EXECUTIVE BOARD
DATE: 27TH NOVEMBER 2017

MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1ST April 2017 – 30TH September 2017

A. TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2017-2018 was approved by Council on 22nd February 2017. 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 2017 to 30th September 2017 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

After the UK economy surprised positively with strong growth in 2016, growth in 2017 has been disappointingly weak; March 2017 quarter came in at only +0.3% (+1.7% y/y) and June 2017 quarter was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power.

The Monetary Policy Committee (MPC) meeting of 14th September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. Furthermore, in the 2nd November 2017 meeting the members of the MPC voted to raise the Bank Rate from 0.25% to 0.50%. They also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020.

3. Prospects for Interest Rates

Based on the Economic Update above and the average projection from a number of sources we can expect the trend in the Bank Rate over the year to be as follows:

	Apr 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018
Bank Rate %	0.25	0.25	0.25	0.50	0.50

(Source: CAPITA Treasury Services)

Capita Asset Services undertook a review of interest rate forecasts on 7th November 2017 after the MPC meeting on the 2nd November 2017. The revised interest rate projection based on the review is:

	2017-18	2018-19	2019-20
	%	**%**	**%**
Revised Average Bank Rate	0.38	0.63	0.88
Original Average Bank Rate (TM Strategy 2017-18)	0.25	0.25	0.63

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 1st April 2017 and 30th September 2017 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	1.4.17				30.9.17			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% wholly owned Subsidiaries	15.00	5.63	20.63	51	13.90	5.59	19.49	39
Building Societies	0.00	0.00	0.00	0	0.00	7.00	7.00	14
Money Market Funds	15.00	0.00	15.00	37	5.00	0.00	5.00	10
Local Authorities	0.00	5.00	5.00	12	0.00	18.00	18.00	36
TOTAL	**30.00**	**10.63**	**40.63**	**100**	**18.90**	**30.59**	**49.49**	**100**

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 26th February 2018.

The £49.49m includes £0.594m (14.85% 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 £717.34m.This averaged approximately £27.44m per week or £3.92m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2017	40.63
Investments made during the period	363.10
Sub Total	**403.73**
Investments Repaid during the period	(354.24)
Total Investments 30th September 2017	**49.49**

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 2017-2018 the Council has compared its performance against this "7 day LIBID rate". For the period under review the average "7 day LIBID rate" was 0.11% whereas the actual rate the Council earned was 0.34%, an out performance of 0.23%.

This outperformance can be quantified to £83k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £0.124m.

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)

In June 2017 the Council received a fifteenth dividend from the Administrators. This equated to 0.9p in the £ and amounted to £36k principal.

As at 30th June 2017 the sum of £3.406m principal and £209k interest had been received from the Administrators, which equates to 85.15% 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 86.25%.

A further update will be provided in future reports.

6. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2017-2018, 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 £0.594m in KSF) as at 30th September 2017.

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 1st April 2017 and 30th September 2017 are shown in the following table:

Loans	Balance at 01.04.17 £m	Balance at 30.09.17 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	380.82	387.10	6.28
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	4.15	4.03	(0.12)
TOTAL	**387.97**	**394.13**	**6.16**

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:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
506262	2.00	2.38%	14th August 2017	46yrs	28th March 2063
506263	2.00	2.38%	14th August 2017	47yrs	28th March 2064
506264	2.00	2.38%	14th August 2017	48yrs	28th March 2065
506265	2.00	2.38%	14th August 2017	49yrs	28th March 2066
506266	2.00	2.38%	14th August 2017	50yrs	28th March 2067
Total	**10.00**				

7.2 Interest Paid

Interest paid on loans during the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
8.62	0.07	8.69

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 1st April 2017 to 30th September 2017.

10. MiFID II

On 3rd July 2017, the Financial Conduct Authority (FCA) released details regarding the implementation of the Markets in Financial Instruments Directive (MIFID II), which comes into effect on 3rd January 2018. MIFID is the EU legislation that regulates firms who provide services to clients linked to financial instruments and it is now being revised to strengthen consumer protection and improve the functioning of markets in light of the 2008 financial crisis. It is designed to offer greater protection for investors and inject more transparency into all asset classes. As a local authority Carmarthenshire will initially be reclassified as a ‘retail’ client by default however the intention will be to opt-up to be classified with ‘elective professional’ status. To achieve this Carmarthenshire must meet a set of qualitative and quantitative criteria.

11. Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code 2013. CIPFA is aiming to issue the revised codes during November 2017.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

B. PRUDENTIAL INDICATOR REPORT

1. Prudential Indicators

As part of the 2017-2018 Budget and the Treasury Management Policy and Strategy 2017-2018, 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 2017-2018 in the Budget was:

	2017-2018 %
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)

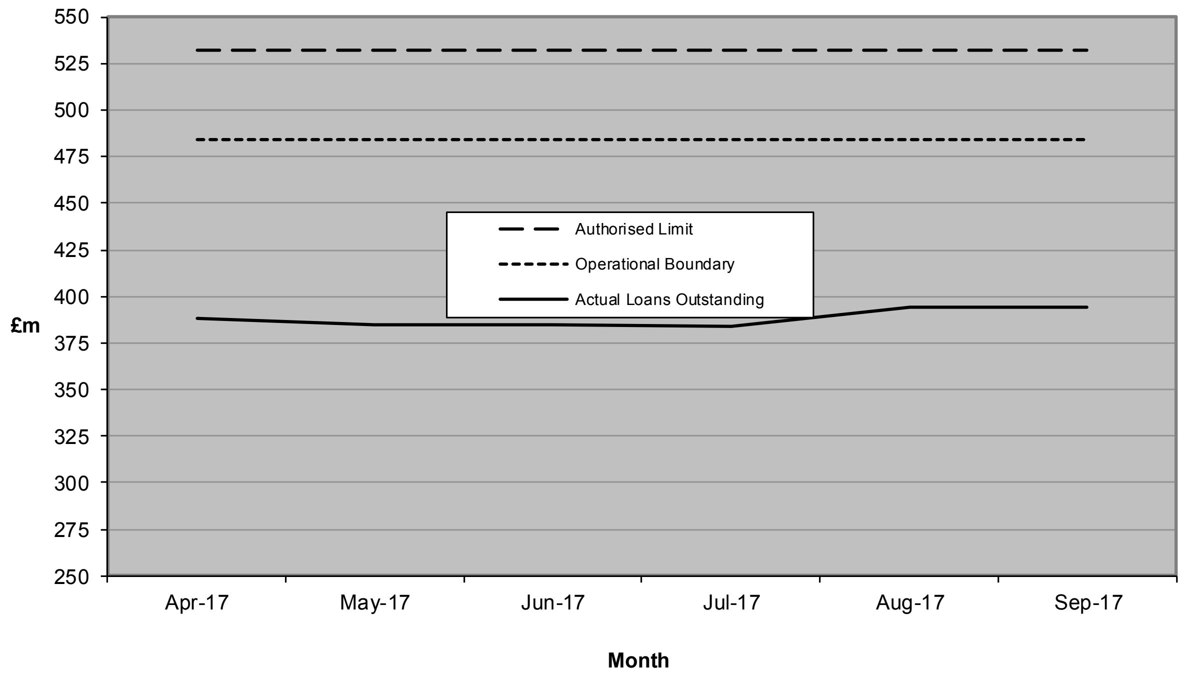
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2017-2018 Estimate £m	As at 30.09.17 £m	2017-2018 Forecast £m
Capital Financing Requirement			
CFR – non housing	265	271	271
CFR – housing	143	144	144
CFR - housing subsidy buy-out	76	76	76
Total CFR	**484**	**491**	**491**

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	
	2017-2018 Estimate £m	2017-2018 Forecast £m	2017-2018 Estimate £m	2017-2018 Forecast £m
Borrowing	531.5	531.5	483.9	490.9
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	532	532	484	491



	Apr-17 £m	May-17 £m	Jun-17 £m	Jul-17 £m	Aug-17 £m	Sep-17 £m
Authorised Limit	532	532	532	532	532	532
Operational Boundary	484	484	484	484	484	484
Loans Outstanding	388	385	385	384	394	394

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 30th September 2017:

	Fixed Interest Rate £m	**Variable Interest Rate £m**	**TOTAL £m**
Borrowed	391.13	3.00	394.13
Invested	(30.59)	(18.90)	(49.49)
Net	**360.54**	**(15.90)**	**344.64**
Limit	444.00	20.00	
Proportion of Net Borrowing Actual	**104.61%**	**(4.61)%**	**100.00%**
Limit	150.00%	10.00%	

The authority is within limits set by the 2017-2018 indicators.

2.1.2 Maturity Structure Of Borrowing

	Structure at 30.09.17 %	**Upper Limit %**	**Lower Limit %**
Under 12 months	3.28	15	0
12 months to 2 years	1.34	25	0
2 years to 5 years	7.06	50	0
5 years to 10 years	9.13	50	0
10 years to 20 years	17.53	50	0
20 years to 30 years	21.67	50	0
30 years to 40 years	24.84	50	0
40 years and above	15.15	50	0

The authority is within the limits set by the 2017-2018 indicators.

2.1.3 Maximum principal sums invested longer than 364 days

	2017-2018 £m
Limit	10
Actual as at 30th September 2017	NIL

RECOMMENDATION

That Executive Board considers and approves the report.