

## Member Briefing

### Treasury Management

Borough of King's Lynn & West Norfolk  
13<sup>th</sup> February 2017  
Presented by Chris Scott  
Head of Public Sector Treasury Advisory Team



## Presentation Structure

### Areas to be covered

- Background
- Economic update
- Investment Management
- Debt Management
  
- Questions

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## Background

## Why are you here?

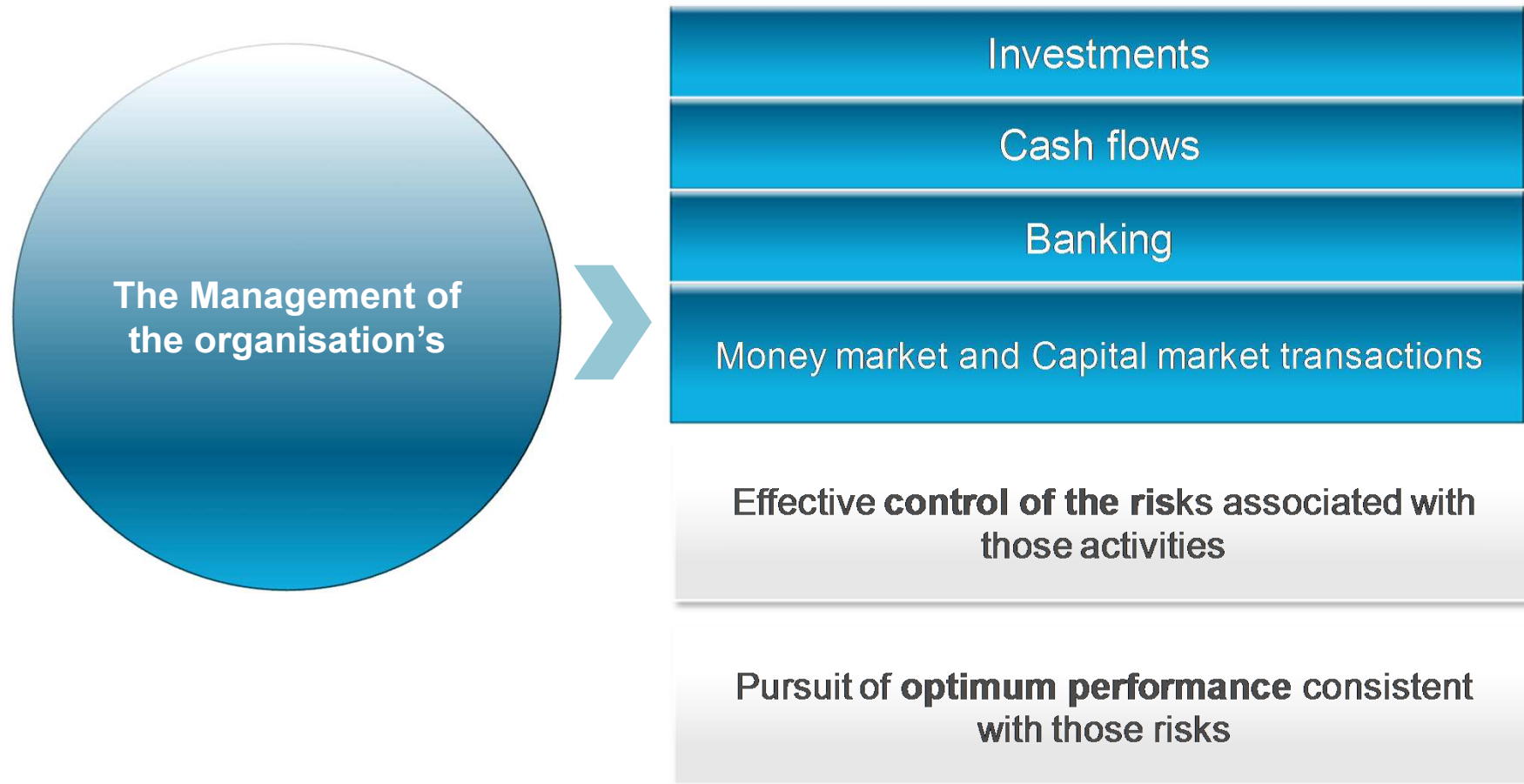
### CIPFA Code of Practice

- “{Members are} responsible for ensuring effective scrutiny of the treasury management strategy and policies”

### Quite a technical/regulatory area, so:

- Officers responsible for drafting/compliance/implementing
- Members responsible for review and scrutiny
- **Detailed knowledge not necessary – Common sense review**

## Definition of Treasury Management (TM) – What does it mean ?



## Council Reporting Responsibilities

- **In advance of year: Treasury Management Strategy**
  - Prudential Indicators (PI's)
  - Minimum Revenue Provision Policy (MRP)
  - TM Strategy
  - Investment Strategy (or more frequently)
- **Draws together:**
  - Capital plans (PI's)
  - How capital is paid for (MRP)
  - How cash is to be organised (Treasury Strategy)
  - Where/how to invest (Investment Strategy)
- **Members approve parameters, officers execute strategy**

## Council Reporting Responsibilities

- **Annual Report - Review of what has happened against the plan**
- **By 30<sup>th</sup> September following:**
  - Annual Report
  - Selected PI's
- **The Annual Treasury Management Report to June Cabinet each year covers this**
- **The actual performance will be within the parameters set, but:**
  - It is unlikely that actual treasury operations will follow the plan completely

## Council Reporting Responsibilities

### Mid Year Report - Keeping members up to date

- **After 30<sup>th</sup> September:**
  - Mid year report
- **Seeks to:**
  - reassure Members that plan is being followed
  - allows officers to amend strategy if necessary
- **Other reporting (not in regulatory controls) but recommended**
- **More regular reporting often provided**



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## Economic Update

## Economic Summary

### Current considerations

- The Bank of England (BoE) cut the bank rate for the first time since 2009 to 0.25% in August 2016 and expanded its Quantitative Easing (QE) programme by £60bn to £435bn
- The November Inflation Report showed the BoE amending its growth forecast to 2.2% for 2016 and increased its 2017 forecast to 1.4%. Inflation forecasts were revised up due to the dramatic fall in sterling, and prices are now forecasted to surpass the BoE's 2% target by mid-2017. Consumer Prices are forecast to be 2.7% in both 2017 and 2018 by the BoE before falling to 2.5% in 2019
- The headline inflation figure, CPI, rose to 1.6% in December on an annual basis, as expected the fall in sterling was the main contributor
- The preliminary estimate for Q4 GDP showed a rise of 0.6%, unchanged from the previous quarter. On the year, growth was 2.2% higher than a year ago
- The UK unemployment rate remained at 4.8% in the three months to November
- Brexit negotiations to begin
- US situation starting to develop – will this create uncertainty?
- Scope for significant political upheaval in Europe during 2017

THE ONLY CERTAINTY IS UNCERTAINTY!

## UK Interest Rate Forecast

Bank Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	1.55%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.55%	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.33%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.33%	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.95%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.72%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.72%	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

## What does this mean for investments and borrowing?

### Investments

- Still some counterparty risk
- Returns to remain depressed
- Minimise liquidity and lock in where appropriate
- Consider other long term options where appropriate
- LA's to concentrate on "policy" investments

### Debt

- Borrowing rates to stay close to historic lows
- Limited scope for upward movement in long term rates at present
- Short term rates to remain unchanged for some time so will present the cheaper options
- "Cost of carry" to remain a feature (will be discussed later)

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## Investment Management

## Why does the Council have investments?

What are the resources that back the investments:

- Provisions – cash put aside for a liability of uncertain timing or amount
- Grants and Contributions – cash received and yet to be spent
- Earmarked reserves – cash put aside for specific purpose
- Balances – general cash not yet allocated
- Working Capital – debtors / creditors

Under / over borrowed position will reduce / increase cash balances (and therefore investments)

## Current Position

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF BNP Paribas	3,000,000	0.38%		MMF	AAA	0.000%
MMF LGIM	3,000,000	0.32%		MMF	AAA	0.000%
MMF HSBC	2,000,000	0.28%		MMF	AAA	0.000%
MMF Federated Investors (UK)	600,000	0.26%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc	2,500,000	1.33%	22/05/2015	22/05/2017	BBB+	0.058%
Qatar National Bank	3,000,000	1.05%	01/06/2016	01/06/2017	A+	0.028%
Santander UK Plc	3,000,000	1.15%		Call180	A	0.033%
Fife Council	3,000,000	0.95%	12/11/2015	13/11/2017	AA	0.006%
Cheshire West & Chester Council	2,000,000	0.99%	20/01/2016	19/01/2018	AA	0.008%
Bury Metropolitan Borough Council	3,000,000	1.00%	21/04/2016	23/04/2018	AA	0.012%
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>		
<b>Total Investments</b>	<b>£25,100,000</b>	<b>0.82%</b>				<b>0.016%</b>

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## Comparison

Name	Borough Council of Kings Lynn & West Norfolk	Breckland Council	Cambridge City Council	Norfolk County Council	Norwich City Council	Norfolk PCC
WARoR	0.82%	0.39%	0.58%	1.05%	0.72%	0.74%
WA Risk	<b>2.036</b>	<b>2.697</b>	<b>3.017</b>	<b>5.000</b>	<b>5.696</b>	<b>4.651</b>
WAM	179	33	133	226	88	82
WA Tot. Time	371	85	263	415	248	264
Performance	Above	Inline	Inline	Above	Inline	Inline

Name	Suffolk PCC	South Norfolk Council	St Edmundsbury Borough Council	Suffolk Coastal District Council	Waveney District Council
WARoR	0.54%	0.79%	0.72%	0.60%	0.56%
WA Risk	<b>4.845</b>	<b>4.465</b>	<b>5.393</b>	<b>5.000</b>	<b>5.000</b>
WAM	37	72	140	79	93
WA Tot. Time	99	134	265	193	188
Performance	Inline	Above	Inline	Inline	Below



## Current Investment Position

- Current investments as at the end of December 2016 c.£25.1m
- Healthy return of 0.82% vs. 0.25% bank rate
- Low risk approach taken
- Diversified portfolio with a weighted average maturity of 179 days
  - 54% exposure to fixed term deposits
  - 12% exposure to a 180 day call account and
  - 35% exposure to four AAA MMF's

## Managing Risk – Security v Liquidity v Yield (SLY)

In order of importance:

Security

- **Likelihood of getting investment back on terms invested**
  - Strong = low return
  - Weak = high return

Liquidity

- **Length of investment**
  - Return linked to
    - status of counterparty
    - Interest rate outlook

Yield

- **Combination of the above**

## Investment Decision Information

### Market Indicators

- Credit Ratings
- Credit Default Swaps (CDS)
- Equities
- Bond “spreads”

All tradeable instruments in their own right

### Capita Asset Services Analysis

- Direct affect of counterparty rating changes
- Weekly Investment Monitor
  - Economic outlook
  - Rating Changes
  - Market indicators / intelligence

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## Debt Management

## Why does the Council borrow?

- Borrowing is there to provide funding for long term capital investment
- The Capital Financing Requirement (CFR) indicates the theoretical need to borrow
- CFR calculated from the Balance Sheet
- Strategic borrowing considerations:
  - Level of debt?
  - Type of debt?
  - Prudence, affordability and sustainability
- Debt strategy will impact on level of investments

## Current CFR and Debt Position

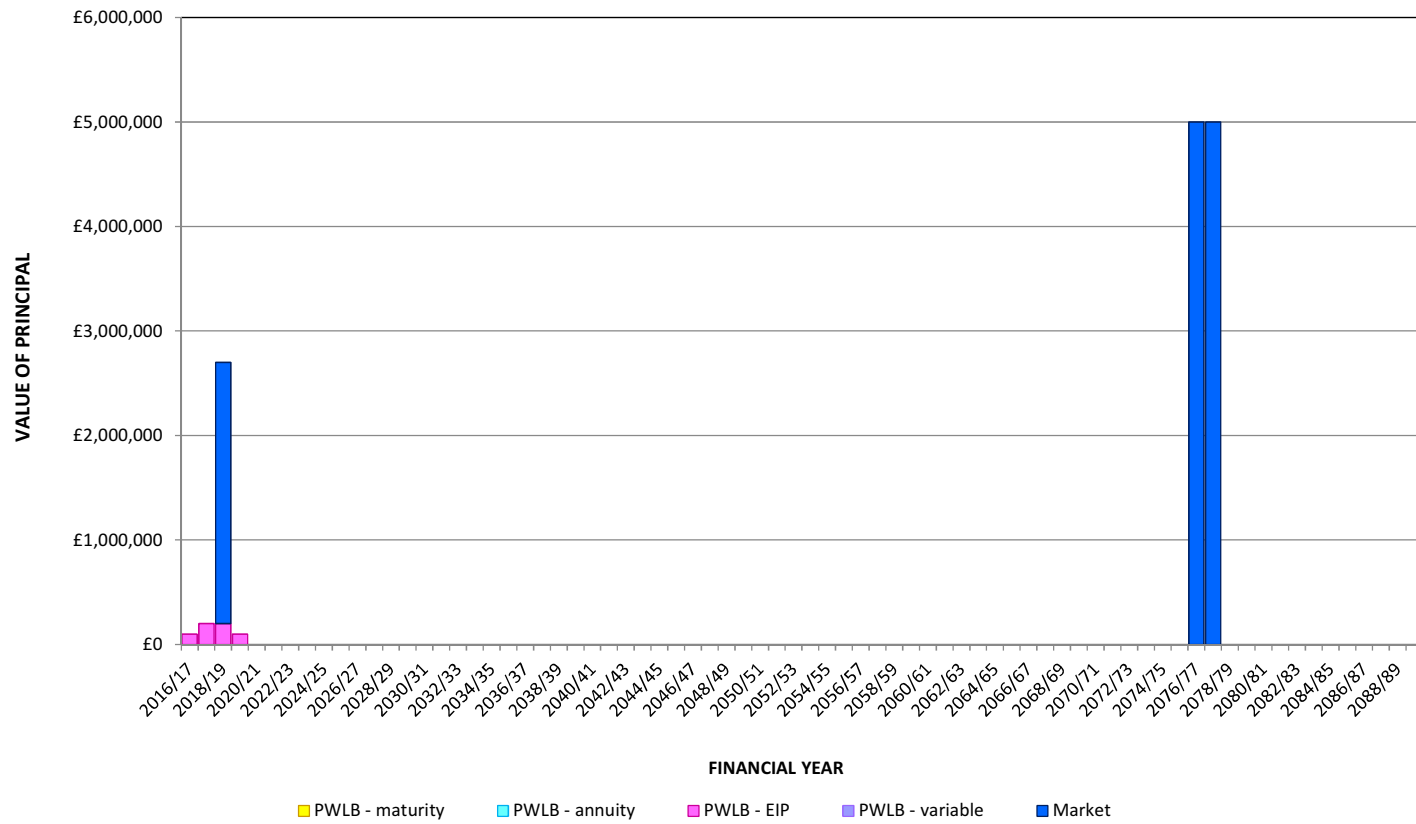
- CFR at 31/3/16 c. £19.8m (Borrowing need per balance sheet)
- Actual debt as at 31/3/16 £17.4m which consists of three market loans and a EIP loan from the PWLB
- Therefore a small potential borrowing requirement of £2m
  - Cash available at 31/3/16 c. £29.5m as per the balance sheet
  - What are the cash balance projections going forward and will it be available to support the CFR?
- CFR increasing over the next few years so is this position sustainable?

## Cost of carry

Borrowing generally delayed by LA's due to the "cost of carry"

- Longer term borrowing rates are significantly higher than investment rates
- The cost of carry represents the difference between the two
- Long term borrowing of 2.60% versus investment returns of 0.75% at best (1 year deposit)
- 1.85% cost on £5m = £92,500 per annum
- Most Councils have delayed activity due to this large short term cost
- Investment counterparty risk has also been minimised
  
- What are the risks to being in this position ?

## Debt Maturity Profile





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Questions ?

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