AGENDA ITEM 7

BLACKBURN with DARWEN BOROUGH COUNCIL

TO:	Audit Committee
FROM:	Director of Finance
DATE:	24th September 2013

TITLE OF BRIEFING PAPER: Treasury Management Report – June 2013 to August 2013

1. PURPOSE

1.1 To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

2.1 Members are recommended to note the position with regard to Treasury Management for the three months from June to August 2013.

3. BACKGROUND

3.1 The Council has previously adopted CIPFA's latest *Code of Practice on Treasury Management in the Public Services* and associated Guidance Notes. The Treasury Management Strategy for 2013/14, approved at Finance Council on 4th March, complies with both the CIPFA Code and with current CLG guidance on Investments (issued in March 2010).The CIPFA Code, Investment Guidance, issued by the Department for Communities and Local Government (CLG) and Audit & Assurance reviews of Treasury Management activities, all recommend an enhanced role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the three months, borrowing and lending transactions undertaken and the Council's overall debt position. It also reports on the position against the Prudential Indicators established by the Council.

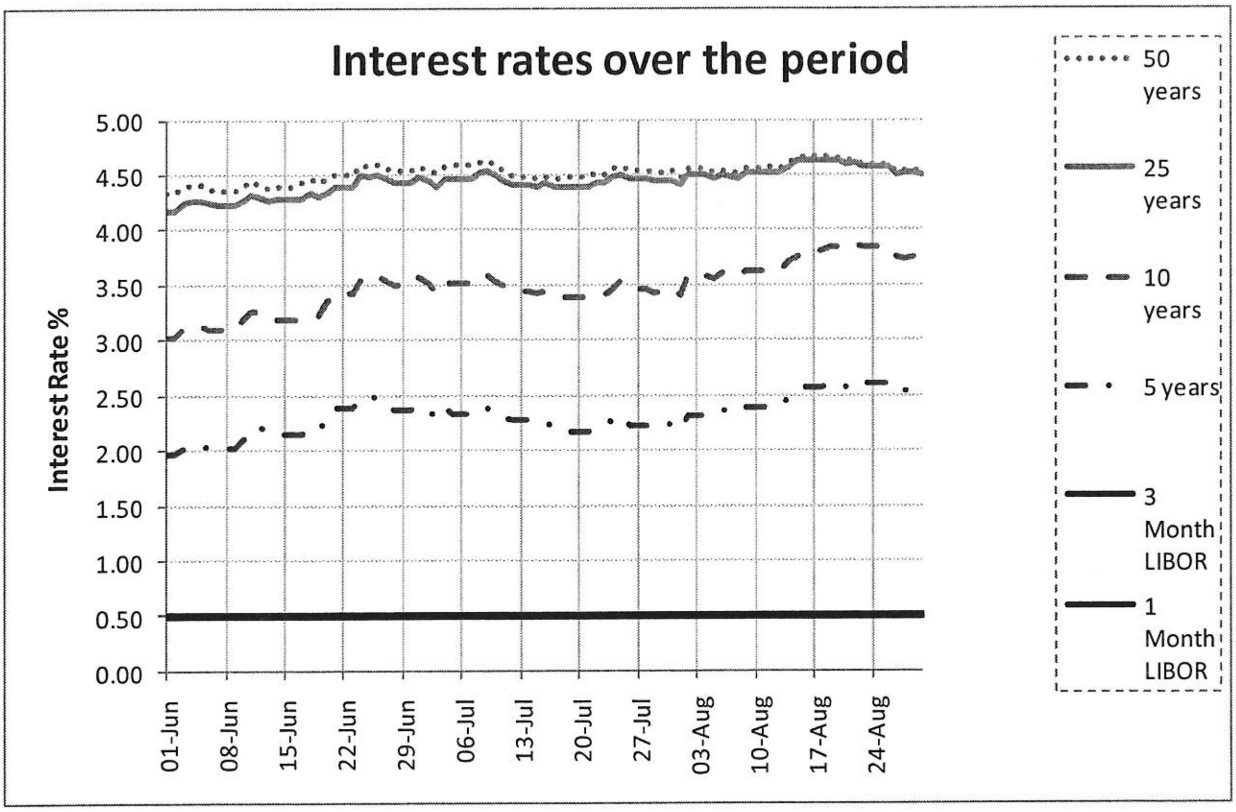
4. RATIONALE

4.1 Audit Committee is responsible for scrutinising the Treasury Management function.

5. KEY ISSUES

5.1 Interest rates

5.1.1 The Bank of England Bank Rate held at 0.5% over the period. LIBOR and PWLB rates are set out below.



5.1.2 The interest rates for durations of less than a year are represented by LIBOR (London Interbank Offer Rate), a standard measure of current market rates. These rates remained flat over the period, consolidating the position begun in the autumn. The rates actually available to local authorities for investing funds, in the limited range of counterparties open to the Council, remained very low, reflecting recent market conditions. If we had needed any short term borrowing, the cost of that has also remained low.

5.1.3 In order to show the potential costs of borrowing to fund the Council's capital programme, the rates shown for 5 years and beyond are PWLB Lending Rates for straightforward "Maturity" Loans (interest payable for fixed rate borrowing by councils over fixed periods). These are largely driven by the demand from investors for Government borrowing ("gilts") and moved up and down across the period in response to increases and decreases in on-going concerns over the Eurozone and changes in demand for UK Government debt. Rates dipped around the financial year end but started to creep upwards in May. Latest projections are for a continuing slow upward trend, interspersed with some volatility, over the next two years.

5.2 Borrowing and lending movements

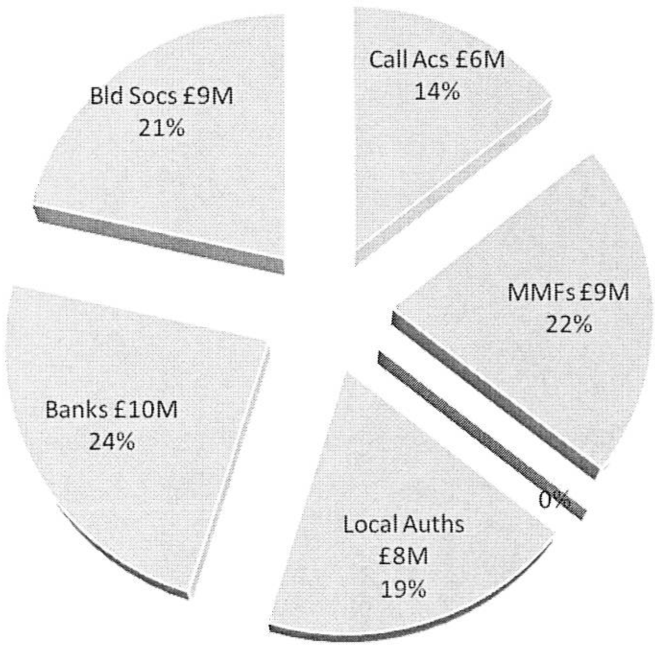
5.2.1 Following the take up of £18M borrowing in 12/13, high cash balances have meant that no borrowing has been taken so far in 13/14.

5.2.2 We are still under-borrowed against our Capital Financing Requirement, effectively using "internal borrowing" from available cash balances to cover outstanding capital borrowing requirements. This reduces the risk of funds invested being lost and any interest "lost" through the cost of borrowing being higher than the return to be made from investments.

5.2.3 New investments were largely of a short duration, mainly in either "call accounts" or "money market funds" (with daily access to funds). The interest earned on these was in the range 0.32% to 0.70%.The Debt Management Office – an arm of the Government – was used to place funds, at 0.25%, for limited periods when there were no other options available within our lending limits. In addition, the following loans were made during the quarter:

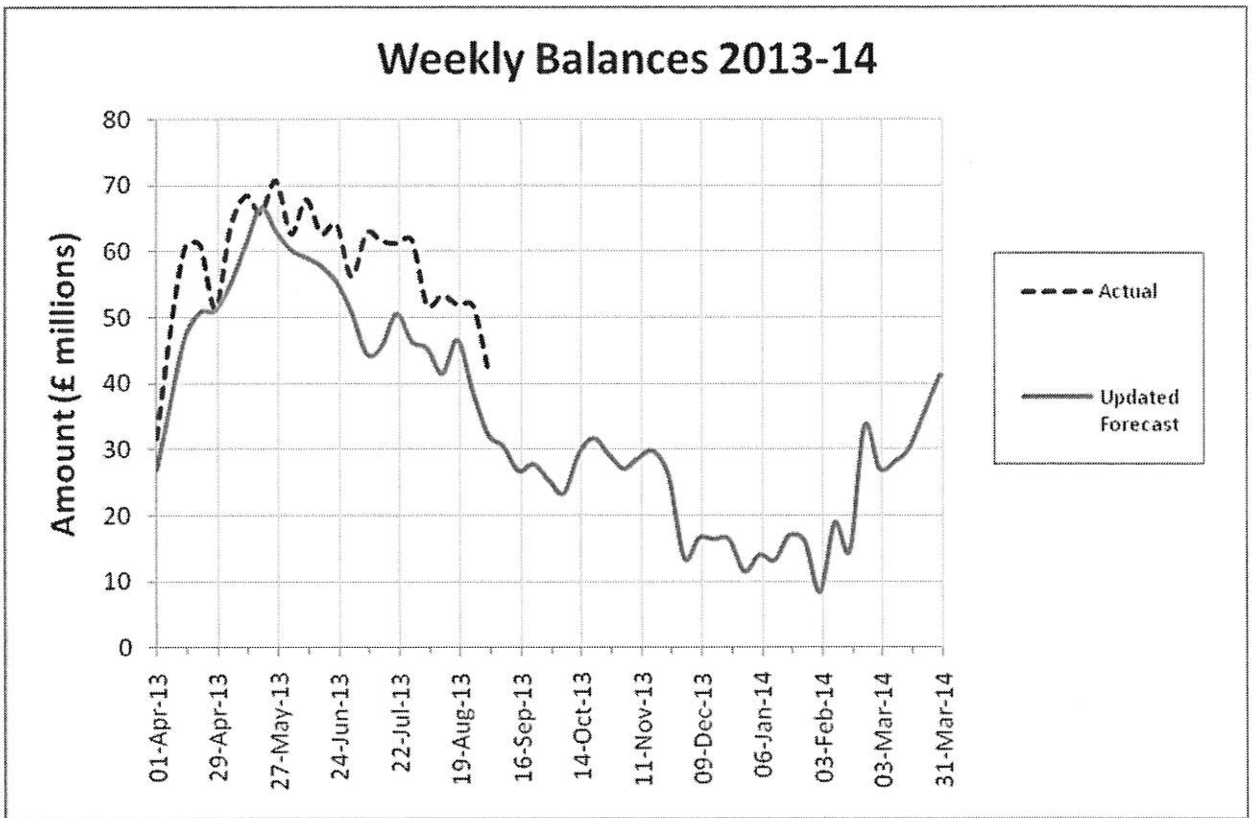
AMOUNT	COUNTERPARTY	FROM	RATE	TO
£1,000,000	NATIONAL COUNTIES BUILDING SOCIETY	13-Jun-13	0.45%	13-Sep-13
£1,000,000	BARCLAYS	17-Jun-13	0.45%	17-Sep-13
£3,000,000	NATIONWIDE BUILDING SOCIETY	28-Jun-13	0.44%	30-Sep-13
£2,000,000	BARCLAYS	28-Jun-13	0.45%	30-Sep-13
£1,000,000	FURNESS BUILDING SOCIETY	04-Jul-13	0.52%	06-Jan-14
£1,000,000	YORKSHIRE BUILDING SOCIETY	04-Jul-13	0.40%	04-Oct-13
£1,000,000	LEEDS BUILDING SOCIETY	11-Jul-13	0.35%	14-Oct-13
£1,000,000	COVENTRY BUILDING SOCIETY	23-Jul-13	0.43%	23-Oct-13
£4,000,000	PLYMOUTH CITY COUNCIL	25-Jul-13	0.27%	24-Dec-13
£2,000,000	WEST DUNBARTONSHIRE COUNCIL	25-Jul-13	0.26%	28-Aug-13
£1,000,000	CUMBERLAND BUILDING SOCIETY	26-Jul-13	0.42%	25-Oct-13
£3,000,000	SANTANDER UK	02-Aug-13	0.43%	02-Oct-13
£4,000,000	WAKEFIELD MET DISTRICT COUNCIL	29-Aug-13	0.30%	30-Sep-13

5.2.4 The chart below shows a breakdown of the £42 M invested at the end of August.



5.3 Amounts available for investment

5.3.1 In 2013/14 the amounts available for investments began at somewhat over £30 million, and then rose sharply to around £60 million by the end of April as grant funds for the new year came in. The effect of Government grant receipts on cash levels is more pronounced this year as a result of significant front loading of main CLG payments into April and May, and net payments going back to CLG across most of the rest of the year, until further payments are made to authorities towards the end of the financial year. The Original Forecast for the year has been modified to reflect this and an Updated Forecast is now shown on the graph below. (The timing of the take up of borrowing is also likely to change but this has not been reflected in the Updated Forecast). There will be a tendency for balances to fall away sharply across the late summer and into Autumn unless new borrowing is taken.



5.4 The Council's debt

5.4.1 The Council took no temporary (or short term) borrowing across the period. The key elements of our long term borrowing are:

a) An unchanged £23.5 million borrowed from the money markets, largely in the form of "LOBO" debt, which is borrowed at competitive interest rates at the time of borrowing, but can carry some risks in terms of interest rate increases or early redemption – the overall average rate paid on this debt is c. 5.1%.

b) Funds borrowed from the PWLB – after borrowing taken late in 2012-13 took overall PWLB debt to approaching £117 million, this then fell with year-end repayments on EIP (Equal Instalment of Principal) loans to around £116 million. This is all borrowed at a range of fixed rates, at an overall average rate of around 4.5%.

c) Circa £19 million debt still managed by Lancashire County Council following Local Government Reorganisation, which is repaid in quarterly instalments across the year – in 2012/13, the average rate paid on this debt was c. 2.4%.

d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use the new BSF School buildings, financed through PFI arrangements. These accounting adjustments are made to ensure that the Council's effective control over and use of these assets are shown "on balance sheet", with corresponding adjustments to the debt. The accounting changes do not add to the costs faced by the Council Tax payer, which are already paid for through the payments made to the PFI contractor (which are, in turn, largely offset by PFI grant funding from the Government).

Analysis of debt outstanding	End of May 2013		End of August 2013	
	£' 000	£ ' 000	£' 000	£ ' 000
TEMPORARY DEBT				
Less than 3 months	0		0	
Greater than 3 months	0		0	
		0		0
LONGER TERM DEBT				
Bonds	23,503		23,503	
Mortgages	17		17	
PWLB	115,965		115,965	
Stock & Annuities	404		404	
		139,889		139,889
Lancs County Council transferred debt		18,828		18,640
Recognition of Debt re PFI Arrangements		74,529		74,528
TOTAL DEBT		233,246		233,057
Less: Temporary Lending		62,700		42,000
		170,546		191,057

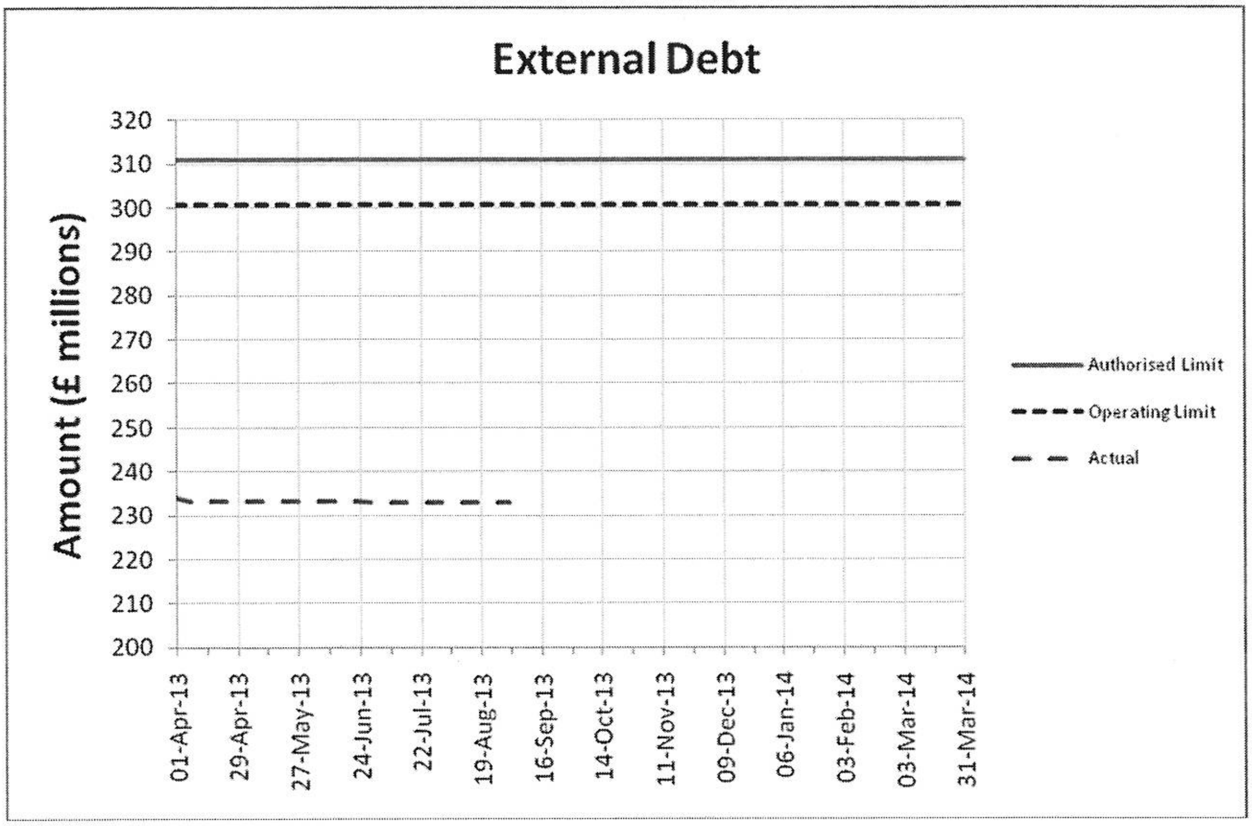
Excluding the LCC and PFI components, net debt rose from £77.2 million to £97.9 million (£139.9 million long term debt less £42.0 million temporary lending).

5.5 Performance against prudential and treasury indicators

5.5.1 Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions, to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the Indicators also deal therefore with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

5.5.2 Appendix 1 shows the current position against the Prudential Indicators set by the Council for the current year. None of the key Indicators have been breached.

5.5.3 Our borrowing position was at £233 million against our Authorised (£300.8 million) and Operational (£311.8 million) Borrowing Limits – this is the most significant Prudential Indicator.

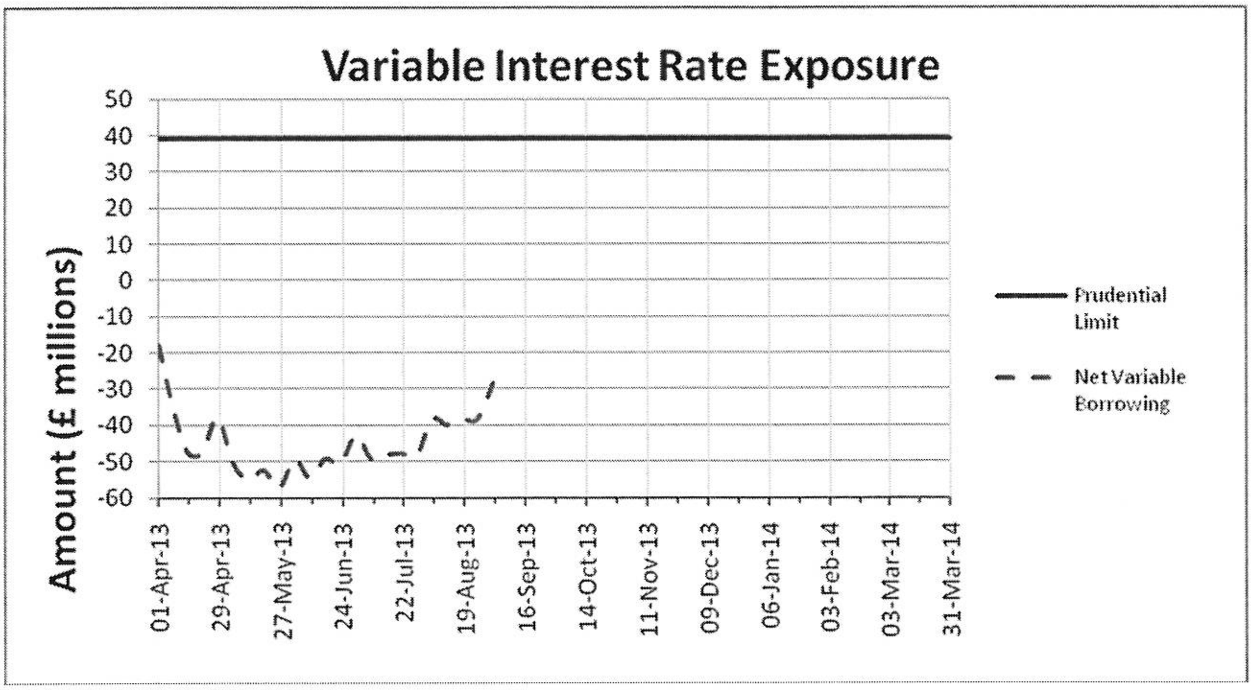


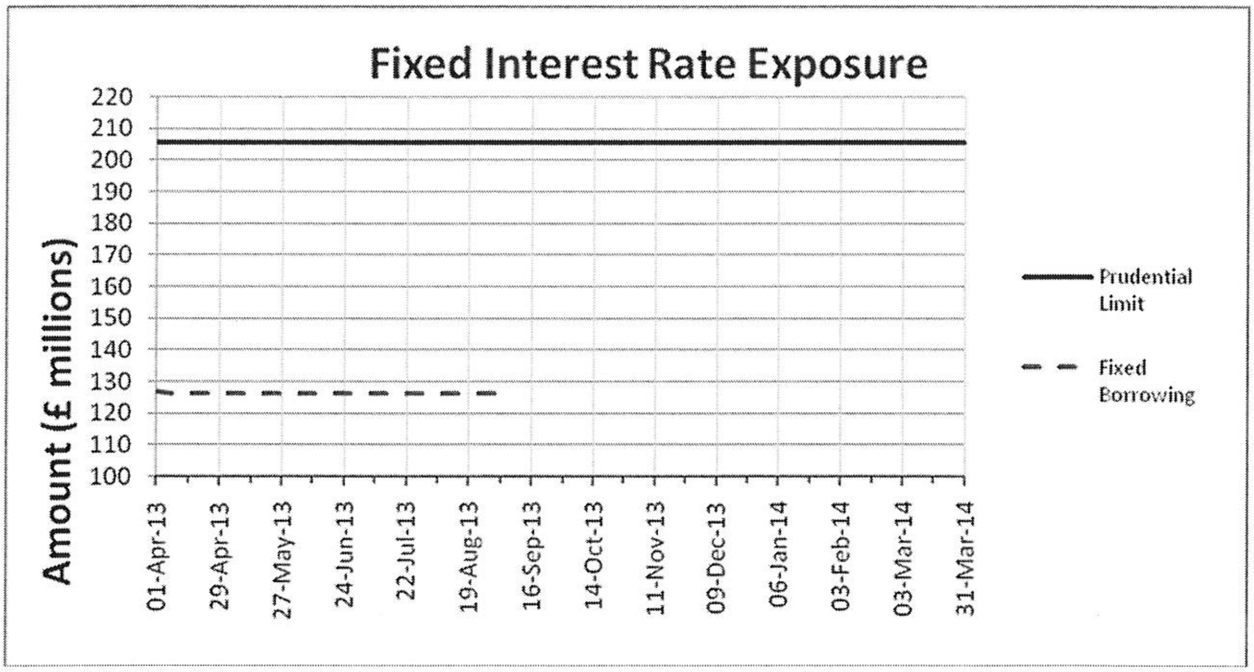
The above "actual borrowing" includes the impact on the balance sheet of the recognition of assets brought into use that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the parallel "indebtedness" arising from financing the cost of them, but do not add to the "bottom line" met by the Council Tax payer.

5.5.4 Interest risk exposures

Our Variable Interest Rate Exposure ended the period at around - £29 million, and remained within the limit - set at +£39 million – across the period. This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget, by tracking together the variable parts of the debt portfolio and the investment portfolio.

Our Fixed Interest Rate Exposure is £126.4 million, against a Limit of £205 million. This indicator is effectively the mirror image of the previous indicator, tracking the Council's position in terms of how much of the debt will not vary as interest rates move. The historically low interest rates prevailing over recent years have led the Council to hold most of its debt in this way.





6. POLICY IMPLICATIONS

6.1 The policy implications from this report are contained within the Council's overall Budget Strategy.

7. FINANCIAL IMPLICATIONS

7.1 The financial implications arising from Treasury Management activities are reflected in the Council's standard budget monitoring framework.

8. LEGAL IMPLICATIONS

8.1 The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

9. RESOURCE IMPLICATIONS

9.1 None

10. EQUALITY IMPLICATIONS

10.1 The decisions to be taken do not change policy and do not require any further consideration in respect of equality issues.

11. CONSULTATIONS

11.1 None

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DATE:	9th September 2013
BACKGROUND PAPERS:	CIPFA Code of Practice and Guidance Notes on Treasury Management in the Public Services (2011)