

<b>14 December 2016</b>		<b>ITEM: 15</b> <b>(Decision 01104395)</b>
<b>Cabinet</b>		
<b>Treasury Management 2016/17 Mid Year Report</b>		
<b>Wards and communities affected:</b> None	<b>Key Decision:</b> Yes	
<b>Report of:</b> Councillor Shane Hebb, Portfolio Holder for Finance and Legal Services		
<b>Accountable Head of Service:</b> Sean Clark, Director of Finance and IT		
<b>Accountable Director:</b> Sean Clark, Director of Finance and IT		
<b>This report is</b> Public		

## **Executive Summary**

In accordance with the Revised CIPFA Prudential Code, this report:

- (a) reviews borrowing and investment activity to 30 September 2016; and
- (b) reports on the forecast treasury outturn position for 2016/17.

The report confirms that the Council is within the prudential indicators as agreed by Council in February 2016 and continues to contribute, through both reduced costs and increased income, towards the council's objective of financial sustainability.

Previous actions have resulted in a £10m per annum benefit and actions in this financial year have generated a budget surplus of £894k that is contributing towards mitigating the pressures in children's and environmental services.

### **1. Recommendation**

- 1.1 That Cabinet note the results of Treasury Management activities undertaken in the first half of 2016/17.**

### **2. Introduction and Background**

- 2.1 This report is prepared in accordance with the requirements of the CIPFA Prudential Code.
- 2.2 The report presents details of treasury management activity for 6 months to 30 September 2016.

### 3. Issues, Options and Analysis of Options

#### 3.1 Borrowing

The Council's borrowing activity for the period from 1 April 2016 to 30 September 2016 is summarised in the table below:-

**Table 1**

<b>Source of Loan</b>	<b>Balance at 01/04/16</b>	<b>New loans raised</b>	<b>Loans repaid</b>	<b>Balance at 30/09/16</b>
	£'000	£'000	£'000	£'000
Market Loans	30,203	0	0	30,203
PWLB	160,889	0	0	160,889
Temporary Market Loans	164,600	276,300	200,130	240,800
<b>Total Debt</b>	<b>355,692</b>	<b>276,300</b>	<b>200,130</b>	<b>431,900</b>

- 3.2 The Council continues to fund the £84.0m ex-PWLB debt on a temporary basis. Current interest rate projections from the Council's advisors, Arlingclose, show a central projected case of 0.25% through to September 2019 with no move upwards predicted until after that date. This forecast would suggest that further interest savings could still be accrued for at least two further financial years following 2016/17 against borrowing long term debt. However, these predictions for the bank base rate are open to change depending on Government responses to market events and developments continue to be closely monitored by both Officers and the Council's advisors with appropriate action taken as necessary.
- 3.3 As at 30 September 2016 total debt outstanding is £431.9m made up of £160.9m of HRA PWLB debt, £30.2m Long Term Market debt and £240.8m of temporary borrowing. The large turnover of loans in Table 1 is attributable to financing the £84.0m ex-PWLB debt and other financing requirements on a temporary basis (loans can often be for a period of 1 month only leading to a high turnover of loans to service the entire debt).
- 3.4 The Council's PWLB debt portfolio currently consists solely of loans taken out with regards to the HRA settlement undertaken on March 28 2012. These loans are now eligible for rescheduling. The loans were borrowed at one-off preferential rates made available specifically for the settlement. PWLB redemption rates have fallen and these loans would now incur a premium. The refinancing of these loans would now be at a lower level, the original loans were taken over an average of 47.5 years at an average rate of 3.49%, current rates in the 44.5 year period would equate to 3.31%, however, this is

not significant enough to outweigh the significant cost of the redemption premiums of approximately £48m.

- 3.5 Officers have also assessed the Council's LOBO loans for any early repayment opportunities. However, the premia involved of approximately £29m and the high refinancing costs again make it uneconomic to currently undertake any rescheduling. Officers continue to monitor the Council's debt portfolio for any rescheduling opportunities.
- 3.6 The Council has also borrowed funds of £22m to facilitate the building works carried out by Gloriana at the St Chads site in Tilbury to date, with a further £10m expected over the next year. Officers are continuing to investigate opportunities to raise long term funds to finance these works, but, as short term rates are currently at a historical low and predicted to remain there for the foreseeable future, the Council will continue to borrow on a short term basis until such time as the long term funds become attractive in comparison. All interest costs are met by Gloriana with the council benefiting from an interest rate premium.

### **Investments**

- 3.7 The position of the Council's investments at 30 September 2016 is set out in Table 2 below:-

**Table 2**

<b>Source of Investment</b>	<b>Balance at 01/4/16</b>	<b>New loans raised</b>	<b>Loans repaid</b>	<b>Balance at 30/9/16</b>
	£'000	£'000	£'000	£'000
Overnight Investments	5,000	1,312,250	1,314,250	3,000
Other Investments (2 to 365 days)	9,800	158,500	124,800	43,500
Fund Managers	50,000	34,000	0	84,000
<b>Total Investments</b>	<b>64,800</b>	<b>1,504,750</b>	<b>1,439,050</b>	<b>130,500</b>

- 3.8 A significant proportion of the internally managed investments are held for very short time periods in order to meet day to day cash requirements, hence the very high turnover figures in Table 2 above. The figures for overnight investments have been separated from those for longer periods to demonstrate the difference in volumes.
- 3.9 The Council has £50m invested with the CCLA Property Fund which has earned a return of 4.6% for the first half of 2016/17, a total return of

approximately £1.15m. Returns for the second half of the financial year are expected to be similar.

- 3.10 The Council has invested in a further long term opportunity with a solar energy investment fund managed by Rockfire Ltd. The company has worked with a number of authorities previously to identify investment opportunities with returns significantly above current interest rate levels. Along with 3 other authorities, the Council has invested £15m and will receive a 5% return over each of the first four years and then 8% in year 5 along with repayment of the principal sum at the end of the term. This is a gross return of £4.2m before financing costs of less than £0.5m over the five years.
- 3.11 A number of investment opportunities have been entered into for one year or less utilising on the funding raised for the capital programme pre the expenditure being incurred.
- 3.12 Internally held balances currently stand at £46.5m with a view to falling to around £10m-£15m at the financial year end. These investments are mainly held with Banks and Building Societies on a fixed term basis ranging from overnight to 3 months in duration.
- 3.13 All investments made have been with organisations included on the "List of Acceptable Counterparties and Credit Limits" within the 2016/17 Annual Treasury Management Strategy and the total sums invested with individual institutions have been contained within the limits specified therein.

#### **4. Reasons for Recommendation**

- 4.1 There is a legal requirement for a Treasury Management Mid-Year Report to be submitted to Cabinet. This report has been written in line with best practice

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 The Council's Treasury Advisors, Arlingclose, have been consulted

#### **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 The financial implications of the above treasury management activities on the Council's revenue budget are illustrated in table 3 below for 2016/17.

## 7. Implications

### 7.1 Financial

Implications verified by: **Chris Buckley**  
**Senior Financial Accountant**

<b>Table 3</b>				
	2016/17 Revised Budget £'000's	2016/17 Forecast outturn £'000's	2016/17 Variance £'000's	
1	Interest payable on external debt Interest Payable	2,875.8	3,304.0	428.5
2	Investment Income Interest on Investments	(3,145.1)	(4,468.1)	(1,323.0)
3	Net Interest charged to GF	(269.6)	(1,164.1)	(894.5)
4	MRP Supported/Unsupported Borrowing	4,261.8	4,262.0	0.2
<b>5</b>	<b>Overall Charge to GF</b>	<b>3,992.2</b>	<b>3,097.9</b>	<b>(894.3)</b>

In 2016/17 the overall impact to the General Fund is £3.097m which is a favourable position of £0.894m

### 7.2 Legal

Implications verified by: **David Lawson**  
**Deputy Head of Legal and Monitoring Officer**

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the "Prudential Code for Capital Finance in Local Authorities" (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document "Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes" (Revised Edition 2009) published by CIPFA.

### 7.3 **Diversity and Equality**

Implications verified by: **Natalie Warren**  
**Community Development and Equalities  
Manager**

There are no specific implications from this report

### 7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

- None

### 8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- 2016/17 Annual Borrowing & Investment Strategy
  - Arlingclose's Investment Review.

### 9. **Appendices to the report**

- None

#### **Report Author:**

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Corporate Finance