

**EXECUTIVE BOARD
6TH FEBRUARY 2017**

**QUARTERLY TREASURY MANAGEMENT AND
PRUDENTIAL INDICATOR REPORT**

1st April 2016 – 31st December 2016

A QUARTERLY TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2016-2017 was approved by Council on 23rd 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 1st April 2016 to 31st December 2016 and satisfies the reporting requirement stated above.

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 1st April 2016 to 31st December 2016 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.16				31.12.16			
	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	0.63	14.63	31
Building Societies	0.00	7.00	7.00	15	0.00	7.00	7.00	15
Local Authorities	0.00	10.00	10.00	22	0.00	10.00	10.00	21
Money Market Funds	15.00	0.00	15.00	33	15.00	0.00	15.00	32
TOTAL	28.00	17.65	45.65	100	29.00	17.63	46.63	100

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

The £46.63m includes £0.63m (15.75% 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 £846.07m. This averaged approximately £21.54m per week or £3.08m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2016	45.65
Investments made during the period	423.50
Sub Total	469.15
Investments Repaid during the period	(422.52)
Total Investments at 31st December 2016	46.63

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 0.23% whereas the actual rate the Council earned was 0.45%, an out performance of 0.22%.

This outperformance can be quantified to £110k additional interest earned compared to the “7 day LIBID rate”.

The gross interest earned on investments for the period amounted to £0.232m.

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)

A fourteenth dividend was received from the Administrators in November 2016. This equated to 0.5p in the £ and amounted to £20k principal.

As at 31st December 2016 the sum of £3.37m principal and £207k interest had been received from the Administrators, which equates to 84.25% of the claim submitted. A further dividend is expected to be paid in 2017-2018. The Administrators have upgraded their estimate of total dividends to non-preferential creditors to a minimum of 86%.

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 £0.63m in KSF) as at 31st December 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 1st April 2016 and 31st December 2016 are shown in the following table:

Loans	Balance at 01.04.16 £m	Balance at 31.12.16 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	369.59	374.12	4.53
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	3.44	3.24	(0.20)
TOTAL	376.03	380.36	4.33

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.

5.1 New Borrowing

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

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
505287	5.00	1.93%	12th August 2016	48yrs	28th September 2064
505288	5.00	1.94%	12th August 2016	49yrs	28th September 2065
Total	10.00				

5.2 Interest Paid

Interest paid on loans in the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
9.89	0.14	10.03

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 31st December 2016.

8. Conclusion

The Treasury Management function for the period ended 31st December 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:

	2016-2017 %
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.

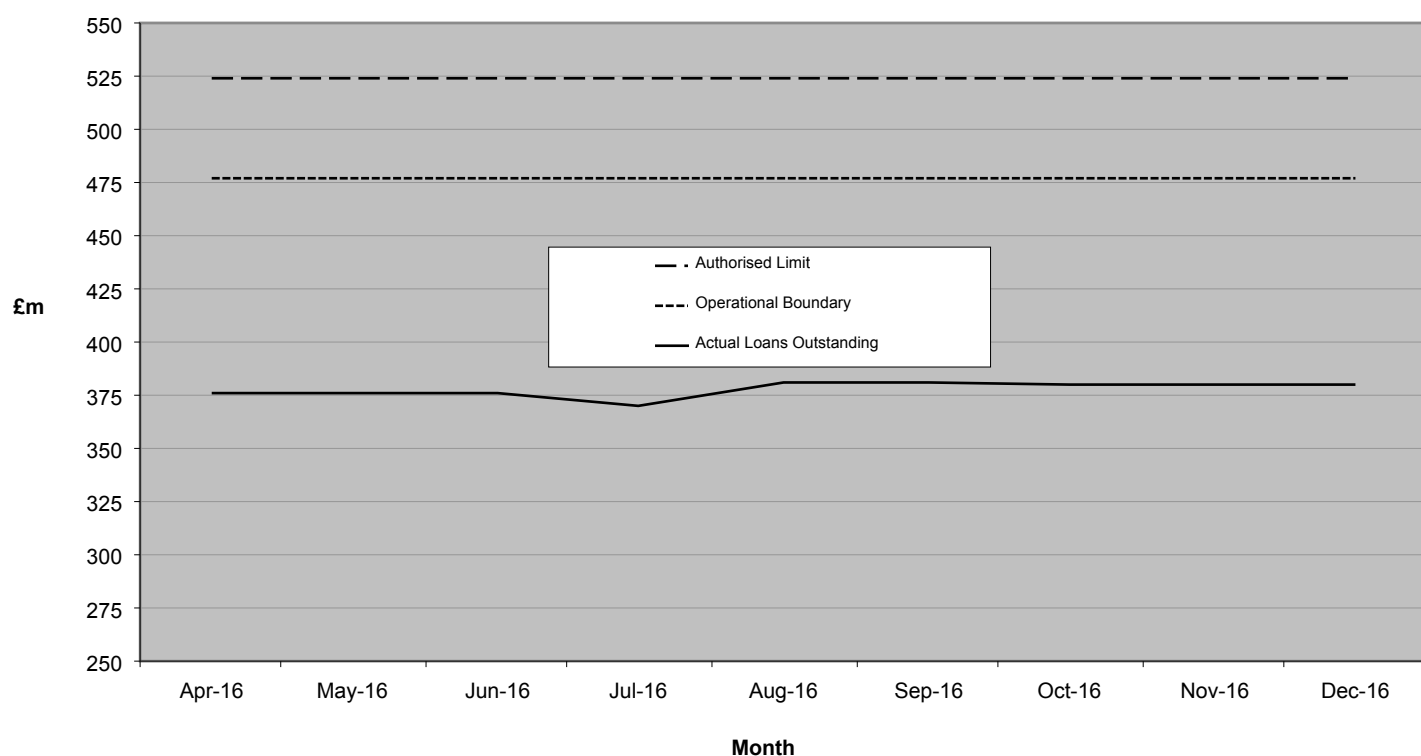
2.2 Prudence Prudential Indicators

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 Director of Corporate Services 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.



	Apr-16	Jun-16	Sep-16	Dec-16
	£m	£m	£m	£m
Authorised Limit	524	524	524	524
Operational Boundary	477	477	477	477
Loans Outstanding	376	376	381	380

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 31st December 2016:

	Fixed Interest Rate Rate £m	Variable Interest Rate Interest Rate £m	TOTAL £m
Borrowed	377.36	3.00	380.36
Invested	(17.63)	(29.00)	(46.63)
Net	359.73	(26.00)	333.73
Limit	445.00	20.00	
Proportion of Net Borrowing Actual	107.79%	(7.79)%	100.00%
Limit	150.00%	10.00%	

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

2.3.2 Maturity Structure Of Borrowing

	Structure at 31.12.16 %	Upper Limit %	Lower Limit %
Under 12 months	1.01	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	10.77	50	0
10 years to 20 years	18.58	50	0
20 years to 30 years	20.77	50	0
30 years to 40 years	22.43	50	0
40 years and above	16.82	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

	2016-2017 £m
Limit	10
Actual as at 31 st December 2015	NIL

3. Conclusion

For the period 1st April 2016 to 31st December 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.

RECOMMENDATION

That Executive Board considers and approves the report.