

**EXECUTIVE BOARD**  
**21<sup>ST</sup> NOVEMBER 2016**

**MID YEAR TREASURY MANAGEMENT AND  
PRUDENTIAL INDICATOR REPORT**

**1<sup>ST</sup> April 2016 – 30<sup>TH</sup> September 2016**

**A. 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> September 2016 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 referendum vote for Brexit in June 2016 delivered a shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting in August 2016 addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement in November 2016.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years.

### **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 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017
Base Rate %	0.50	0.50	0.25	0.10	0.10

(Source: CAPITA Treasury Services)

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the August 2016 MPC meeting that cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The forecast therefore includes a further cut to 0.10% in November 2016 and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later.

Revised projection based on the recent review:

	2016-17	2017-18	2018-19
	%	%	%
Revised Average Bank Rate	0.27	0.10	0.24
Original Average Bank Rate (TM Strategy 2016-17)	0.88	1.50	1.94

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

Investments	1.4.16				30.9.16			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% wholly owned Subsidiaries	13.00	0.65	13.65	30	14.00	0.65	14.65	27
Building Societies	0.00	7.00	7.00	15	0.00	7.00	7.00	13
Local Authorities	0.00	10.00	10.00	22	0.00	20.00	20.00	37
Money Market Funds	15.00	0.00	15.00	33	13.00	0.00	13.00	24
<b>TOTAL</b>	<b>28.00</b>	<b>17.65</b>	<b>45.65</b>	<b>100</b>	<b>27.00</b>	<b>27.65</b>	<b>54.65</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 27<sup>th</sup> March 2017.

The £54.65m 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 (turnover) amounted to £632.4m. This averaged approximately £24.2m per week or £3.46m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2016	45.65
Investments made during the period	320.70
<b>Sub Total</b>	<b>366.35</b>
Investments Repaid during the period	(311.70)
<b>Total Investments 30th September 2016</b>	<b>54.65</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 0.28% whereas the actual rate the Council earned was 0.49%, an out performance of 0.21%.

This outperformance can be quantified to £75k 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 the period. As at 30<sup>th</sup> September 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.

## **6. 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 at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.65m in KSF) as at 30<sup>th</sup> September 2016.

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

<b>Loans</b>	<b>Balance at 01.04.16 £m</b>	<b>Balance at 30.09.16 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	369.59	374.13	4.54
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	3.44	3.37	(0.07)
<b>TOTAL</b>	<b>376.03</b>	<b>380.50</b>	<b>4.47</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.

### **7.1 New Borrowing**

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>
505287	5.00	1.93%	12th August 2016	48yrs	28th September 2064
505288	5.00	1.94%	12th August 2016	49yrs	28th September 2065
<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>
8.80	0.07	8.87

## **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 2016 to 30<sup>th</sup> September 2016.

## **B. PRUDENTIAL INDICATOR REPORT**

### **1. Prudential Indicators**

As part of the 2016-2017 Budget and the Treasury Management Policy and Strategy 2016-2017, 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 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 this period.

#### **1.2 Prudence Prudential Indicators**

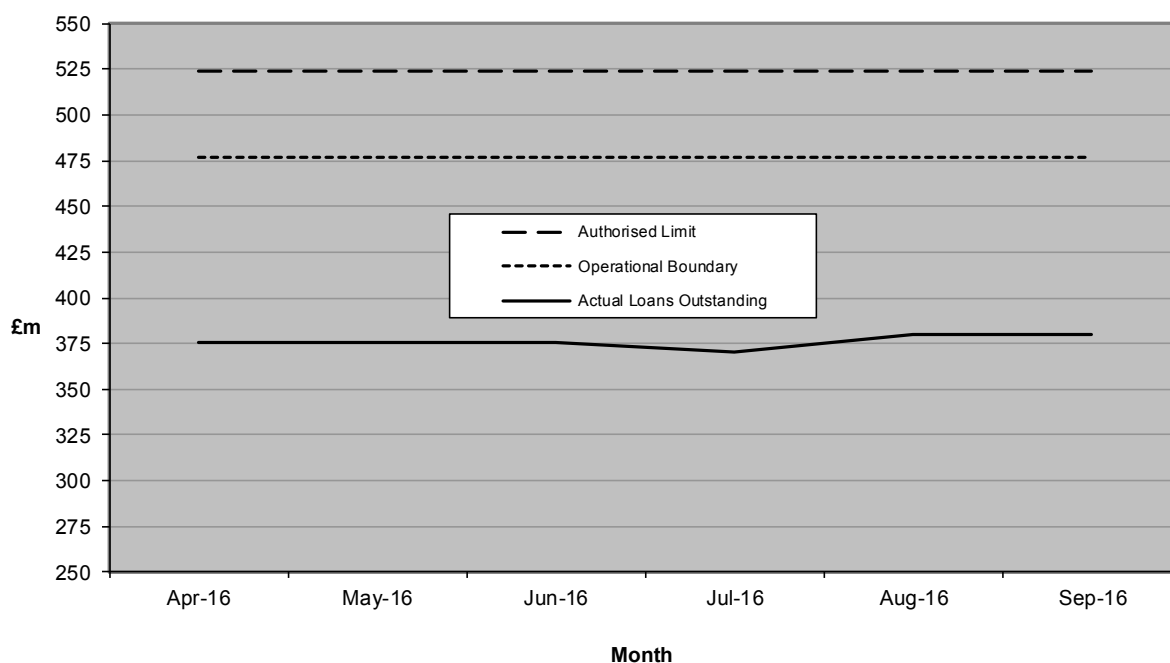
##### **1.2.1 Capital Financing Requirement (CFR)**

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

	<b>2016-2017</b>	<b>As at</b>	<b>2016-2017</b>
	<b>Estimate</b>	<b>30.09.16</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Capital Financing Requirement</b>			
CFR – non housing	263	257	257
CFR – housing	137	136	136
CFR - housing subsidy buy-out	77	77	77
<b>Total CFR</b>	<b>477</b>	<b>470</b>	<b>470</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	
	2016-2017 Estimate	2016-2017 Forecast	2016-2017 Estimate	2016-2017 Forecast
	£m	£m	£m	£m
Borrowing	523.5	523.5	476.9	476.9
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
<b>Total</b>	<b>524</b>	<b>524</b>	<b>477</b>	<b>477</b>

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
	£m	£m	£m	£m	£m	£m
Authorised Limit	524	524	524	524	524	524
Operational Boundary	477	477	477	477	477	477
Loans Outstanding	376	376	376	370	381	381

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 2016:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	377.50	3.00	380.50
Invested	(27.65)	(27.00)	(54.65)
<b>Net</b>	<b>349.85</b>	<b>(24.00)</b>	<b>325.85</b>
Limit	445.00	20.00	
<b>Proportion of Net Borrowing Actual</b>	<b>107.37%</b>	<b>(7.37)%</b>	<b>100.00%</b>
Limit	150.00%	10.00%	

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

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

	<b>Structure at 30.09.16 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	1.04	15	0
12 months to 2 years	3.39	25	0
2 years to 5 years	6.23	50	0
5 years to 10 years	10.40	50	0
10 years to 20 years	17.63	50	0
20 years to 30 years	22.08	50	0
30 years to 40 years	22.42	50	0
40 years and above	16.81	50	0

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

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

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

## **RECOMMENDATION**

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