SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet	**DATE:** 18th September 2017
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WARD(S):	All	
PORTFOLIO:	Cllr. Sohail Munawar; Cabinet Member for Finance & Strategy.	

PART I
NON-KEY DECISION

TREASURY MANAGEMENT ANNUAL REPORT

1 Purpose of Report

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance. Members are requested to note the report which summarises treasury activity in 2016-17 and the first part of 2017-18.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve:

(a) That the Treasury Management activities for 2016/17 and the beginning of 2017/18 as set out in the body of this report be noted.

(b) That the limit on Total Investments made with institutions (i.e. Pooled Funds) without credit ratings be increased.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan

The report indirectly supports all of the Joint Wellbeing Strategy priorities and cross cutting themes. The maintenance of good governance within the Council to ensure that it is efficient, effective and economic in everything it does is achieve through the improvement of corporate governance and democracy by ensuring effective management practice is in place.

4 Other Implications

Financial . The Financial Implications are contained within this report.

Risk Management

Risk	Mitigating action	Opportunities
Legal	None	None
Property	None	None
Human Rights	None	None
Health and Safety	None	None
Employment Issues	None	None
Equalities Issues	None	None
Community Support	None	None
Communications	None	None
Community Safety	None	None
Financial :Detailed in the Report and Above	As identified	None
Timetable for delivery	None	None
Project Capacity	None	None
Other	None	None

Human Rights Act and Other Legal Implications
None identified

Equalities Impact Assessment

No identified need for the completion of an EIA.

5 **Supporting Information**

1. Background

The Treasury Management Strategy for 2016/17 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks. This report summarises treasury activity in 2016-17 and the first part of 2017-18.

2. External Context

Statement from Arlingclose- Slough Borough Council's Treasury Management Advisors

Commodity prices slid back during the quarter with oil falling below $50 a barrel. The primary factor in the oil price fall was oversupply and a lack of belief in OPEC's (Organisation of Petroleum Exporting Countries) ability to deliver on agreed production caps of members.

UK Consumer Price Inflation (CPI) index rose over the quarter and the data print for May showed CPI at 2.9%, its highest since June 2013. The effect of the fall in fuel prices was offset by rises in a number of other categories in the CPI 'basket' as the fall in the value of sterling following June 2016's referendum result continued to feed through into higher import prices. The most recent labour market data for April 2017 showed that the unemployment rate at 4.6% remained at its lowest since July 1975 but that the squeeze on real wages (i.e. after inflation) is intensifying and resulting in negative real wage growth. Q1 GDP data released in April and revised in May showed economic activity growing at a much slower pace of 0.2%. However recent surveys indicate that the slowdown in the first quarter is being viewed as an anomaly and that Q2 GDP could rebound. Understandably, the Bank of England made no change to monetary policy at its meeting on 15th June.

Having raised rates in March, the US Federal Reserve made no change to monetary policy at the conclusion of its meeting in May. The recent weakness witnessed in the first print of Q1 US GDP was noted in the accompanying statement but the Fed viewed this as a transitory issue and was of the view that the GDP path and household spending would recover during 2017. The US Federal Reserve then increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and a further similar increase is expected during the second half of 2017.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty and in the hope of gaining an enhanced mandate to enter the forthcoming Brexit negotiations. The surprise result has led to a minority Conservative government in a confidence and supply arrangement with the Democratic Unionist Party. This political impasse clearly results in an enhanced level of political uncertainty, however the potential for a so-called hard Brexit is now diminished, reducing the associated economic headwinds for the UK economy from a 'no deal' or otherwise unfavourable trade agreement.

The reaction from the markets on the election's outcome has been fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, whether new trade treaties and arrangements are successfully concluded and whether or not the UK continues to remain part of the EU customs union post the country's exit from the EU.

In the face of this uncertainty, Arlingclose expects the Bank of England will look through periods of high inflation and maintain its low-for-longer stance on policy interest rates for an extended period.

Financial markets: Gilt yields displayed some volatility with a marked uptick in late June. This was largely due to the expectation of tapering of Quantitative Easing (QE) in the US and Europe, which also had an impact on gilts. The yield on the 5 year benchmark gilt rose from 0.56% to 0.69% during the quarter, that on the 10-year gilt rose from 1.06% to 1.26% and the yield on the 20-year gilt rose from 1.65% to 1.78%.

The FTSE 100 reached a record high of 7548 in May but dropped off slightly towards the end of the quarter. The FTSE-250 and FTSE All Share indices also rose, the All Share index closing at 4002 at the end of June. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.33% and 0.66% in the quarter respectively.

Credit background: UK bank credit default swaps have continued their downward trend, reaching three year lows by the end of June. Bank share prices have not moved in any particular pattern.
There were a few credit rating changes during the quarter. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1. Moody's downgraded the major Canadian banks' long-term ratings on the agency's expectation of a more challenging operating environment for the banks for the remainder of 2017 and beyond, that could lead to a deterioration in the banks' asset quality and increase their sensitivity to external shocks. Moody's downgraded the ratings of the large Australian banks to Aa3 from Aa2 reflecting the agency's view of the rising risks from the banks' exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of its deposits at Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as there is some uncertainty surrounding which banking entities the Authority will be dealing with once ring-fencing is implemented. Even where there has been a level of clarity provided regarding where local authority customers will sit within the proposed new legal structures of the banks, it is not yet known what the balance sheet structures of those banks will be.

S&P also revised Nordea Banks outlook to stable from negative, whilst affirming their long-term rating at AA-. The outlook revision reflects Nordea's geographic diversification and strong financials.

3. Debt Management

	Balance on 01/04/2016 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2017 £m	**Increase/ Decrease in Borrowing**
CFR	307,590				347,580	
Short Term Borrowing[1]	4,000	60,100		123,100	67,000	63,000
Long Term Borrowing	173,372	3,000			170,372	-3,000
TOTAL BORROWING	177,372				237,372	60,000
Other Long Term Liabilities	46,398	1,840			44,558	-1,840
TOTAL EXTERNAL DEBT	223,770				281,930	58,160
Average Rate % / Life (yrs)	3.53% / 17.90yrs				3.32% / 16.64yrs	

The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2017 was £347.58 million.

The Authority's chief objective when borrowing money has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

At 1st April 2016 the Authority held £177.372 million of loans, as part of its strategy for funding previous years' capital programmes.

In 2016-17 a loan of £4m was repaid in March 2017 and this was not be replaced with a long term PWLB loan which will generate a revenue saving from reduced interest costs of £96,000. While there has been no new long term borrowing in 2016-17, the Council has borrowed short term money through the London Money Markets to meet short term cash flow obligations and to fund its Capital Programme. All have the loans have been with other Local Authorities at rates between 0.29% and 0.60%. The council has an ambitious Capital Programme and it is expected that the need to borrow both short term and long term will increase as investment balances diminish. At the end of March, the Council had £64m temporary loans with other Local Authorities and this is the main reason for an increase in external debt in 2016-17 of £58.16m.

A further £3m PWLB loan will be repaid in 2017-18 which will generate revenue savings of £73,800 in reduced interest costs.

1 Loans with maturities less than 1 year.

With short-term interest rates having remained much lower than long-term rates, it was more cost effective to borrow short term to fund capital expenditure. Short term borrowing has therefore, continued to be the most cost effective means of funding £39.99m of capital expenditure. However, the Council acknowledges that this position will not be sustainable over the medium term and the Authority expects it will need to borrow £96.0m for capital purposes by the end of 2017-18. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor.

The PWLB remains an attractive source of borrowing for the Authority as it offers flexibility and control. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy. This is because for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

While there has been no new long term borrowing in 2017-18, the Council has continued to borrow short term money through the London Money Markets to meet short term cash flow obligations. All have the loans have been with other Local Authorities at rates between 0.28% and 0.60%. The council has an ambitious Capital Programme and it is expected that the need to borrow both short term and long term will increase as investment balances diminish. The council currently has £89.0m short term borrowing and the table below summarises the current position.

Start Date	End Date	No. of days	Loan Amount	Interest Rate %
10/02/2017	09/02/2018	364	2,500,000	0.55
10/02/2017	09/02/2018	364	2,500,000	0.55
10/02/2017	09/02/2018	364	10,000,000	0.55
16/02/2017	15/02/2018	364	3,000,000	0.60
17/02/2017	18/12/2017	304	2,500,000	0.50
20/02/2017	19/02/2018	364	5,500,000	0.60
20/02/2017	19/02/2018	364	2,000,000	0.60
20/02/2017	21/12/2017	304	2,000,000	0.50
06/03/2017	06/09/2017	184	5,000,000	0.43
28/03/2017	28/09/2017	184	3,000,000	0.50
28/03/2017	28/07/2017	122	5,000,000	0.45
31/03/2017	04/01/2018	279	5,000,000	0.54
02/05/2017	01/05/2018	364	10,000,000	0.47
02/05/2017	02/08/2017	92	5,000,000	0.35
02/05/2017	02/11/2017	184	4,000,000	0.38
27/06/2017	26/06/2018	364	5,000,000	0.40
30/06/2017	29/06/2018	364	2,000,000	0.38
07/07/2017	02/07/2018	360	5,000,000	0.40
21/07/2017	23/10/2017	94	5,000,000	0.28
28/07/2017	29/01/2018	185	2,500,000	0.30
28/07/2017	29/01/2018	185	2,500,000	0.30

PWLB Borrowing

PWLB Certainty Rate and Project Rate Update
The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2016. In April the Authority submitted its application to the CLG along with the 2017-18 Capital Estimates Return to access this reduced rate for a further 12month period from 1st November 2017 should it be required.

Debt Rescheduling:
The increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premia was still relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

A year after their commencement, the £125.8m of loans borrowed on 28th March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. If the increases in gilt yields and PWLB redemption rates seen at the end of this quarter prevail in subsequent months, they may present early loan repayment opportunities at close to par. Early repayment or rescheduling will first be assessed against the requirements of the HRA business plan and any future borrowing requirements. Where rescheduling is appropriate, the Authority will consider alternative refinancing to achieve cost savings and a reduction in risk. (Conventional PWLB to PWLB debt restructuring is limited by the new borrowing and repayment spread.) The Authority is currently considering options for debt rescheduling in conjunction with its Treasury Management advisors.

LOBOs:

The Authority holds £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £4m of these LOBOS had options during 2016-17 none of which were exercised by the lender. The Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4. Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment activity 2016-17

Investments	Balance on 01/04/2016 £m	Investments Made	Maturities/ Investments Sold/Transferred £m	Balance on 31/03/2017 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	24,800	5,000	(14,100)	15,700	2.44/0.41 yrs
Long Term Investments	29,250	9,700	(13,200)	25,750	
Cash Equivalents	3,865	297,955	(295,240)	6,580	
Bonds issued by Building Societies	7,083		(45)	7,038	
Corporate Bonds					
Funds Managed Externally					
TOTAL INVESTMENTS	64,998			55,068	

The £55.068m balance on 31st March 2017 is broken down further below:

Type of Investments	**£m**
Money Market Funds	6.580
Pooled Property Fund	10
Other Pooled Funds	3.5
Covered Bonds issued by Building Societies	3.006
Covered Bonds issued by UK Banks	4.032
Local Authorities	15
Municipal Bonds Agency	0.05
Slough Urban Regeneration Loan Note	12.9
	55.068

Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18 which defined "high credit quality". The authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Investments with banks and building societies were instant access accounts, fixed-rate term deposits but also Certificates of Deposit and Floating Rate Note Covered Bonds. The maximum duration of these investments was 3 years in line with the prevailing credit outlook during the year as well as market conditions.

The Council's budgeted investment income for 2016-17 was estimated at £2.043m (£1.943m 2015-16) and it achieved £2.332m (£1.959m in 2015-16). The average cash balances were £83.7m during 2016-17. Also income of £0.271m was realised by making an upfront payment to the pension scheme.

Externally Managed Funds:

The council has invested a total of £10m into a Property Fund The Local Authorities' Property Fund is administered by CCLA Investment Management limited (a company specialising in fund management on behalf of Churches, Charities and Local Authorities) (CCLA). The Fund was launched in 1972, was valued at £599 million on 31st March 2016 and has a track record of income distribution yield of over five per cent per annum paid quarterly. The distribution yield is after property management costs and CCLA's fund management fee of 0.65 per cent. The fund has outperformed the Investment Property Databank (IPD) Balanced Property Unit Trusts index which is their benchmark over the past 10 years. Due to high entry fees this is seen as a long term investment with at least a 5 years time horizon. During 2016-17 the CCLA fund, generated £488,000 a return of 4.88%, which has thus far proved the highest returning of our investments. The fund did depreciate by £169k during the year, but the £10.665m valuation as at 31st March 2017 is still considerably higher than the £10m Principal Sum invested.

The council has also invested £3.5m in other pooled funds as follows:

- £2.5m in the Insight – ILF Liquidity Plus Fund which is a Cash Plus Fund. The Fund invests in a diverse range of securities, instruments and obligations that carry a minimum credit rating of A1 for short-term investments, to ensure a return in excess of the money markets with minimal risk.

- £1.0m in the Columbia Threadneedle Strategic Bond Fund. It is a Strategic Bond Fund which invests in a mix of Investment Grade Corporate Bond, High Yield and Emerging Market Bonds. The fund produced dividends of £42,759 during 2016-17 a return of 4.28% which is the second best performing of all our investments. The fund has also appreciated by 2.81% since the council first invested in the fund in October 2015.

Both funds are supported by our Treasury Advisors, are secure and offer reasonable liquidity. The values of the funds vary (Variable Net Asset Value) but are an excellent way of diversifying the council's investment portfolio. In May 2016, due to cash flow considerations, the Council disinvested in the Payden and Rygel Sterling Reserve Fund.

Later in this report, it is proposed to increase the limit for investing in institutions without credit ratings to take advantage of the better returns in Pooled Funds mentioned above.

Long Term Local Authority Investments

In April 2015, the Council invested £5m with a Local authority for three years at a rate of 1.20%. This follows on from two investments in 2014-15 where the Council invested £5m each with two Local Authorities for a period of three years at rates of 1.40% and 1.50% respectively. These were seen as favourable rates for the credit risk the council was taking on. Reference was also made of the council's Treasury Advisors long term interest rate forecast. At the time the Council's advisors only saw small upward increases in rates in the next few years and base rate has subsequently dropped by ¼% to 0.25%. The two investments taken out in 2014-15 are due to mature in August 2017 and the Council will forego interest of £145,000 as a result. Due to a reduction in base rate, similar investments taken out today would generate a return of less than 1%. Therefore in order to protect this income stream the council will consider alternative investment opportunities.

Safe Custody Arrangements

The Council set up a custody account with King & Shaxson in February 2012. By opening a custody account with King & Shaxson, the Council now has the ability to use a number of approved investment instruments as outlined in the 2016/17 Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds.

By establishing custody arrangements, the Council is better-placed to consider the use of alternative investment instruments in response to evolving credit conditions. At the beginning of 2017-18 the council had two Floating Rate Note Covered Bonds with the Leeds Building Society and Abbey Treasury Services (part of Santander UK Bank) respectively. The bonds are secured against mortgages and are exempt form bail-in risk. Both are AAA rated so there is little credit risk, and the rate the council receives is linked to the 3 month LIBOR rate that re-fixes every three months so there is very little interest rate risk also. The Abbey Treasury Services Floating Rate Note Bond matured in April 2017 and the Leeds Building Society Both Floating Rate is due to mature in February 2018.

Investment Activity in 2017/18

Investments	Balance on 01/04/2017 £m	Investments Made	Maturities/ Investments Sold £m	Balance on 31/07/2017 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	15,700		(3,200)	12,500	1.44%/0.1 yrs
Long Term Investments	25,750			25,750	
Cash Equivalents	6,580	97,720	(98,200)	6,100	
Bonds issued by Banks/ Building Societies	7,038		(4,031)	3,006	
Corporate Bonds					
Funds Managed Externally					
TOTAL INVESTMENTS	55,068			47,356	

The £47.356m is broken down further below:

Type of Investments	£m
Money Market Funds	6.100
Pooled Property Fund	10
Other Pooled Funds	3.5
Covered Bonds issued by Building Societies	3.006
Local Authorities	15
Municipal Bonds Agency	0.05
Slough Urban Regeneration Loan Note	9.7
	47.365

Specified Investments:
The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments:
Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Current Limit	Proposed Limit
Total long-term investments	£40m	£40m
Total investments without credit ratings or rated below A-	£10m	£25m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m	£10m
Total non-specified investments	**£60m**	**£75m**

It is proposed to increase the amount the Council can invest with institutions without credit ratings to £25m. Many pooled funds are not credit rated but are an excellent way of diversifying investments and therefore diversifying risk. They are also an excellent way of increasing yield in a low interest rate environment. All decisions on whether to invest in a pooled fund are made on a case by case basis in conjunction with the Council's Treasury management advisors.

Budgeted Income and Outturn

The average cash balances have been £65.1517m so far in 2017-18. The UK Bank Rate has been maintained at 0.25% since August 2016 and is now forecast to remain low for the foreseeable future. Short-term money market rates have remained at low levels (see Table 1 in Appendix 2).

The Authority's budgeted investment income for the year is estimated at £2.258m.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2017	2.95	AA	2.21	AA+
30/06/2017	2.96	AA	2.40	AA+

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

AAA = highest credit quality = 1

D = lowest credit quality = 26

- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

5. Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2017/18, which was set in February 2017 as part of the Authority's Treasury Management Strategy Statement.

6. Outlook for Remainder of 2017-18

Just over a year after the UK voted to leave the EU there is still a great deal of uncertainty on Brexit negotiations, even after Article 50 was triggered in April. To add to this, the Conservative party lost their overall majority after they called a snap election in June meaning that negotiations may be even harder going forward.

UK GDP growth is forecast to be around 1.6% for 2017 and 1.4% in 2018. Subdued consumer spending will be the main driver behind this period of weaker growth, along with muted business investment due to Brexit-related uncertainty. Arlingclose's central case for the path of Bank Rate over the next three years remains at 0.25%. Arlingclose believes that the high inflation reflects the impact of sterling's weakness on imports, and in the face of weaker growth prospects, will be looked through by Bank of England policymakers. The likely path for Bank Rate is for it to remain flat at 0.25%. However, there is downside risk for rates to be cut to 0.00% in the short-term and medium-term, and scope for rates to be increased from 2019 onwards, albeit modestly to 0.50%.

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent any immediate market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority’s counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

6 Comments of Other Committees

Not Applicable

7 Conclusion

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2016/17 and the first quarter of 2017/18. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

8 Appendices Attached

1 - Prudential Indicators
‘ 2 - Money Markets and PWLB Rates
3 - Maturity Rates for New Investments

9 Background Papers

Financial detail provided from the Council’s Treasury Management System and General Ledger.

Appendix 1

Capital Financing Requirement

Estimates of the Authority's cumulative maximum external borrowing requirement for 2016/17 to 2019/20 are shown in the table below:

	31/03/2017 Actual £000s	31/03/2018 Estimate £000s	31/03/2019 Estimate £000s	31/03/2020 Estimate £000s
Gross CFR	347,580	419,590	459,510	492,400
Less: Other Long Term Liabilities	-44,558	-42,740	-40,922	-39,104
Borrowing CFR	**303,022**	**376,850**	**418,588**	**452,550**
Less: Existing Profile of Borrowing	-237,372	-309,372	-349,100	-382,200
Gross Borrowing Requirement/Internal Borrowing	**65,650**	**67,478**	**69,488**	**70,350**
Usable Reserves	**-124,702**	**-115,730**	**-110,650**	**--105,523**
Net Borrowing Requirement/Investment Capacity	**-59,052**	**-48,252**	**-41,162**	**-35,173**

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2017 Actual £000s	31/03/2018 Estimate £000s	31/03/2019 Estimate £000s	31/03/2020 Estimate £000s
CFR	347,580	419,590	459,510	492,400
Gross Debt	237,372	309,372	349,100	382,200
Difference	**110,208**	**110,128**	**110,410**	**110,200**
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

Usable Reserves

Estimates of the Authority's level of Usable Reserves for 2017/18 to 2019/20 are as follows:

	31/03/2017 Actual £000s	31/03/2018 Estimate £000s	31/03/2019 Estimate £000s	31/03/2020 Estimate £000s
Usable Reserves	**-124,702**	**-115,730**	**-110,650**	**--105,523**

Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Section 151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak in 2016-17 was £182m.

	Authorised Limit (Approved) as at 31/03/2017 £000s	Operational Boundary (Approved) as at 31/03/2017 £000s	Actual External Debt as at 31/03/2017 £000s
Borrowing	267	257	237
Other Long-term Liabilities	48	48	45
Total	**315**	**305**	**282**

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.
-

	Approved Limits for 2017/18 £/%	Maximum during Q1 2017/18 £/%
Upper Limit for Fixed Rate Exposure	100%	93%
Compliance with Limits:	93%	Yes
Upper Limit for Variable Rate Exposure	50%	7%
Compliance with Limits:	7%	Yes

(c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/07/2017 £000s	% Fixed Rate Borrowing as at 31/07/2017	Compliance with Set Limits?
under 12 months	50	0	95,000	36.25%	Yes
12 months and within 24 months	50	0		0%	Yes
24 months and within 5 years	50	0	14,000	5.36%	Yes
5 years and within 10 years	75	0	4,000	1.53%	Yes
10 years and within 15 years	95	0	50,529	19.33%	Yes
15 years and within 20 years	95	0	28,000	10.71%	Yes
20 years and within 25 years	95	0	60,843	23.28%	Yes
25 years and above	95	0	9,000	3.44%	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date[2])

(d) **Total principal sums invested for periods longer than 364 days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2017/18 Approved £000s	31/7/2017 Actual £000s	31/03/2018 Estimate £000s	31/03/19 Estimate £000s
	40,000	**25,750**	**30,750**	**26,750**

[2] Page 15 of the Guidance Notes to the 2011 CIPFA Treasury Management Code

Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2017		0.25		0.096	0.11	0.13	0.21	0.37	0.59	0.62	0.70	0.85
30/4/2017		0.25		0.099	0.11	0.13	0.20	0.35	0.56	0.56	0.63	0.79
31/5/2017		0.25		0.099	0.11	0.13	0.17	0.32	0.51	0.52	0.60	0.76
30/6/2017		0.25		0.099	0.11	0.13	0.17	0.32	0.53	0.69	0.80	0.99
Average		0.25		0.098	0.11	0.13	0.19	0.34	0.55	0.61	0.68	0.85
Maximum		0.25		0.099	0.11	0.13	0.21	0.37	0.59	0.69	0.80	0.99
Minimum		0.25		0.096	0.11	0.13	0.17	0.32	0.51	0.52	0.60	0.76
Spread		--		0.003	--	--	0.04	0.05	0.08	0.17	0.20	0.23

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2017	128/17	1.03	1.44	2.11	2.74	2.76	2.58	2.54
30/4/2017	165/17	1.01	1.43	2.11	2.78	2.79	2.62	2.58
31/5/2017	205/17	1.05	1.37	2.03	2.69	2.71	2.55	2.5
30/6/2017	250/17	1.28	1.63	2.26	2.88	2.89	2.73	2.66
	Low	1.01	1.37	2.03	2.69	2.71	2.55	2.5
	Average	1.09	1.47	2.13	2.77	2.79	2.62	2.57
	High	1.28	1.63	2.26	2.88	2.89	2.73	2.66

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2017	128/17	0.02	0.32	0.99	1.42	1.62	1.68
30/4/2017	165/17	0	0.31	0.99	1.44	1.66	1.72
31/5/2017	204/17	0	0.25	0.91	1.35	1.57	1.63
30/6/2017	249/17	0.25	0.52	1.16	1.57	1.77	1.83
	Low	0	0.25	0.91	1.35	1.57	1.63
	Average	0.07	0.35	1.01	1.45	1.66	1.72
	High	0.25	0.52	1.16	1.57	1.77	1.83

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
1/4/2017	0.85	0.90	0.94	1.05	1.10	1.14
30/4/2017	0.84	0.85	0.87	1.04	1.05	1.07
31/5/2017	0.84	0.86	0.87	1.04	1.06	1.07
30/6/2017	0.84	0.89	0.95	1.04	1.09	1.15
Low	0.84	0.85	0.87	1.04	1.05	1.07
Average	0.84	0.88	0.91	1.04	1.08	1.11
High	0.85	0.90	0.95	1.05	1.10	1.14

Appendix 3

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£5m 4 years	£5m 10 years
A+	£15m 2 years	£15m 3 years	£15m 5 years	£5m 3 years	£5m 5 years
A	£15m 13 months	£15m 2 years	£15m 5 years	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	£15m 5 years	£5m 13 months	£5m 5 years
BBB+	£5m 100 days	£5m 6 months	£15m 2 years	£2.5m 6 months	£2.5m 2 years
BBB or BBB-	£5m next day only	£15m 100 days	n/a	n/a	n/a
None	£3m 12 months	n/a	£5m 25 years	n/a	£5m 5 years
Pooled funds	£10m per fund				

This table must be read in conjunction with the notes below

† The time limit is doubled for investments that are secured on the borrower's assets

* But no longer than 2 years in fixed-term deposits and other illiquid instruments

** But no longer than 5 years in fixed-term deposits and other illiquid instruments