

# QUARTERLY TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1<sup>st</sup> April 2016 – 30<sup>th</sup> June 2016

## **A QUARTERLY TREASURY MANAGEMENT REPORT**

### **1. Introduction**

The Treasury Management Policy and Strategy for 2016-2017 was approved by Council on 23<sup>rd</sup> February 2016. 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 2016 to 30<sup>th</sup> June 2016 and satisfies the reporting requirement stated above.

#### **1.1 European Union (EU) Referendum**

The majority vote in favour of leaving the EU in the referendum held on 23<sup>rd</sup> June 2016 will signal a period of uncertainty in the UK, with implications for the country's medium-term growth outlook. Since the referendum result, rating agencies Fitch and Standard & Poor's have downgraded the UK's sovereign rating. However, none of the three major rating agencies have taken any action in relation to the UK banking credit ratings. The rating status of the UK banks will continue to be monitored and if there is a rating movement then appropriate action will be taken in accordance with 'Appendix C - Approved Counterparties for Lending' of the 'Treasury Management Policy and Strategy 2016-17'.

While the uncertainty within the markets continues, the Bank of England has stated that it will take all necessary steps to ensure stability. One tool at its disposal is to adjust the base rate.

### **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 2016 to 30<sup>th</sup> June 2016 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.16				30.06.16			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks, building societies and 100% wholly owned subsidiaries	13.00	7.65	20.65	45	14.00	3.65	17.65	26
Money Market Funds	15.00	0.00	15.00	33	11.50	0.00	11.50	17
Local Authorities	0.00	10.00	10.00	22	0.00	38.00	38.00	57
<b>TOTAL</b>	<b>28.00</b>	<b>17.65</b>	<b>45.65</b>	<b>100</b>	<b>25.50</b>	<b>41.65</b>	<b>67.15</b>	<b>100</b>

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

The £67.15m includes £0.65m (16.25% 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 (the turnover) amounted to £376.15m. This averaged approximately £28.93m per week or £4.13m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2016	45.65
Investments made during the quarter	198.80
Sub Total	244.45
Investments Repaid during the quarter	(177.30)
<b>Total Investments at 30th June 2016</b>	<b>67.15</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 2016-2017 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 0.51%, an out performance of 0.15%.

This outperformance can be quantified to £27k additional interest earned compared to the “7 day LIBID rate”.

The gross interest earned on investments for the period amounted to £94k.

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)**

No dividends were received during the quarter. As at 30<sup>th</sup> June 2016 the sum of £3.35m principal and £205k interest had been received from the administrators, which equates to 83.75% of the claim submitted. The administrators currently expect the total repayment to be up to 85.5% of the original claim with further dividends expected in 2016-2017 and 2017-2018.

A further update will be provided in future reports.

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

Within the Treasury Management Strategy Statement for 2016-2017, 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 £0.65m in KSF) as at 30<sup>th</sup> June 2016.

### **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 2016 and 30<sup>th</sup> June 2016 are shown in the following table:

<b>Loans</b>	<b>Balance at 01.04.16 £m</b>	<b>Balance at 30.06.16 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	369.59	369.58	(0.01)
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	3.44	3.32	(0.12)
<b>TOTAL</b>	<b>376.03</b>	<b>375.90</b>	<b>(0.13)</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.

This 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**

No new loans were borrowed during the period.

### **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>
1.06	0.07	1.13

## **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 30<sup>th</sup> June 2016.

## **8. Conclusion**

The Treasury Management function for the period ended 30<sup>th</sup> June 2016 has been carried out within the policy and guidelines set in the Treasury Management Policy and Strategy 2016-2017.

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

### **1. Introduction**

As part of the 2016-2017 Budget and the Treasury Management Policy and Strategy 2016-2017, 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 2016-2017 in the Budget was:

	<b>2016-2017 %</b>
Non –HRA	5.77
HRA	37.46

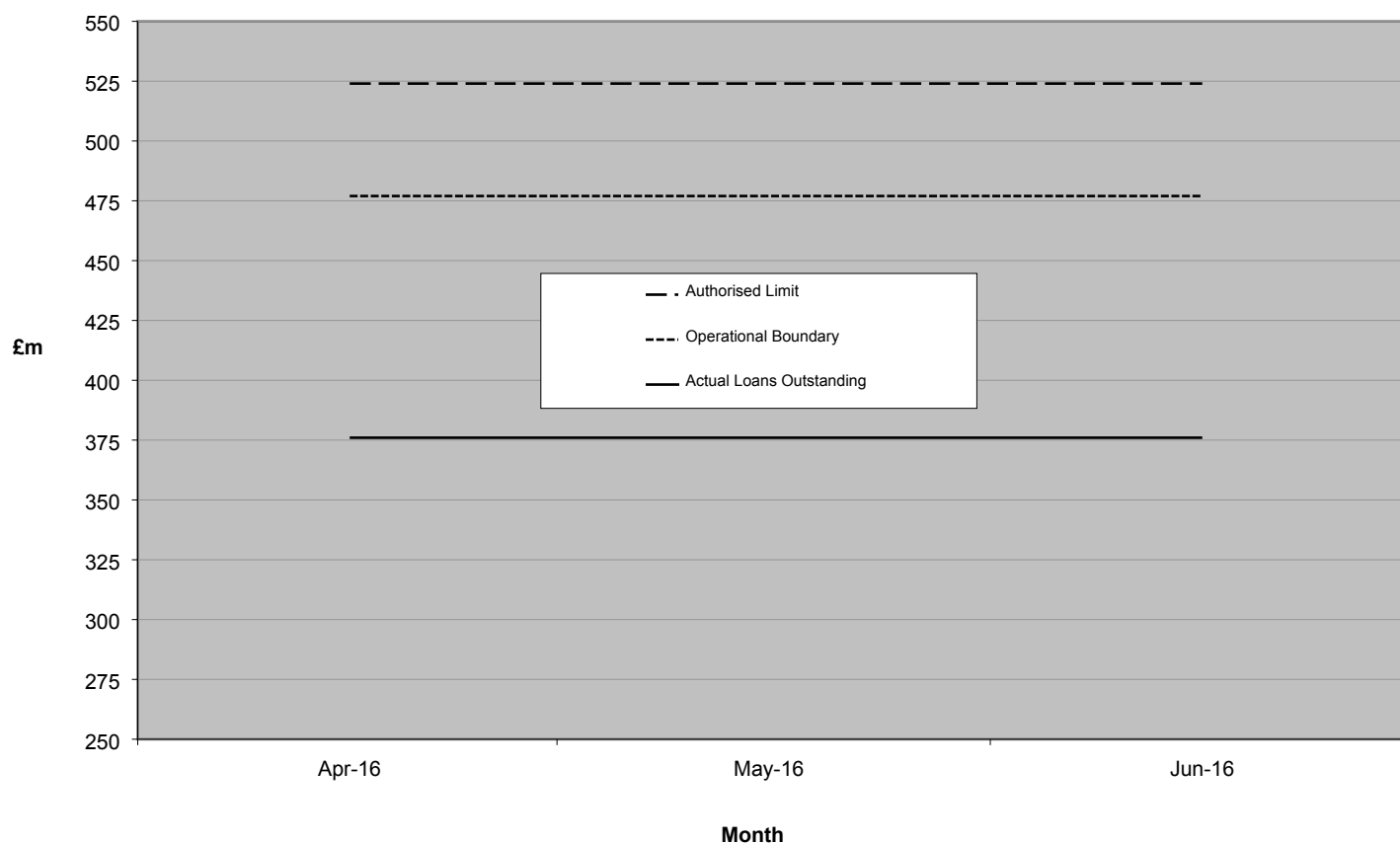
An examination of the assumptions made in calculating this indicator concluded that there have been no changes in the period.

### **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 Section 151 Officer envisaged no difficulty in meeting the requirement of the Gross Borrowing being less than the accumulated CFR for 2016-2017. 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-16</b>	<b>May-16</b>	<b>Jun-16</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Authorised Limit	524	524	524
Operational Boundary	477	477	477
Loans Outstanding	376	376	376

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 30<sup>th</sup> June 2016:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	372.90	3.00	375.90
Invested	(41.65)	(25.50)	(67.15)
<b>Net</b>	<b>331.25</b>	<b>(22.50)</b>	<b>308.75</b>
Limit	445.00	20.00	
<b>Proportion of Net Borrowing Actual</b>	<b>107.29%</b>	<b>(7.29)%</b>	<b>100.00%</b>
Limit	150.00%	10.00%	

The authority is within limits set by the 2016-2017 indicators.

### 2.3.2 Maturity Structure Of Borrowing

	<b>Structure at 30.06.16 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	2.39	15	0
12 months to 2 years	1.77	25	0
2 years to 5 years	6.55	50	0
5 years to 10 years	11.00	50	0
10 years to 20 years	18.90	50	0
20 years to 30 years	21.15	50	0
30 years to 40 years	23.88	50	0
40 years and above	14.36	50	0

The authority is within the limits set by the 2016-2017 indicators.

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

	<b>2016-2017 £m</b>
Limit	10
Actual as at 30 <sup>th</sup> June 2016	NIL

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### **3. Conclusion**

For the period 1<sup>st</sup> April 2016 to 30<sup>th</sup> June 2016 the actual Prudential Indicators to be monitored by the Executive Board are within the limits set by the Budget 2016-2017 and the Treasury Management Policy and Strategy 2016-2017. This is also true for the indicators being monitored by officers.