MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1ST April 2019 – 30TH September 2019

A. TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2019-2020 was approved by Council on 20th February 2019. 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 2019 to 30th September 2019 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 first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took its toll. In its Inflation Report of 1st August 2019, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19th September 2019 re-emphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75%, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August 2019. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

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 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020
Base Rate %	0.75	0.75	0.75	0.75	0.75

(Source: LINK Asset Services)

Link Asset Services undertook its last review of interest rate forecasts on 5th August 2019 after the Quarterly Inflation Report of the Bank of England and Monetary Policy Committee (MPC) meeting 1st August 2019, where the decision was made to keep the Bank Rate unchanged at 0.75% due to the ongoing uncertainty over Brexit.

The revised projection based on this review:

	2019-20	2020-21	2021-22
	%	**%**	**%**
Revised Average Bank Rate	0.75	0.88	1.06
Original Average Bank Rate (TM Strategy 2019-20)	1.06	1.38	1.81

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 2019 and 30th September 2019 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.19				30.09.19			
	Call and notice £m	Fixed Term £m	Total £m	%	Call and notice £m	Fixed Term £m	Total £m	%
Banks	23.00	0.57	23.57	42	20.00	0.55	20.55	30
Building Societies	0.00	0.00	0.00	0	0.00	2.00	2.00	3
Money Market Funds	15.00	0.00	15.00	27	20.00	0.00	20.00	29
DMADF (DMO)	0.00	2.50	2.50	4	0.00	3.00	3.00	4
Local Authorities	0.00	15.00	15.00	27	0.00	24.00	24.00	35
TOTAL	**38.00**	**18.07**	**56.07**	**100**	**40.00**	**29.55**	**69.55**	**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 15th January 2020.

The £69.55m includes £0.55m (13.85% 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 £635.52m. This averaged approximately £24.31m per week or £3.47m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2019	56.07
Investments made during the period	324.50
Sub Total	**380.57**
Investments Repaid during the period	(311.02)
Total Investments 30th September 2019	**69.55**

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 2019-2020 the Council has compared its performance against this "7 day LIBID rate". For the period under review the average "7 day LIBID rate" was 0.57% whereas the actual rate the Council earned was 0.79%, an out performance of 0.22%.

This outperformance can be quantified to £102k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £0.360m.

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 2019 the Council received an eighteenth dividend from the Administrators. This equated to 0.4p in the £ and amounted to £16k principal.

As at 30th June 2019 the sum of £3.45m principal and £211k interest had been received from the Administrators, which equates to 86.15% of the claim submitted. The Administrators estimate total dividends payable to non-preferential creditors at 86.75%.

A further update will be provided in future reports.

6. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2019-2020, 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 £0.55m in KSF) as at 30th September 2019.

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 2019 and 30th September 2019 are shown in the following table:

Loans	Balance at 01.04.19 £m	Balance at 30.09.19 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	405.42	405.42	0.00
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	4.40	4.39	(0.01)
TOTAL	**412.82**	**412.81**	**(0.01)**

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 loan was borrowed during the period to fund the capital programme:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
509779	5.00	1.77%	27th August 2019	49.5yrs	28th March 2069
Total	**5.00**				

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
8.79	0.07	8.86

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 2019 to 30th September 2019.

B. PRUDENTIAL INDICATOR REPORT

1. Prudential Indicators

As part of the 2019-2020 Budget and the Treasury Management Policy and Strategy 2019-2020, 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 2019-2020 in the Budget was:

	2019-2020 %
Non-HRA	5.11
HRA	32.75

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)

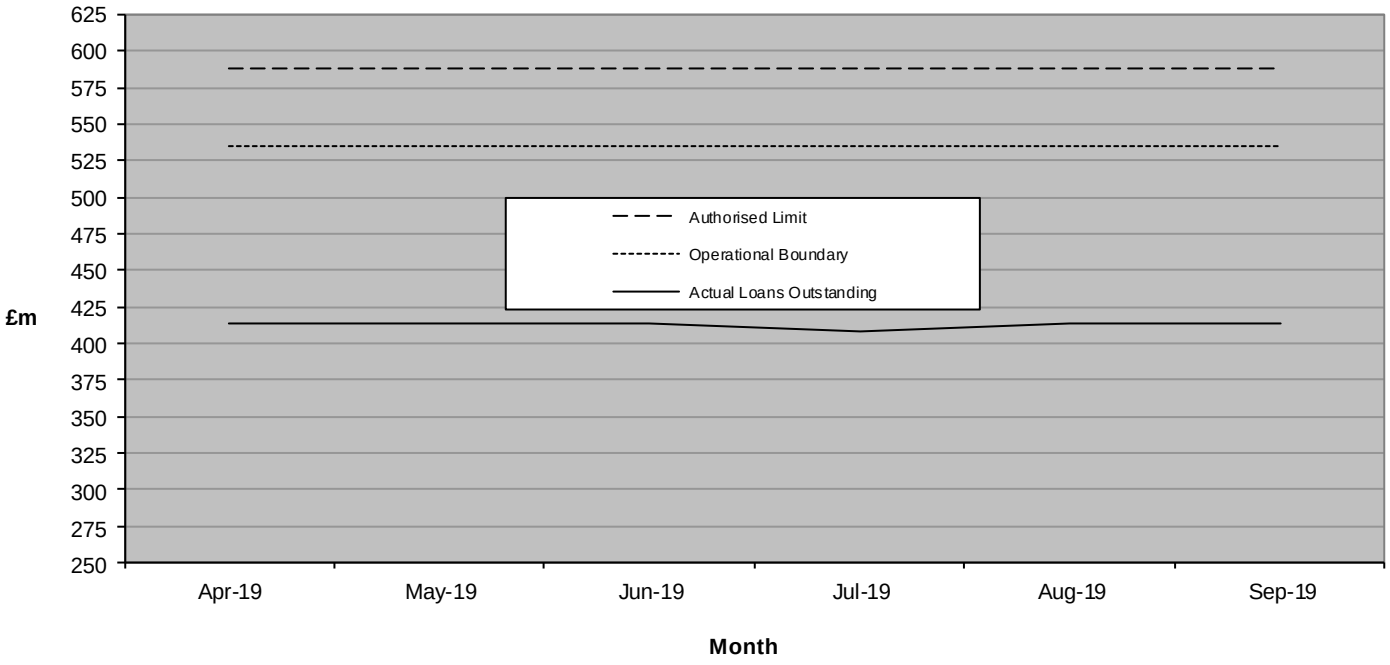
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2019-2020 Estimate £m	**As at 30.09.19 £m**	**2019-2020 Forecast £m**
Capital Financing Requirement			
CFR – non housing	296	296	278
CFR – housing	166	166	166
CFR - housing subsidy buy-out	73	73	73
Total CFR	**535**	**535**	**517**

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	
	2019-20 Estimate £m	2019-20 Forecast £m	2019-20 Estimate £m	2019-20 Forecast £m
Borrowing	587.5	587.5	534.9	534.9
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	588	588	535	535



	Apr-19 £m	May-19 £m	Jun-19 £m	Jul-19 £m	Aug-19 £m	Sep-19 £m
Authorised Limit	588	588	588	588	588	588
Operational Boundary	535	535	535	535	535	535
Loans Outstanding	413	413	413	408	413	413

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 2019:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	409.81	3.00	412.81
Invested	(29.55)	(40.00)	(69.55)
Net	**380.26**	**(37.00)**	**343.26**
Limit	515.00	51.00	
Proportion of Net Borrowing Actual	**110.78%**	**(10.78)%**	**100.00%**
Limit	125.00%	5.00%	

The authority is within limits set by the 2019-2020 indicators.

2.1.2 Maturity Structure of Borrowing

	Structure at 30.09.19 %	Upper Limit %	Lower Limit %
Under 12 months	0.07	15	0
12 months to 2 years	3.10	15	0
2 years to 5 years	6.28	50	0
5 years to 10 years	9.88	50	0
10 years to 20 years	18.66	50	0
20 years to 30 years	19.33	50	0
30 years to 40 years	24.59	50	0
40 years and above	18.10	50	0

The authority is within the limits set by the 2019-2020 indicators.

2.1.3 Maximum Principal Sums Invested Longer than 365 Days

	2019-2020 £m
Limit	10
Actual as at 30th September 2019	NIL

3. Conclusion

For the period 1st April 2019 to 30th September 2019 the actual Prudential Indicators to be monitored by the Executive Board are within the limits set by the Budget 2019-2020 and the Treasury Management Policy and Strategy 2019-2020. This is also true for the indicators being monitored by officers.