13 December 2017	ITEM: 13 (Decision 0110446)
Cabinet	
Treasury Management 2017/18 Mid Year Report	
Wards and communities affected: None	**Key Decision:** Yes
Report of: Councillor Shane Hebb, Portfolio Holder for Finance	
Accountable Assistant Director: Sean Clark, Director of Finance and IT	
Accountable Director: Sean Clark, Director of Finance and IT	
This report is Public	

Executive Summary

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

(a) reviews treasury management activity to 30 September 2017; and

(b) reports on the forecast treasury outturn position for 2017/18.

The report confirms the Council is within the prudential indicators as agreed by Council in February 2017 and continues to contribute, through both reduced costs and increased income, towards the financial sustainability of the Council.

1. Recommendation

1.1 Comment on the report on Treasury Management activity as at month 6 in 2017/18.

2. Introduction and Background

2.1 This report is prepared in accordance with the requirements of the CIPFA Prudential Code and presents details of treasury management activity for the six months to 30 September 2017.

3. Issues, Options and Analysis of Options

3.1 <u>**Borrowing**</u>

The Council's borrowing activity for the period from 1 April 2017 to 30 September 2017 is summarised in the table below:-

Table 1

Source of Loan	**Balance at 01/04/17**	**New loans raised**	**Loans repaid**	**Balance at 30/09/17**
	£'000	£'000	£'000	£'000
Market Loans	30,653	0	0	30,653
PWLB	160,889	0	0	160,889
Temporary Market Loans	204,750	388,750	286,650	306,850
Total Debt	396,292	388,750	286,650	498,392

3.2 The Council continues to fund the £84.0m ex-Public Works Loan Board (PWLB) debt on a temporary basis. Current interest rate projections from the Council's advisors, Arlingclose, show a central projected case of 0.50% through to December 2020 with a +/-0.25% risk of movement in the rate during that period. This forecast would suggest that further interest savings should still be accrued for future years following 2017/18 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 2017 total debt outstanding is £498.4m made up of £160.9m of HRA PWLB debt, £30.6m Long Term Market debt and £306.9m 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 28 March 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 43.5 year period would equate to 2.40%.However, this is not significant enough to outweigh the significant cost of the redemption premiums of approximately £40m.

3.5 Officers have also assessed the Council's LOBO loans for any early repayment opportunities, but, the premia involved of approximately £29m and the high refinancing costs again make it unfavourable to reschedule the debt at this time. Officers will continue to monitor the Council's debt portfolio for opportunities going forward.

3.6 The Council has also borrowed funds of £32.2m to facilitate the building works carried out by Thurrock Regeneration Ltd at the St Chads site in Tilbury. Officers are continuing to investigate opportunities to raise long term funds to finance these works but, as short term rates are still at historical lows 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 Thurrock Regeneration Ltd with the council benefiting from a commercial interest rate of return.

Investments

3.7 The Council's investment activity for the period from 1 April 2017 to 30 September 2017 is summarised in the table below:-

Table 2

Source of Investment	**Balance at 1/4/17**	**New loans raised**	**Loans repaid**	**Balance at 30/9/17**
	£'000	£'000	£'000	£'000
Overnight Investments	1,600	1,544,500	1,536,550	9,550
Other Investments (2 to 365 days)	21,000	229,050	144,050	106,000
Long Term Investments	15,000	27,000	0	42,000
Fund Managers	51,000	0	0	51,000
Total Investments	88,600	1,800,550	1,680,600	208,550

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 4.85% for the first half of 2017/18, a total return of approximately £1.21m. Returns for the second half of the financial year are expected to be similar. The Council also invested £1m in CCLA's Diversified Equity in March 2017 that is estimated to return 3.25% per annum. Returns to September 2017 are currently averaging 3.22%.

3.10 The Council has invested in a long term opportunity with a solar energy investment fund managed by Rockfire Ltd in September 2016. The Council has £24m invested 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. The first payment of £1.2m was received in September 2017. The investment will make a gross return of £6.72m before financing costs of approximately £0.7m over the five years.

3.11 The Council has also been looking at other investment opportunities to increase interest returns. Other smaller investments over one year have been made after appropriate due diligence and will return approximately a net £1.05m per annum.

3.12 Internally held balances currently stand at £56m 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 2017/18 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 2017/18.

7. Implications

7.1 Financial

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

The Council's net interest position for the period from 1 April 2017 to 30 September 2017 is summarised in the table below:-

Table 3		2017/18 Revised Budget £'000's	2017/18 Forecast outturn £'000's	2017/18 Variance £'000's
	Interest payable on external debt			
1	Interest Payable	4,747.1	4,024.1	(723.0)
	Investment Income			
2	Interest on Investments	(6,172.3)	(7,855.2)	(1,682.9)
3	Net Interest charged to GF	(1,425.2)	(3,957.2)	(2,532.0)
4	MRP Supported/Unsupported Borrowing	4,981.7	4,981.7	0
5	Overall Charge to GF	3,556.5	1,024.5	(2,532.0)

Table 3 shows that in 2017/18 the overall charge to the General Fund is forecast to be £1.02m which is a favourable position of £2.53m compared to the revised budget.

7.2 Legal

Implications verified by: **David Lawson**
Assistant Director of Law & Governance 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
  2017/18 Annual Borrowing & Investment Strategy
- Arlingclose's Investment Review.

9. Appendices to the report

- None

Report Author:

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