30.9.15			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% wholly owned Subsidiaries	13.50	0.70	14.20	35	7.00	5.70	12.70	38
Building Societies	0.00	0.00	0.00	0	0.00	7.00	7.00	21
Local Authorities	0.00	25.00	25.00	61	0.00	5.00	5.00	15
Money Market Funds	1.50	0.00	1.50	4	8.30	0.00	8.30	25
<b>TOTAL</b>	<b>15.00</b>	<b>25.70</b>	<b>40.70</b>	<b>100</b>	<b>15.30</b>	<b>17.70</b>	<b>33.00</b>	<b>100</b>

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 29<sup>th</sup> March 2016.

The £33.0m includes £0.7m (17.5% 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 (turnover) amounted to £464.7m. This averaged approximately £17.78m per week or £2.54m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2015	40.70
Investments made during the quarter	228.50
<b>Sub Total</b>	<b>269.20</b>
Investments Repaid during the quarter	(236.20)
<b>Total Investments 30th September 2015</b>	<b>33.00</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 2015-2016 the Council has compared its performance against this "7 day LIBID rate". For the period under review the average "7 day LIBID rate" was 0.36% whereas the actual rate the Council earned was 0.58%, an out performance of 0.22%.

This outperformance can be quantified to £58k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £0.178m.

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)**

No dividends were received during 1<sup>st</sup> April 2015 to 30<sup>th</sup> September 2015. 82.5% of the claim submitted remains unchanged. The administrators currently expect the total repayment to be up to 85% of the original claim with the next dividend expected before March 2016.

A further update will be provided in future reports.

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

Within the Treasury Management Strategy Statement for 2015-2016, 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 £0.7m in KSF) as at 30<sup>th</sup> September 2015.

## **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 1<sup>st</sup> April 2015 and 30<sup>th</sup> September 2015 are shown in the following table:

<b>Loans</b>	<b>Balance at 01.04.15 £m</b>	<b>Balance at 30.09.15 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	275.64	364.10	88.46
Market Loan	3.00	3.00	0.00
Salix & HILS	1.20	1.08	(0.12)

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.

### **7.1 New Borrowing**

As mentioned in 1.1, loans were borrowed during the period to remove the HRA from the housing subsidy system. These loans were detailed in the April - June 2015 quarterly report.

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

<b>Loan Reference</b>	<b>Amount (£m)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Period</b>	<b>Maturity Date</b>
504388	5.00	3.18%	28th September 2015	45yrs	28th September 2060
504389	5.00	3.17%	28th September 2015	46yrs	28th September 2061
<b>Total</b>	<b>10.00</b>				

### **7.2 Interest Paid**

Interest paid on loans during the period was:

<b>PWLB Interest Paid £m</b>	<b>Market Loan Interest Paid £m</b>	<b>Total Interest Paid £m</b>
7.78	0.07	7.85

## **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 1<sup>st</sup> April 2015 to 30<sup>th</sup> September 2015.

## **B. PRUDENTIAL INDICATOR REPORT**

### **1. Prudential Indicators**

As part of the 2015-2016 Budget and the Treasury Management Policy and Strategy 2015-2016, 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 2015-2016 in the Budget was:

	<b>2015-2016 %</b>
Non –HRA	5.68
HRA	35.00

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**

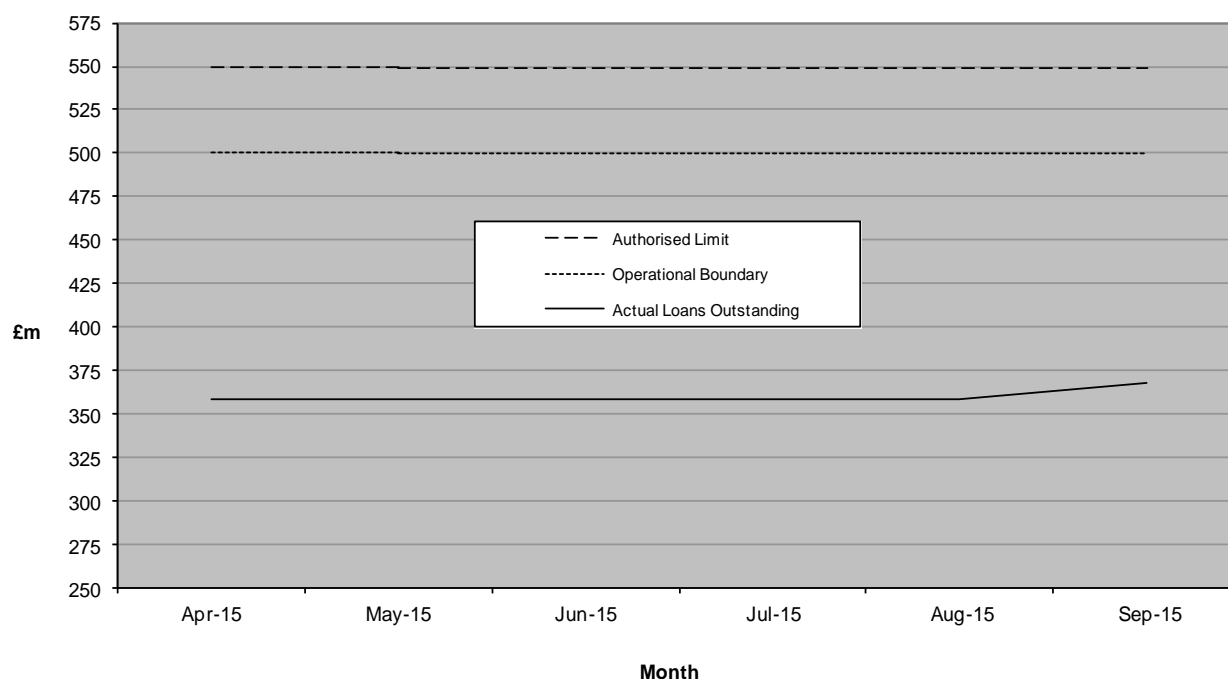
##### **1.2.1 Capital Financing Requirement (CFR)**

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

	<b>2015-2016 Estimate £m</b>	<b>As at 30.09.15 £m</b>	<b>2015-2016 Forecast £m</b>
<b>Capital Financing Requirement</b>			
CFR – non housing	265	254	254
CFR – housing	137	134	134
CFR - housing subsidy buy-out	98	79	79
<b>Total CFR</b>	<b>500</b>	<b>467</b>	<b>467</b>

### 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	
	2015-2016 Estimate £m	2015-2016 Forecast £m	2015-2016 Estimate £m	2015-2016 Forecast £m
Borrowing	548.5	548.5	499.9	499.9
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	549	549	500	500

	Apr-15 £m	May-15 £m	Jun-15 £m	Jul-15 £m	Aug-15 £m	Sep-15 £m
Authorised Limit	549	549	549	549	549	549
Operational Boundary	500	500	500	500	500	500
Loans Outstanding	358	358	358	358	358	368

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 30<sup>th</sup> September 2015:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL  £m</b>
Borrowed	365.18	3.00	368.18
Invested	(17.70)	(15.30)	(33.00)
<b>Net</b>	<b>347.48</b>	<b>(12.30)</b>	<b>335.18</b>
Limit	480.00	48.00	
<b>Proportion of Net Borrowing Actual</b>	<b>103.67%</b>	<b>(3.67)%</b>	<b>100.00%</b>
Limit	150.00%	10.00%	

The authority is within limits set by the 2015-2016 indicators.

### **2.1.2 Maturity Structure Of Borrowing**

	<b>Structure at 30.09.15 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	2.77	15	0
12 months to 2 years	1.08	25	0
2 years to 5 years	7.57	50	0
5 years to 10 years	11.77	50	0
10 years to 20 years	17.57	50	0
20 years to 30 years	21.81	50	0
30 years to 40 years	25.48	50	0
40 years and above	11.95	50	0

The authority is within the limits set by the 2015-2016 indicators.

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

	<b>2015-2016 £m</b>
Limit	10
Actual as at 30 <sup>th</sup> September 2014	NIL

## **RECOMMENDATION**

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