

# QUARTERLY TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1<sup>st</sup> April 2015 – 31<sup>st</sup> December 2015

## **A QUARTERLY TREASURY MANAGEMENT REPORT**

### **1. Introduction**

The Treasury Management Policy and Strategy for 2015-2016 was approved by Council on 25<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 31<sup>st</sup> December 2015 and satisfies the reporting requirement stated above.

#### **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 2nd 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. 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 2015 to 31<sup>st</sup> December 2015 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.15				31.12.15			
	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	12.00	5.70	17.70	48
Building Societies	0.00	0.00	0.00	0	0.00	7.00	7.00	19
Local Authorities	0.00	25.00	25.00	61	0.00	5.00	5.00	13
Money Market Funds	1.50	0.00	1.50	4	7.40	0.00	7.40	20
<b>TOTAL</b>	<b>15.00</b>	<b>25.70</b>	<b>40.70</b>	<b>100</b>	<b>19.40</b>	<b>17.70</b>	<b>37.10</b>	<b>100</b>

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

The £37.10m includes £0.70m (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 (the turnover) amounted to £673.2m. This averaged approximately £17.14m per week or £2.45m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2015	40.70
Investments made during the quarter	334.80
Sub Total	375.50
Investments Repaid during the quarter	(338.40)
<b>Total Investments at 31st December 2015</b>	<b>37.10</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 0.57%, an out performance of 0.21%.

This outperformance can be quantified to £80k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £0.220m.

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 1<sup>st</sup> April 2015 to 31<sup>st</sup> December 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 31<sup>st</sup> March 2016.

### **4. 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 in Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.70m in KSF) as at 31<sup>st</sup> December 2015.

## 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 2015 and 31<sup>st</sup> December 2015 are shown in the following table:

Loans	Balance at 01.04.15 £m	Balance at 31.12.15 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	275.64	363.59	87.95
Market Loan	3.00	3.00	0.00
Salix, HILS & TCL	1.20	1.67	0.47
<b>TOTAL</b>	<b>279.84</b>	<b>368.26</b>	<b>88.42</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.

Town Centre Loans (TCL) – In November 2015 the Council received £0.7m interest free repayable funding from the Welsh Government with the aim of reducing the number of vacant, underutilised and redundant sites and premises in Llanelli town centre and to support the diversification of the town centre by encouraging more sustainable uses for empty sites and premises. The funding has to be repaid to the Welsh Government by 31st March 2031.

## 5.1 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>				

## 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>
8.87	0.14	9.01

## 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 31<sup>st</sup> December 2015.

## 8. Conclusion

The Treasury Management function for the period ended 31<sup>st</sup> December 2015 has been carried out within the policy and guidelines set in the Treasury Management Policy and Strategy 2015-2016.

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

## **1. Introduction**

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

	<b>2014-2015 %</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 the period.

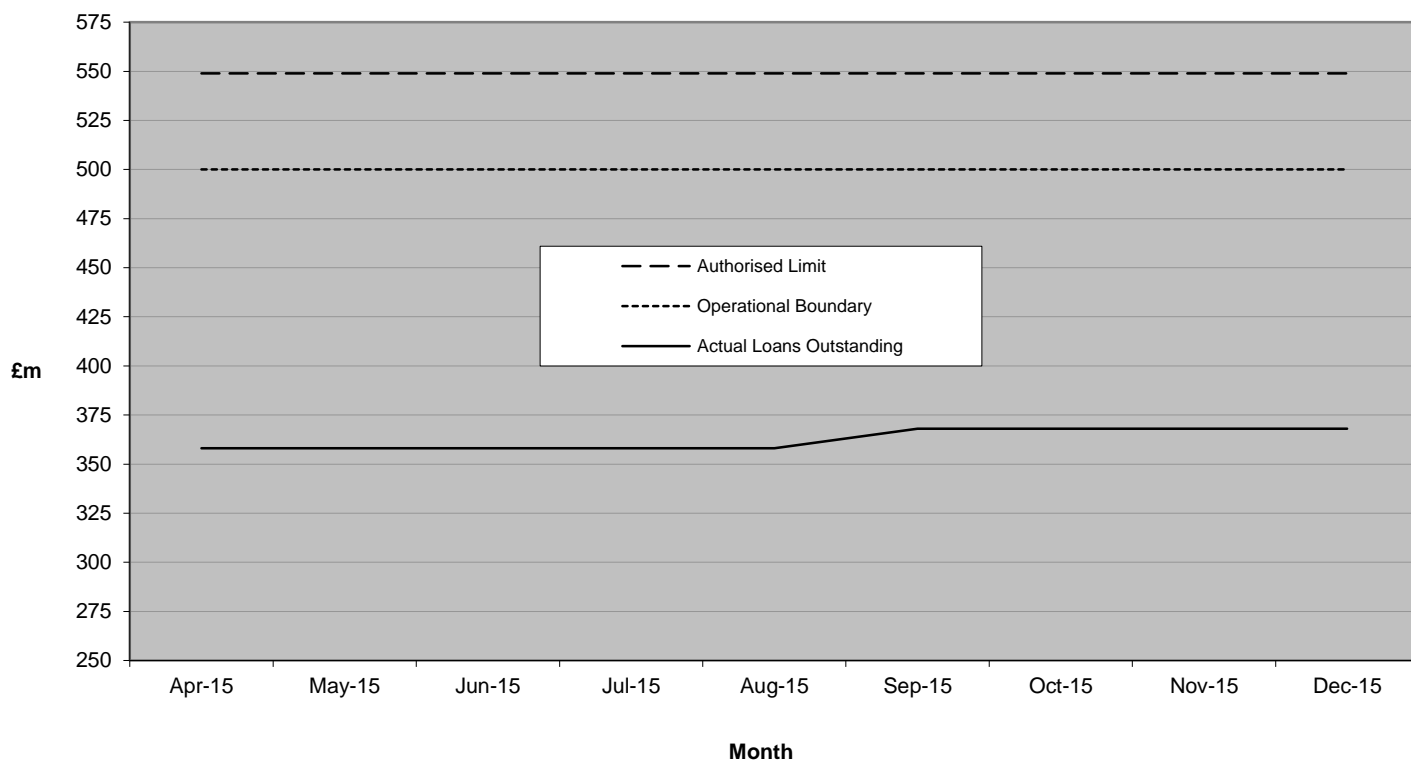
### **2.2 Prudence Prudential Indicators**

#### **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 Director of Corporate Services envisaged no difficulty in meeting the requirement of the Gross Borrowing being less than the accumulated CFR for 2015-2016. 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-15</b>	<b>Jun-15</b>	<b>Sep-15</b>	<b>Dec-15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Authorised Limit	549	549	549	549
Operational Boundary	500	500	500	500
Loans Outstanding	358	358	368	368

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 31<sup>st</sup> December 2015:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	365.26	3.00	368.26
Invested	(17.70)	(19.40)	(37.10)
<b>Net</b>	<b>347.56</b>	<b>(16.40)</b>	<b>331.16</b>
Limit	480.00	48.00	
<b>Proportion of Net Borrowing Actual</b>	<b>104.95%</b>	<b>(4.95)%</b>	<b>100.00%</b>
Limit	150.00%	10.00%	

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

### 2.3.2 Maturity Structure Of Borrowing

	<b>Structure at 31.12.15 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	2.61	15	0
12 months to 2 years	1.07	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	18.24	50	0
20 years to 30 years	21.32	50	0
30 years to 40 years	25.47	50	0
40 years and above	11.95	50	0

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



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

	<b>2015-2016 £m</b>
Limit	10
Actual as at 31 <sup>st</sup> December 2015	NIL

### **3. Conclusion**

For the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> December 2015 the actual Prudential Indicators to be monitored by the Executive Board are within the limits set by the Budget 2015-2016 and the Treasury Management Policy and Strategy 2015-2016. This is also true for the indicators being monitored by officers.

### **RECOMMENDATION**

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