



west midlands
police and crime
commissioner



AGENDA ITEM 08

**JOINT AUDIT COMMITTEE
28th SEPTEMBER 2017**

**2017/18 TREASURY MANAGEMENT UPDATE
REPORT**

1. PURPOSE OF REPORT

- 1.1 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management. The report provides a summary of macroeconomic factors and also an update of the PCC's position.
- 1.2 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The PCC and their treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

2. ECONOMIC BACKGROUND

- 2.1 The first half of 2017/18 was dominated by the fallout from the UK's vote to leave the EU which has increased uncertainty and reduced prospects for growth:
 - The credit rating agencies cut the UK sovereign rating because of the heightened uncertainty and the potential for weaker economic prospects;
 - The Bank of England stated that whatever was necessary would be done to support the economy which suggested an interest rate cut to 0.25% which materialised in August 2016 and looks set to remain for 2017/18 and beyond;
 - Consumer Price Index (CPI) inflation continues to be around 2.5% while the Monetary Policy Committee (MPC) target is still 2% but their forecast is a peak of 3.0% in 2018;
 - Unemployment figures are at their lowest levels in living memory;

- The IMF’s global economic outlook is pessimistically for a general slowdown, not helped by the “Brexit”;
- Low growth in EU countries continues;
- Slowing rate of growth in the US and Chinese economies;
- The focus remains on the Bank of England and how much stimulus it will employ to prevent reaction to “Brexit” undermining the economy;
- Although negative interest rates are unlikely, a further rate cut is possible.

3. INTEREST RATE FORECAST

- 3.1 Finance staff meet regularly with the PCC’s treasury advisers, Capita, to review the economic conditions and the PCC’s overall position.
- 3.2 Even though economic circumstances were improving pre “Brexit”, there is now additional uncertainty in all forecasts due to the difficulties of forecasting in such uncharted territory. With this uncertainty in mind, Capita provided the following forecast of interest rates as at 09/08/17:

Forecasts	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
5 year PWLB	1.40	1.50	1.60	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 year PWLB	2.10	2.20	2.30	2.30	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25 year PWLB	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30
50 year PWLB	2.60	2.70	2.70	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10

Note: PWLB is the Public Works Loans Board which is the main body through which the PCC borrows money against capital requirements. The rates shown in the table are for interest only loans over different loan periods, with the principal repayable as a lump sum at the end of the loan period.

- 3.3 Capita’s view is that there may be a further Bank Rate decrease to 0.10% before the first increase not now expected until June 2019.
- 3.4 Long term PWLB borrowing rates (50 years) are expected to steadily increase to reach 3.00% in 2019 due to high levels of gilt issuance and investor concerns over inflation.

4. ANNUAL INVESTMENT STRATEGY

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Joint Audit Committee on the 30th March 2017. The PCC’s Annual Investment Strategy which is included in the TMSS outlines the PCC’s investment priorities as “Security of Capital and Liquidity”.

- 4.2 The best possible return on investments will be pursued but only to the extent that this is consistent with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a proportion of investments short term, and only invest longer with other local authorities and highly credit rated financial institutions, using Capita's suggested creditworthiness approach.
- 4.3 This creditworthiness approach includes credit rating and Credit Default Swap information collected on a daily basis by Capita. A full list of investments held as at 31st August 2017, including credit rating data supplied by Capita, is shown in Appendix 1.
- 4.4 The level of funds invested at 31st August 2017 was £178.5m with maturity dates ranging between 1 day and 3 years. This is so high because the PCC received the year's police pensions top up grant, £90m in July.
- 4.5 The average cumulative interest rate achieved on investments maturing by 31st August 2017 was 0.53% which compares well with benchmarks of 0.17% for 7 day LIBID and 0.31% for 3 month LIBOR over the same period (see Appendix 2).
- 4.6 The PCC's budgeted investment return for 2017/18 is £1.0m and performance for the year to date is in line with the budget expectation. The average monthly investment balance for 2017/18 is expected to be £120.5m.
- 4.7 The investment returns for 2017/18 will lessen in the second half of 2017/18 as rates are lower due to the "Brexit" uncertainty meaning the longer period investments are no longer available (see for example the loans to Rugby BC and Staffordshire Moorlands DC in Appendix 1).

5. PRUDENTIAL INDICATORS

- 5.1 It is a statutory duty for the PCC to determine and keep under review the affordable borrowing limits that were part of the Prudential Indicators agreed in the Treasury Management Strategy Statement approved on 30th March 2017.
- 5.2 The Prudential Indicators were not breached during the first 5 months of 2017/18, as shown in the table below:

Prudential Indicator	2017/18 Indicator	Actual to 31/08/17
Capital Financing Requirement (CFR)	£44.7m	£44.7m
Gross Borrowing	£47.2m	£47.2m
Authorised Limit for External Debt	£100.0m	£47.2m
Operational Boundary for External Debt	£90.0m	£47.2m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%
Maturity Structure of Borrowing Limits	2017/18 Indicator	Actual to 31/08/17
Under 12 Months	25%	0%
12 Months to 2 Years	25%	0%
2 Years to 5 Years	50%	7%
5 Years to 10 Years	75%	17%
10 Years and Above	100%	76%

- 5.3 A £2.0m loan that matured 15/10/2015 was not been replaced. This reduced the average cost of borrowing because the loan was at a historically high rate (11.375%).
- 5.4 All of the PCC's borrowing to date, £47.2m, has been obtained from the PWLB (see Appendix 2). No additional borrowing has been undertaken so far in 2017/18. It is anticipated that additional borrowing will be required in line with the Estates Strategy but this will be kept under review against the actual capital spending in year.

6. RECOMMENDATIONS

- 6.1 The Committee is recommended to note the report which complies with the CIPFA Code of Practice for Treasury Management.
- 6.2 The Committee is advised of the reduced opportunities for longer term loans as described in 4.7 above.

Mark Kenyon
Chief Financial Officer

Neil Chamberlain
Director of Commercial Services

Appendix 1

INVESTMENTS AS AT 31/08/17

Maturity	Borrower	Broker	Principal	Rate	Rating		
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01-Sep-17	Nat West Bank	DIRECT	19,500,000	0.05	BBB+	F2	bbb+ 5
01-Sep-17	Lloyds Bank	DIRECT	10,000,000	0.40	A+	F1 a	5
01-Sep-17	Coventry BS	BUTLERS	5,000,000	0.12	A	F1 a	5
04-Sep-17	Northumberland County Council	CDB	5,000,000	0.45	Local Authority		
29-Sep-17	Barnsley MBC	BUTLERS	5,000,000	0.15	Local Authority		
29-Sep-17	Surrey Heath BC	BUTLERS	1,500,000	0.15	Local Authority		
16-Oct-17	Stockport MBC	BUTLERS	8,000,000	0.20	Local Authority		
25-Oct-17	Plymouth City Council	CDB	5,000,000	0.30	Local Authority		
25-Oct-17	Cambridgeshire County Council	PREBON	10,000,000	0.25	Local Authority		
15-Dec-17	Buckinghamshire County Council	PREBON	2,000,000	0.50	Local Authority		
20-Dec-17	Kingston Upon Hull CC	PREBON	10,000,000	0.35	Local Authority		
21-Dec-17	North Tyneside MBC	BUTLERS	5,000,000	0.49	Local Authority		
25-Jan-18	Reading Borough Council	PREBON	10,000,000	0.38	Local Authority		
25-Jan-18	Eastleigh BC	CDB	5,000,000	0.25	Local Authority		
23-Feb-18	Kingston Upon Hull CC	PREBON	10,000,000	0.39	Local Authority		
27-Feb-18	Dorset County Council	BUTLERS	5,000,000	0.50	Local Authority		
01-Mar-18	Corby BC	PREBON	2,000,000	0.50	Local Authority		
23-Mar-18	Nottingham City Council	PREBON	10,000,000	0.40	Local Authority		
24-Aug-18	Doncaster MBC	PREBON	3,500,000	0.60	Local Authority		
08-Jan-19	Darlington Borough Council	BUTLERS	5,000,000	1.35	Local Authority		
09-Jan-19	Northumberland County Council	PREBON	10,000,000	0.60	Local Authority		
09-Jan-19	Rugby Borough Council	CDB	3,000,000	2.30	Local Authority		
07-May-19	Fife Council	BUTLERS	3,000,000	1.40	Local Authority		
16-Sep-19	Walsall MBC	CDB	10,000,000	0.80	Local Authority		
07-Jan-20	Northumberland County Council	CDB	10,000,000	0.75	Local Authority		
13-Aug-20	Staffordshire Moorlands DC	BUTLERS	1,000,000	2.05	Local Authority		
28-Aug-20	Fife Council	BUTLERS	5,000,000	1.75	Local Authority		
			178,500,000				

Long Term Ratings AAA to DDD the best quality to junk bonds

Short Term Ratings F1+ to F3 the safest to the riskier

Viability Rating aaa to bbb as its title suggests

Support Rating 1 to 5 how well backed by sovereign nation

Local Authorities are assumed to have the same ratings as UK Government

Appendix 2

TREASURY MANAGEMENT REPORT: AUGUST 2017

1. LONG TERM EXTERNAL BORROWING

				JULY		AUGUST	
				£000	%	£000	%
Balance b/fwd.				47,167		47,167	
Loans raised in month				0		0	
Loans repaid in month				0		0	
Balance c/fwd.				<u>47,167</u>		<u>47,167</u>	
Average Fixed Interest Rate					4.56%		4.56%
Average Variable Interest Rate					0.00%		0.00%
Average Overall Interest Rate					4.56%		4.56%
Loan No.	Yrs	Start	Maturity				
480123 F	22	15/10/1997	15/10/2019	550	6.5000%	550	6.5000%
480124 F	26	15/10/1997	15/10/2023	800	6.6250%	800	6.6250%
480125 F	27	15/10/1997	15/10/2024	2,200	6.6250%	2,200	6.6250%
480126 F	28	15/10/1997	15/10/2025	2,000	6.6250%	2,000	6.6250%
480785 F	25	31/03/1998	31/03/2023	580	6.1250%	580	6.1250%
480784 F	25	31/03/1998	31/03/2023	2,420	6.1250%	2,420	6.1250%
485901 F	60	23/09/2001	01/09/2061	2,000	4.8750%	2,000	4.8750%
490558 F	15	14/09/2005	01/09/2020	2,830	4.3500%	2,830	4.3500%
491185 F	45	23/01/2006	23/01/2051	15,000	3.7000%	15,000	3.7000%
491764 F	50	28/06/2006	15/06/2056	5,587	4.4500%	5,587	4.4500%
493148 F	50	26/03/2007	01/03/2057	8,200	4.3500%	8,200	4.3500%
494753 F	50	15/08/2008	15/08/2058	5,000	4.3900%	5,000	4.3900%
				<u>47,167</u>		<u>47,167</u>	
Proportion Variable					0.00%		0.00%
Proportion Fixed					100.00%		100.00%

2. TEMPORARY EXTERNAL BORROWING

	JULY		AUG	
	£000		£000	
Balance b/fwd	0		0	
Loans raised in month	0		0	
Loans repaid in month	0		0	
Balance c/fwd	0		0	
Month end overdrawn balance (Nat-West)	0		0	
Average value of overdrawn balance	0		0	
Number of days overdrawn	0		0	
Avg. Int. Rate (excluding O/D balance)		0.00%		0.00%
Cumulative Interest Rate (year to date)		0.00%		0.00%
Bank Base Rate	TO no mpc	0.25%	TO 03/08/17	0.25%
	FR no mpc	0.25%	FR 04/08/17	0.25%

3. TEMPORARY INVESTMENTS

	JULY		AUG	
	£000		£000	
Balance b/fwd	81,900		185,800	
Investments made in month	176,400		68,600	
Investments realised in month	(72,500)		(75,900)	
Balance c/fwd	185,800		178,500	
Month end cash deposit balance (Nat-West)	791		326	
Average value of deposit balance	289		313	
Number of days in credit	31		31	
Average WMPA Interest Rate for month		0.48%		0.46%
LIBID 7 day rate in month		0.14%		0.11%
LIBOR 3 month rate in month		0.30%		0.31%
Cumulative WMPA Interest Rate		0.55%		0.53%
Cumulative LIBID 7 day rate		0.19%		0.17%
Cumulative LIBOR 3 month rate		0.31%		0.31%
Bank Base Rate	TO no mpc	0.25%	TO 03/08/17	0.25%
	FR no mpc	0.25%	FR 04/08/17	0.25%

	No.	Total £000	Individual Maximum	No.	Total £000	Individual Maximum
Major Banks & Subsidiaries	2	36,300	26,300	2	29,500	19,500
Overseas Institutions	0	0	0	0	0	0
Building Societies	0	0	0	1	5,000	5,000
Other Local Authorities	18	149,500	25,000	20	144,000	25,000
	20	185,800		23	178,500	

