SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 15th October 2018

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PORTFOLIO: Cllr. Nazir, Lead Member Corporate Finance and Housing

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 2017-18 and the first part of 2018-19.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve that the Treasury Management activities for 2017/18 and Quarter 1 of 2018/19, as set out in the body of this report, be noted.

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

The report helps support all the outcomes within the Five Year Plan by contributing to the Council's overall financial planning processes.

4 Other Implications

(a) Financial

The Financial implications are contained within this report.

(b) Risk Management

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
Cabinet is requested that the Treasury Management activities for 2017/18 and the beginning of 2018/19 as set out in the body	Counterparty risk- the risk that an institution the council has invested is failing or likely to fail resulting in credit loss.	The council will work closely with its Treasury advisors to mitigate interest rate risk. The council has an approved	9	The council has made a conscious decision not to put money in unsecured and low yielding banks and Building

of this report be noted.	Interest rate risk- if interest rates rise there is a risk that the council will be subject to higher interest costs. If there is a reduction in interest rates or fund prices are affected by a worsening economy lower dividends from funds invested in and a depreciation of the capital value.	counterparty list contained in the Treasury Strategy setting out the institutions it can invest in, the maximum periods it can invest for and the total value for investing in individual institutions. This counterparty list is constantly under review by its Treasury advisors		Societies deposits.

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	Returns out perform the budgeted income
Timetable for delivery	None	None
Project Capacity	None	None
Other	None	None

(c) Human Rights Act and Other Legal Implications

None Identified

(d) Equalities Impact Assessment

No identified need for the completion of an EIA

5 **Supporting Information**

5.1 Background

5.1.1 The Council’s Treasury Management Strategies for 2017/18 and 2018/19 are 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.

5.1.2 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."

5.1.3 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 2017/18 and the first part of 2018/19.

5.2 External Context

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

5.2.1 Economic background: Commodity prices fell during the quarter, although oil prices rose, peaking at $75 a barrel before falling slightly to just over $73. The primary factor in the oil price's recent fall was the OPEC's (Organisation of Petroleum Exporting Countries) announcement that a deal had been reached with non-OPEC nations to increase nominal production by 1 million barrels a day.

5.2.2 UK Consumer Price Inflation (CPI) index fell over the quarter and the data released for May showed CPI at 2.4%, a 12-month low. The most recent labour market data for April 2018 showed the unemployment rate at 4.2%, a low last seen in 1975. However real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households. Q1 GDP data released in April and revised in May showed economic activity slowing to 0.2%. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates have raised expectations of a rate hike at the August meeting.

5.2.3 Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in June by 0.25% to between 1.75% and 2% and markets now expect two further rises in 2018.

5.2.4 Fears rose of a global trade war on the announcement of the Trump Administration implementing tariffs on $200bn of imports, notably steel, aluminium, food and chemicals. Canada, the EU and China contemplated announced retaliatory tariffs as did Mexico. Many of these have since been instituted in early July. The announcements sparked a sell-off in global equity markets, with the major equity global indices falling.

5.2.5 The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament, with a vote of 319 to 303, after the government gave assurances that Parliament would have a meaningful vote in the event of a no-deal Brexit. Very little progress was made in negotiating future trading arrangements, extending the period of uncertainty.

5.2.6 Financial markets: Gilt yields displayed marked volatility during the quarter, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. The yield on the 5-year benchmark gilt fell from 1.13% to 1.04% during the quarter, the 10-year gilt fell from 1.36% to 1.28% and the yield on the 20-year gilt rose marginally from 1.71% to 1.72%. Money markets rates remained low: 1-month, 3-month and 12-month LIBID rates averaged 0.38%, 0.55% and 0.84% in the quarter respectively.

5.2.7 Credit background: UK bank credit default swaps rose marginally over the quarter, but the overall level was still low against historic averages.
There were a few credit rating changes during the quarter. Moody's downgraded Barclays Bank Plc's long-term rating to A2 from A1 after the banking group completed its restructure to be compliant with UK bank ring-fencing requirements which come into effect in 2019. The agency also downgraded Royal Bank of Scotland plc's (RBS plc) long-term ratings to Baa2 from A3 on its view that the credit metrics of RBS plc, which will become the non-ring-fenced NatWest Markets plc, will become weaker and less diversified and the main functions of the bank would be in higher risk activities. Moody's and Fitch upgraded the long-term ratings of NatWest Bank and Ulster Bank on the view that their credit profiles are expected to improve following ring-fencing.

5.3 Debt Management

	Balance on 01/04/2017 £'000	Maturing Debt £'000	Debt Prematurely Repaid £'000	New Borrowing £'000	Balance on 31/03/2018 £'000	**Increase/ (Decrease) in Borrowing**
CFR	347,580				434,564	
Short Term Borrowing[1]	67,000	(118,000)		203,000	152,000	85,000
Long Term Borrowing	170,371		(30)		170,341	(30)
TOTAL BORROWING	237,371				322,341	84,970
Other Long Term Liabilities	44,558				43,967	(591)
TOTAL EXTERNAL DEBT	281,929				366,308	84,379
Average Rate % / Life (yrs)	3.32% / 16.64yrs				3.32% / 16.64yrs	

5.3.1 The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/20187 was £434.564 million.

5.3.2 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.

[1] Loans with maturities less than 1 year.

5.3.3 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.

5.3.4 At 1st April 2017 the Authority held £237.371 million of loans, as part of its strategy for funding previous years' capital programmes.

5.3.5 In 2017-18 a loan of £3m was repaid in August 2017 and this was not be replaced with a long term PWLB loan which will generate a revenue saving from reduced interest costs of £73,800. While there has been no new long term borrowing in 2017-18, 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 the loans have been with other Local Authorities at rates between 0.38% and 0.95%. At the end of March 2018, the Council had £152m temporary loans with other Local Authorities and this is the main reason for an increase in external debt in 2017-18 of £84.38m.

5.3.6 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 £86.98m 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 £127.89m for capital purposes by the end of 2018-19. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor.

5.3.7 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.

5.3.8 In July 2018, the Council undertook £50m of long term PWLB borrowing in two tranches of £25m for twenty and thirty years and rates of 2.12% and 2.36% respectively. The loans were taken out on an Equal Instalment of Principal (EIP) basis meaning that the principal amount is amortised over the life of the loan. The purpose of the borrowing was the replacement of short-term borrowing held with other local authorities to mitigate against the risk of potential interest rate rises. However there was no cost of carry as the application for new PWLB borrowing coincided with the purchase of the new Council Headquarters on 24th July 2018. Also 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 of between 0.60% and 0.95%. 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 £189.0m short term borrowing and the table below summarises the current position.

Start Date	End date	No of Days	Loan Amount	Interest Rate %
02/03/2018	03/09/2018	185	5,000,000.00	0.75
09/02/2018	10/09/2018	213	5,000,000.00	0.62
24/04/2018	24/10/2018	183	2,000,000.00	0.85
24/04/2018	24/10/2018	183	3,000,000.00	0.85
29/01/2018	29/10/2018	273	2,500,000.00	0.65
29/01/2018	29/10/2018	273	5,000,000.00	0.64
30/04/2018	31/10/2018	184	2,500,000.00	0.70
31/07/2018	31/10/2018	92	5,000,000.00	0.65
02/05/2018	02/11/2018	184	10,000,000.00	0.70
09/02/2018	09/11/2018	273	5,000,000.00	0.65
14/08/2018	14/11/2018	92	5,000,000.00	0.73
20/08/2018	20/11/2018	92	5,000,000.00	0.70
21/05/2018	21/11/2018	184	3,000,000.00	0.70
23/05/2018	23/11/2018	184	5,000,000.00	0.60
26/02/2018	30/11/2018	277	5,000,000.00	0.70
07/06/2018	07/12/2018	183	5,000,000.00	0.60
Start Date	**End date**	**No of Days**	**Loan Amount**	**Interest Rate %**
19/06/2018	19/12/2018	183	5,000,000.00	0.60
27/06/2018	02/01/2019	189	2,000,000.00	0.60
26/06/2018	02/01/2019	190	5,000,000.00	0.60
02/07/2018	04/01/2019	186	5,000,000.00	0.6
27/06/2018	07/01/2019	194	2,000,000.00	0.6
19/03/2018	21/01/2019	308	5,000,000.00	0.92
19/07/2018	21/01/2019	186	1,000,000.00	0.65
19/07/2018	21/01/2019	186	5,000,000.00	0.62
19/07/2018	21/01/2019	186	3,000,000.00	0.65
26/01/2018	25/01/2019	364	2,000,000.00	0.6
26/03/2018	28/01/2019	308	4,000,000.00	0.95
30/07/2018	31/01/2019	185	5,000,000.00	0.8
09/08/2018	11/02/2019	186	5,000,000.00	0.95
13/08/2018	13/02/2019	184	2,000,000.00	0.75
14/08/2018	14/02/2019	184	2,000,000.00	0.77
20/08/2018	20/02/2019	184	3,000,000.00	0.85
20/08/2018	20/02/2019	184	3,000,000.00	0.8
20/08/2018	20/02/2019	184	2,000,000.00	0.85
20/08/2018	20/02/2019	184	2,000,000.00	0.85
21/08/2018	21/02/2019	184	10,000,000.00	0.8
27/04/2018	24/02/2019	303	5,000,000.00	0.8
25/04/2018	25/02/2019	306	5,000,000.00	0.8
10/07/2018	15/03/2019	248	1,000,000.00	0.8
10/07/2018	15/03/2019	248	5,000,000.00	0.8
31/08/2018	28/03/2019	209	2,000,000.00	0.8
31/05/2018	29/03/2019	302	5,000,000.00	0.75

04/04/2018	03/04/2019	364	5,000,000.00	0.6
24/05/2018	23/05/2019	364	2,000,000.00	0.75
29/06/2018	28/06/2019	364	2,000,000.00	0.7
31/07/2018	30/07/2019	364	6,000,000.00	0.75
31/08/2018		14 Day Notice	5,000,000.00	0.75
			189,000,000.00	

5.3.9 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 01/11/2017. In April 2017 the Authority submitted its application to the CLG along with the 2017-18 Capital Estimates Return to access this reduced rate for a further 12 month 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.

5.3.10 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.

5.3.11 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 2017-18 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. Barclays Bank have foregone the right to increase interest rates in the future so this is now treated as a long term, fixed -rate market loan.

5.4 Investment Activity

5.4.1 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 2017-18

Investments	**Balance on 01/04/2017** £'000	**Investments Made/Transferred** £'000	**Maturities/ Investments Sold/Transferred** £'000	**Balance on 31/03/2018** £'000	**Average Rate % and Average Life (years)**
Short Term Investments	15,700	14,700	(13,200)	17,200	2.44/0.41 years
Long Term Investments	25,750	10,724	(14,700)	21,774	
Cash Equivalents	6,580	320,190	(322,020)	4,750	
Bonds issued by Building Societies	7,038		(7,038)	0	
Corporate Bonds					
Funds Managed Externally					
TOTAL INVESTMENTS	55,068			43,724	

The £43.724m balance on 31st March 2018 is broken down further below:

Type of Investments	**£m**
Money Market Funds	4.750
Pooled Property Fund	10.00
Other Pooled Funds	7.500
Local Authorities	5.000
Municipal Bonds Agency	0.050
Slough Urban Regeneration Loan Note	9.700
James Elliman Homes	6.724
	43.724

5.4.2 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.

5.4.3 The Council's budgeted investment income for 2017-18 was estimated at £2.258m (£2.043m 2016-17) and it achieved £2.172m (£2.332m in 2016-17). The average cash balances were £52.261m during 2017-18. Additional revenue (of £0.238m) was realised by making an upfront payment to the pension scheme.

5.4.3 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 2017-18 the CCLA fund, generated £507,000 a return of 5.07%, which has thus far proved the highest returning of our investments. The fund also appreciated by £507k during the year, and the £11.172m valuation as at 31st March 2018 is considerably higher than the £10m Principal Sum invested.

5.4.4 On 25th July 2018, the council invested £1m in the CCLA Diversified Income Fund, another pooled fund administered by CCLA Investment Management and recommended by the council's Treasury advisors, Arlingclose. The Fund is suitable for long term investors seeking a balanced return of income and capital growth for whom control of relative risk is important. It is projected to generate income for the council at a yield of over 3%.

5.4.5 The council has also invested £7.5m 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.

- £5.0m in the Columbia Threadneedle Strategic Bond Fund. The council increased its investment in this fund from £1m to £5m in October 2017. 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 £100,307 during 2017-18 a return of 3.40% which is the second best performing of all our investments. However at the end of March 2018, the fund had depreciated slightly by 0.32% since the council first invested in the fund in October 2015.

5.4.5 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

5.4.6 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 matured in August 2017 and the Council will forego interest of £145,000 as a result. A further long term Local Authority investment matured in April 2018.

5.4.7 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 2017/18 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 Floating Rate matured in February 2018. However as the council's cash balances have diminished there is less scope to use the custodian account and the council now has no investments in alternative investment instruments.

5.4.8 <u>Investment Activity in 2018/19</u>

Investments	Balance on 01/04/2018 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 31/08/2018 £'000	Avg Rate % and Avg Life (yrs)
Short Term Investments	17,200		(5,000)	12,200	1.44%/0.1 yrs
Long Term Investments	21,774	9,000		30,774	
Cash Equivalents	4,750	138,290	(135,690)	7,350	
Bonds issued by Banks/ Building Societies	0		0	0	
TOTAL INVESTMENTS	43,724	147,290	(140,690)	50,324	

The £50.324m is broken down further below:

Type of Investments	£m
Money Market Funds	7.350
Pooled Property Fund	10.000
Other Pooled Funds	7.500
Diversified Income Fund	1.000
James Elliman Homes	14.724
Municipal Bonds Agency	0.050
Slough Urban Regeneration Loan Note	9.700
	50.324

5.4.9 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.

5.4.10 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
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£25m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	**£75m**

5.4.11 Budgeted Income 2018/19

The Authority's budgeted investment income for the year is estimated at £2.483m.

5.4.12 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
31/03/2018	3.77	AA-	3.39	AA
30/06/2018	4.90	A+	4.90	A+

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

5.5 Compliance with Prudential Indicators

5.5.1 The Authority confirms compliance with its Prudential Indicators for 2018/19, which was set in February 2018 as part of the Authority's Capital Strategy Statement.

5.6 Outlook for Remainder of 2018-19

5.6.1 The Monetary Policy Committee has maintained expectations of possible further rises in interest rates this financial year. Arlingclose's central case is for the Bank Rate to rise twice more in 2019. The MPC has a definite bias towards tighter monetary policy. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and that 2) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise.

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.25	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

5.6.2 Arlingclose's view is that the UK economy still faces a challenging outlook as the Government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

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 2017/18 and the first quarter of 2018/19. 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 2017/18 to 2020/21 are shown in the table below:

	31/03/2018 Actual £000s	31/03/2019 Estimate £000s	31/03/2020 Estimate £000s	31/03/2021 Estimate £000s
Gross CFR	434,560	590,590	621,510	650,400
Less: Other Long Term Liabilities	(43,823)	(42,740)	(40,922)	(39,104)
Borrowing CFR	**390.737**	**547,850**	**580,588**	**611,296**
Less: Existing Profile of Borrowing	(322.341)	(448,272)	(496,100)	(516,200)
Gross Borrowing Requirement/Internal Borrowing	**68,396**	**99,578**	**84,488**	**95,096**
Usable Reserves	**(107,664)**	**(111,730)**	**(114,650)**	**(117,523)**
Net Borrowing Requirement/Investment Capacity	**(59,052)**	**(12,152)**	**(30,162)**	**(22,427)**

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.

	31/03/2018 Actual £000s	31/03/2019 Estimate £000s	31/03/2020 Estimate £000s	31/03/2021 Estimate £000s
CFR	434,560	590,590	621,510	650,400
Gross Debt	366,164	491,012	537,022	555,304
Difference	**68,396**	**99,578**	**84,488**	**95,096**
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

Usable Reserves

Estimates of the Authority's level of Usable Reserves for 2018/19 to 2020/21 are as follows:

	31/03/2018 Actual £000s	31/03/2019 Estimate £000s	31/03/2020 Estimate £000s	31/03/2021 Estimate £000s
Usable Reserves	**(107,664)**	**(111,730)**	**(114,650)**	**(117,523)**

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 2017-18 was £182m.

	Authorised Limit (Approved) as at 31/03/2018 £000s	Operational Boundary (Approved) as at 31/03/2018 £000s	Actual External Debt as at 31/03/2018 £000s
Borrowing	357	347	323
Other Long-term Liabilities	43	43	43
Total	**400**	**390**	**366**

(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 2018/19 £	Maximum during Q1 2018/19 £/%
Upper Limit for Fixed Rate Exposure	£350m	£201m
Compliance with Limits:	£201m	Yes
Upper Limit for Variable Rate Exposure	£300m	£159m
Compliance with Limits:	£159m	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 31/08/2018 £000s	% Fixed Rate Borrowing as at 31/07/2018	Compliance with Set Limits?
under 12 months	75	0	191,083	46.68%	Yes
12 months and within 24 months	50	0	2,083	0.51%	Yes
24 months and within 5 years	50	0	20,250	4.95%	Yes
5 years and within 10 years	75	0	39,415	9.63%	Yes
10 years and within 15 years	95	0	35,915	8.77%	Yes
15 years and within 20 years	95	0	43,415	10.61%	Yes
20 years and within 25 years	95	0	35,008	8.55%	Yes
25 years and above	95	0	42,173	10.30%	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	2018/19 Approved £000s	31/7/2018 Actual £000s	31/03/2019 Estimate £000s	31/03/19 Estimate £000s
	45,000	**16,000**	**18,500**	**18,500**

[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
01/4/2018		0.50		0.3489	0.3642	0.3863	0.5868	0.7043	0.8776	1.13	1.24	1.35
30/4/2018		0.50		0.3491	0.3654	0.3895	0.5853	0.6844	0.8485	1.07	1.19	1.35
31/5/2018		0.50		0.3499	0.3644	0.3708	0.4865	0.5942	0.7628	0.95	1.06	1.22
30/6/2018		0.50		0.3424	0.3559	0.3758	0.5491	0.6631	0.8362	1.03	1.13	1.30
Average		0.50		0.3475	03625	0.3806	0.5519	0.6615	0.8313	1.045	1.16	1.31
Maximum		0.50		0.3499	0.3654	0.3895	0.5868	0.7043	0.8776	1.13	1.24	1.35
Minimum		0.50		0.3424	0.3559	0.3708	0.4865	0.5942	0.7628	0.92	1.06	1.22
Spread		--		0.0075	0.0095	0.0187	0.1003	0.1101	0.1148	0.18	0.18	0.13

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

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
01/04/2018	128/18	1.68	2.04	2.41	2.73	2.71	2.54	2.47
30/04/2018	167/18	1.63	2.06	2.51	2.86	2.86	2.69	2.63
31/05/2018	208/18	1.5	1.91	2.36	2.74	2.72	2.56	2.49
30/06/2018	251/18	1.6	1.97	2.38	2.75	2.74	2.6	2.55
	Low	1.5	1.91	2.36	2.73	2.71	2.54	2.47
	Average	1.60	2.00	2.42	2.77	2.76	2.60	2.54
	High	1.68	2.06	2.51	2.86	2.86	2.69	2.63

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
03/04/2018	128/18	1.84	2.06	2.43	2.65	2.73	2.75
30/04/2018	167/18	1.82	2.09	2.53	2.77	2.87	2.89
31/05/2018	208/18	1.69	1.96	2.4	2.66	2.76	2.78
29/06/2018	251/18	1.75	1.99	2.39	2.64	2.75	2.77
	Low	1.69	0.25	2.76	1.35	1.57	1.63
	Average	1.78	2.03	2.44	2.68	2.78	2.80
	High	1.84	2.09	2.53	2.77	2.87	2.89

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
01/04/2018	0.59	0.72	0.8	1.49	1.62	1.7
30/04/2018	0.65	0.67	0.73	1.55	1.57	1.63
31/05/2018	0.62	0.64	0.69	1.52	1.54	1.59
30/06/2018	0.61	0.71	0.76	1.51	1.61	1.66
Low	0.59	0.64	0.69	1.49	1.54	1.59
Average	0.62	0.69	0.75	1.52	1.59	1.65
High	0.65	0.72	0.8	1.55	1.62	1.7

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
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