CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
25th April 2014

CABINET
6th May 2014

REPORT AUTHOR: **County Councillor Dai Davies**
Portfolio Holder for Finance

SUBJECT: **Treasury Management Quarterly Report**

REPORT FOR: **Information**

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1. Summary

1.1 CIPFA's Treasury Management Bulletin issued in March 2009 suggested:

"In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly."

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:-

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 In line with the above this report is providing information on the activities for the quarter ending 31st March 2014.

2. Economic Background and Forecasts

2.1 The economic background is attached at Appendix B.

2.2 The most recent forecast of interest rates by the Authority's advisor is as follows:

	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%
5yr PWLB	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%
10yr PWLB	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%
25yr PWLB	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%
50yr PWLB	4.50%	4.50%	4.60%	4.80%	4.80%	4.90%	5.00%	5.10%

3. **Treasury Management Strategy**

3.1 The Treasury Management Strategy approved by Full Council on 21st Feb 2013 is at Appendix A.

3.2 The Authority's investment priorities within the Strategy are: -

(a) the security of capital and
(b) the liquidity of its investments.

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

4. **Current Investments**

4.1 The current investment market is difficult in respect of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the 0.5% Bank Rate.

4.2 The Authority's investment position as at 31st March 2014 is as shown below:-

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
RBS	9,510	0.50%	N/A	Deposit A/c
HSBC	70	0.25%	N/A	Deposit A/c
Total	**9,580**	**0.50%**		
Lloyds TSB - LAMS	1,000	3.20%	13.08.12	14.08.17

4.4 There have been no relevant credit rating changes in the last few months in respect of the banks that the Authority utilises for deposits. The Authority continues to not make any fixed term investments with any bank other than Lloyds TSB.

4.6 As previously reported, RBS decreased their rate from 0.86% to 0.50% with effect from 3rd January 2014.

4.7 Local Authority Mortgage Scheme:

In August 2012, following a Cabinet report, the Authority entered the Local Authority Mortgage Scheme with an allocation to Lloyds TSB of £1M. Under the scheme this was deemed as Capital Expenditure. However, the Wales Audit Office (WAO) opinion differed from this in that they suggested it should be treated as an investment. Unfortunately, despite meetings and extensive correspondence by Capita Treasury with the Welsh Government, Welsh Local Government Association and the Wales Audit Office, agreement on the accounting treatment for Welsh authorities has not been reached despite the provision of 3 separate legal opinions supporting the Capital Expenditure position. As such, Capita have said that they are not sure there is much more they can do in Wales. This Authority has concurred with WAO's requirement to treat this as an investment and, as such, the amount is included in the table above and is being accounted for as an investment. Council approved this investment following a retrospective report on 16th May 2013.

4.8 **Landsbanki:**
Members are aware that the Landsbanki claims were sold in January which concluded the situation in respect of Landsbanki.

Glitnir:
The winding up board of Glitnir made a full distribution to creditors in a basket of currencies in March 2012. An element of this distribution was in Icelandic Kroner which has been placed in an escrow account in Iceland. At present this is earning interest of 4.20%. This element of the distribution has been retained in Iceland due to current Icelandic currency controls. The payment of the funds held in escrow will be made when arrangements have been put in place by the Bank of Iceland to allow transfer of ISK outside of Iceland.

4.6 Redemption Penalties:
There are no current fixed investments to redeem.

4.7 Investment returns in future years:
Our advisors' current suggested earning rates for investments for budgeting purposes are as follows:-

	Suggested Rate now	Suggested Rate previous
2014/15	0.50%	0.50%
2015/16	0.60%	0.50%

5. Credit Rating Changes

5.1 There have been no credit rating changes relevant to this Authority's position during the last quarter.

5.2 The credit rating list for end of March is attached as a separate file to this report.

6. Borrowing / Re-scheduling

6.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

6.2 The Authority's Capital Position:

	As at 31.03.13 Actual	2013/14 Original Estimate	2014/15 Original Estimate	2015/16 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	215,894	225,144	232,675	237,837

The Capital Financing Requirement (CFR) denotes the Authority's underlying need to borrow for capital purposes. Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

6.3 The Authority had outstanding external debt of £145.8M at 31st March 2013. In relation to the CFR figure for 31st March 2013, this equated to the Authority being under borrowed by £70.1M. This is a prudent and cost effective approach in the current economic climate. However, internal borrowing is only a temporary situation and, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years. As such, the Authority needs to be mindful that it may be prudent to borrow whilst interest rates are at their low levels and carry the cost of this borrowing as opposed to borrowing at a future date at increased rates.

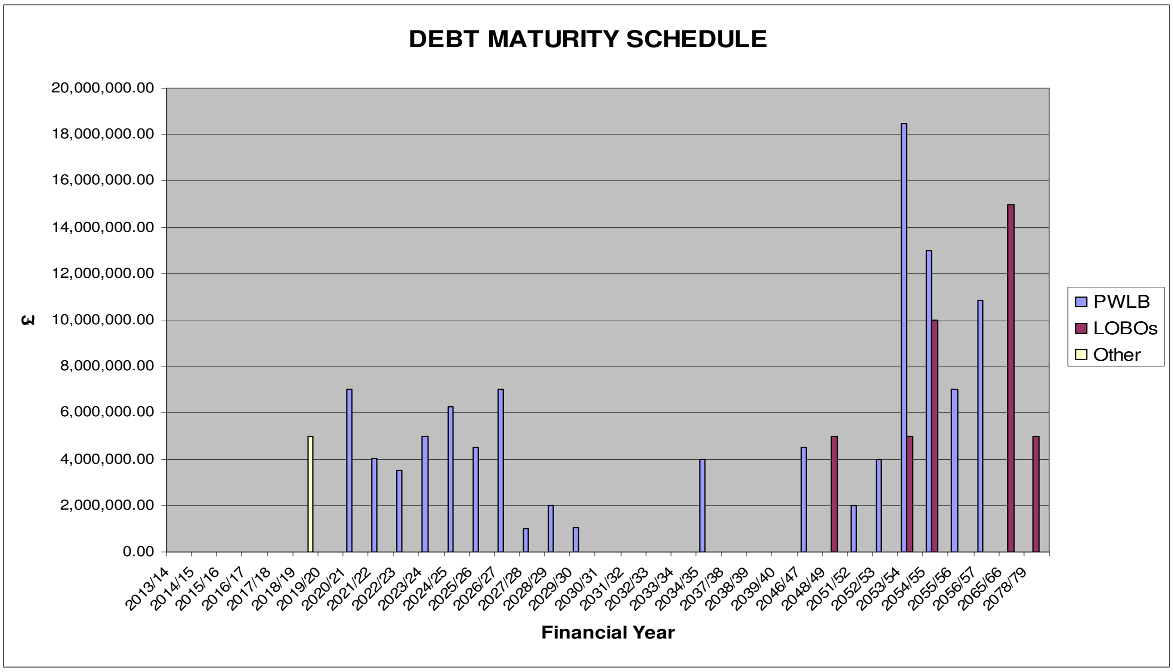
6.4 Capital Budget/Spend per efinancials:

Capital:	**Approved Budget**	**Working budget**	**Capital Spend**	**%age spend**
April	43,263,425	47,805,260	-463,381	-3.17%
May		49,019,588	1,022,805	2.09%
June		49,058,945	2,115,278	4.31%
July		51,240,059	4,821,991	9.40%
August		51,127,676	7,548,379	14.80%
Sept		51,598,530	10,674,620	20.70%
Oct		51,640,845	13,417,825	26.00%
Nov		51,665,278	16,170,586	31.30%
Dec		51,824,067	19,797,217	38.20%
Jan		40,734,243	23,185,597	56.90%
Feb		39,824,289	25,349,144	63.70%
March (at time of report)		38,759,287	31,317,240	81.80%

The financing of the approved capital budget included £11.4M of Prudential borrowing. Only £5M was actually borrowed in year.

6.5 *Debt Maturity Profile as at 31.03.14:*

(please click on the graph below and increase the percentage in the toolbar above for an enhanced view)



6.6 Further to 6.3 above and due to an estimated decrease in cash available for cashflow purposes, the Authority borrowed £5M in early December.

6.7 Target rates:

Our advisors' target rates and current PWLB rates are set out below:

Period	Borrowing rate at 31.03.14	Target borrowing rate now	Target borrowing rate previous
5 year	3.00%	2.60%	2.50%
10 year	3.89%	3.70%	3.60%
25 year	4.51%	4.40%	4.40%
50 year	4.49%	4.40%	4.40%

6.8 Rescheduling:

The Public Works Loans Board released a circular regarding rates on 20th October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular was that it is far more difficult for authorities to reschedule debt

6.9 Members are aware that officers continue to look for interest savings on a daily basis by monitoring rates that may mean the Authority can re-schedule some of its debt or prematurely repay debt if applicable. However, PWLB interest rates have not been conducive towards rescheduling.

6.10 PWLB Certainty Rate:

In the March 2012 budget report the Government announced that it would introduce in 2012-13, a 20 basis points (bps) discount on loans from the Public Works Loan Board (PWLB) under the prudential borrowing regime for those principal local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. This discount continues to be available in 2013/14 and the Authority has registered its interest in this preferred rate option.

7. <u>Prudential Indicators</u>

7.1 All TM Prudential Indicators were complied with in the quarter ending 31st March 2014.

8. <u>Projects Update</u>

8.1 Income Management System:
As reported previously, TM is taking the lead role in the acquirement of a replacement income management/cash receipting system. Replacement was necessary due to support being withdrawn for the current system. Members will appreciate that this is a vital corporate system. Implementation is well under way with full live use of the system planned by June 2014. Members will continue to be updated as the project progresses.

8.2 TM continues to work with other service areas on projects/improvements. This currently includes Income and Awards and Customer Services.

Proposal

It is proposed that the Treasury Management Quarterly Report is received.

Statutory Officers

The Strategic Director – Resources (s151 officer) notes the content of the report and supports the recommendation. It is important that Cabinet continues to be informed about this key activity.

The Solicitor to the Council (Monitoring Officer) has made the following comment: "I have nothing to add to the report".

Future Status of the Report
Not applicable

Recommendation:		**Reason for Recommendation:**	
That the Treasury Management Quarterly Report be received		**To ensure Cabinet remains informed about current Treasury Management performance**	
Relevant Policy (ies):		Treasury Management Policy	
Within Policy:	**Y**	**Within Budget:**	**N/A**
Person(s) To Implement Decision:		**N/A**	
Date By When Decision To Be Implemented:		**N/A**	

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Background Papers used to prepare Report:

CIPFA Code of Practice on Treasury Management and Cross Sectoral Guidance Notes
Treasury Management Policy Statement
Advisors' Information
WAG Guidance on Local Government Investments 2010
PWLB circulars

Appendix A:

Approved Treasury Management Strategy 2013/14:

Long Term Ratings:

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings:

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
F1+	N/A	A-1+
F1	P-1	A-1

Further to the ratings above the Strategy includes using UK nationalized or part nationalized institutions based on the following explanation:

"Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. These institutions, however, are recipients of an F1+ short term rating as they have effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

Country Limits:

Country	Maximum Investment per Country	Credit Rating/Other Assessment of Risk
AAA rated – countries (excluding the UK)	£5M	As per rating list
UK	No Maximum Investment	As per rating list

Group/Institutions - Counterparty Criteria/Limits:

Specified Investments:

Institution	Maximum Investment per Group/ Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	20 (a maximum £10M of this to be held in fixed term investments)	Up to 364 days	As per Sector's matrices and the Authority's definition of a high credit rating
Foreign Banks	5	Up to 364 days	As per Sector's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

Non-Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	10 (£2m limit with any one institution)	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Money Market Funds (max. of 5)	10	N/A	All are AAA rated plus the parents/owners must meet the Authority's short term investment criteria
Other Local Authorities	10	Up to 2 years	N/A
European Investment Bank Bonds	3	2-3 years	N/A
Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.			

Appendix B

Economic Background

After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, it appears that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, as the threshold before it said it would consider any increases in Bank Rate.

In the February 2014 Inflation Report, the MPC therefore broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting a first increase around the end of 2015, though recent comments from MPC members have emphasised they would want to see strong growth well established and an increase in labour productivity/real incomes before they would consider raising Bank Rate.

Also encouraging has been the sharp fall in CPI inflation, reaching 1.7% in February. Forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement and by an additional £24bn, as announced in the March 2014 Budget. The Budget also forecast a return to a significant budget surplus of £5bn in 2018-19.