TO:	Audit Committee
FROM:	Director of Finance
DATE:	23rd September 2014

TITLE OF BRIEFING PAPER:	**Treasury Management Report – June to August 2014**

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 period June to August 2014.

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 and the strategy for 2014/15, approved at Finance Council on 3th March 2014, comply 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.

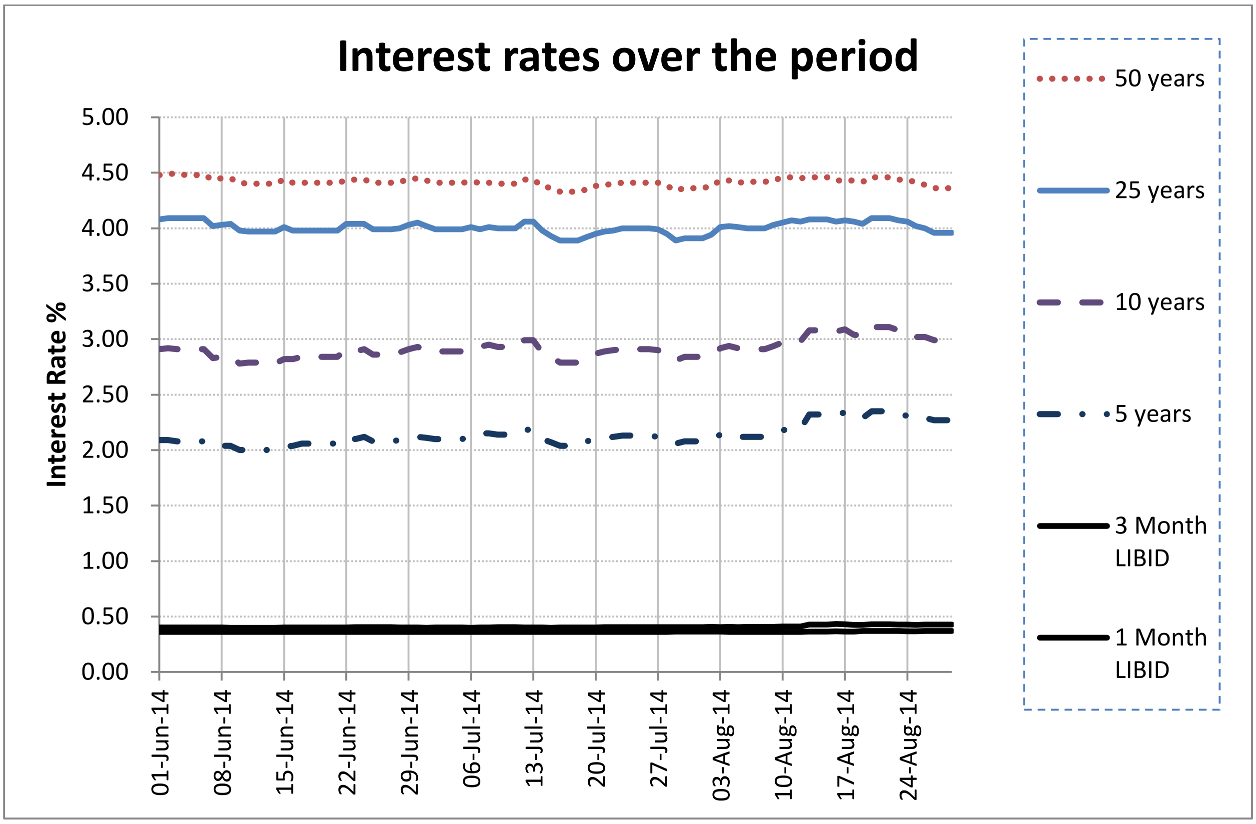
4. RATIONALE

4.1 Treasury Management Group 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. It has been at this level since March 2009. LIBOR and PWLB rates are set out below.



5.1.2 The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a standard measure of current market rates. This report had previously used the LIBOR (Offer Rate) but it is now considered that the LIBID (currently 0.125% lower) represents a better benchmark for investment returns.

5.1.3 The rates actually available to the authority for investing funds in the limited range of approved counterparties remained very low, mainly ranging from 0.30% to 0.50%.

5.1.4 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"). These remained stable over the period.

5.2 Borrowing and lending movements

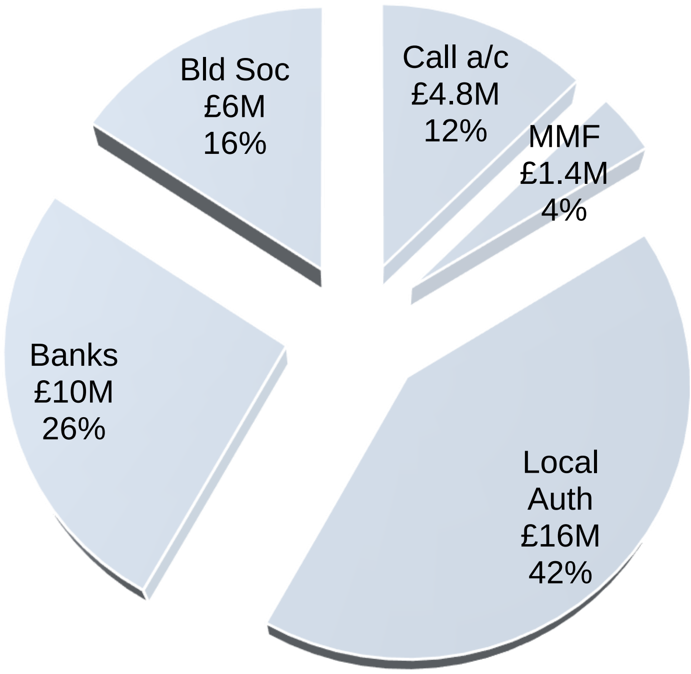
5.2.1 No borrowing has been taken so far in 2014/15. It is unlikely that any borrowing will be required until much later in the financial year, if at all, as the Council currently has high cash balances.

5.2.2 We are under-borrowed against our Capital Financing Requirement, effectively using “internal borrowing” from available cash balances to cover outstanding capital borrowing requirements. A positive side-effect of this is a reduction in the risks of funds invested being lost and of interest being foregone 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 0.25% to 0.60%. 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:

Start Date	End Date	Counterparty	Amount (£)	Rate (%)
19/06/2014	19/09/2014	Guildford Borough Council	3,000,000	0.270
10/06/2014	10/09/2014	Dumfries and Galloway Council	3,000,000	0.270
04/07/2014	19/12/2014	Plymouth City Council	2,000,000	0.300
23/06/2014	23/09/2014	Santander UK	3,000,000	0.530
27/06/2014	29/09/2014	Nationwide Building Society	3,000,000	0.490
27/06/2014	28/07/2014	Mid Suffolk District Council	1,000,000	0.290
30/06/2014	30/09/2014	Yorkshire Building Society	1,000,000	0.400
28/07/2014	29/09/2014	Thurrock Borough Council	4,000,000	0.300
25/07/2014	27/10/2014	Birmingham City Council	2,000,000	0.450
28/07/2014	28/11/2014	Barclays Bank plc	3,000,000	0.530
28/08/2014	03/03/2015	Aberdeen City Council	3,000,000	0.490
29/08/2014	28/11/2014	Leeds Building Society	1,000,000	0.400
29/08/2014	28/11/2014	Coventry Building Society	1,000,000	0.450

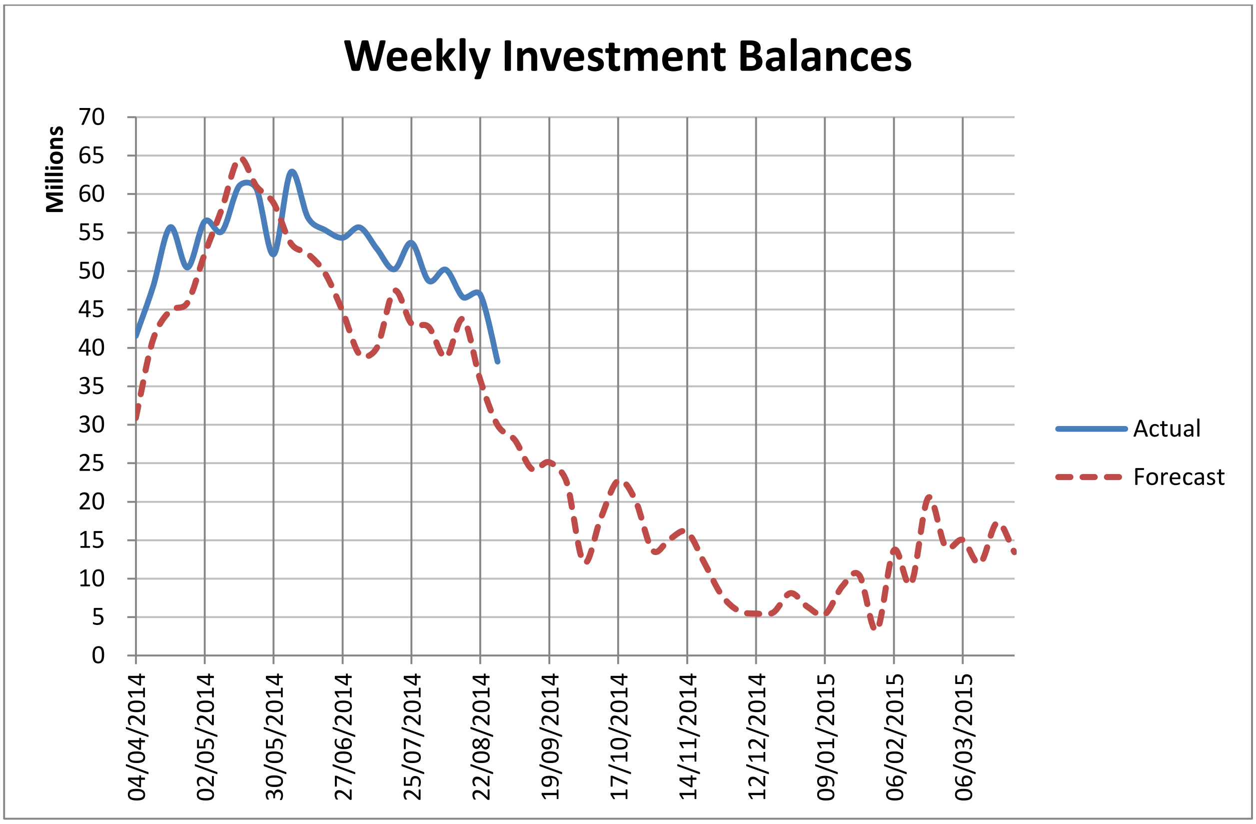
5.2.4 The chart below shows a breakdown of the £38.2M invested at the end of August 2014.



5.3 Amounts available for investment

5.3.1 For 2014/15 Government grant receipts are again front-loaded, which has resulted in large cash balances, up to a maximum of £63M in June.

5.3.2 Balances are expected to fall steadily later in the year before increasing again in the final quarter when the remainder of the main grant funding is received.



5.4 The Council's debt

5.4.1 The Council took no temporary (or short term) borrowing across the period.

5.4.2 The key elements of our long term borrowing are:

a) An unchanged £23.5M 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 5.2%.

b) £119.4M borrowed from the PWLB at a range of fixed rates, at an overall average rate of around 4.4%.

c) Approximately £18.1M debt still managed by Lancashire County Council following Local Government Reorganisation, which is repaid in quarterly instalments across the year – in 2013/14, the average rate was around 2.5%.

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

	Start of June 2014		End of Aug 2014	
	£' 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	119,403		119,403	
Stock & Annuities	404		404	
		143,327		143,327
Lancs County Council transferred debt		18,075		18,075
Recognition of Debt re PFI Arrangements		73,031		73,031
TOTAL DEBT		234,433		234,433
Less: Temporary Lending		(52,150)		(38,200)
		182,283		196,233

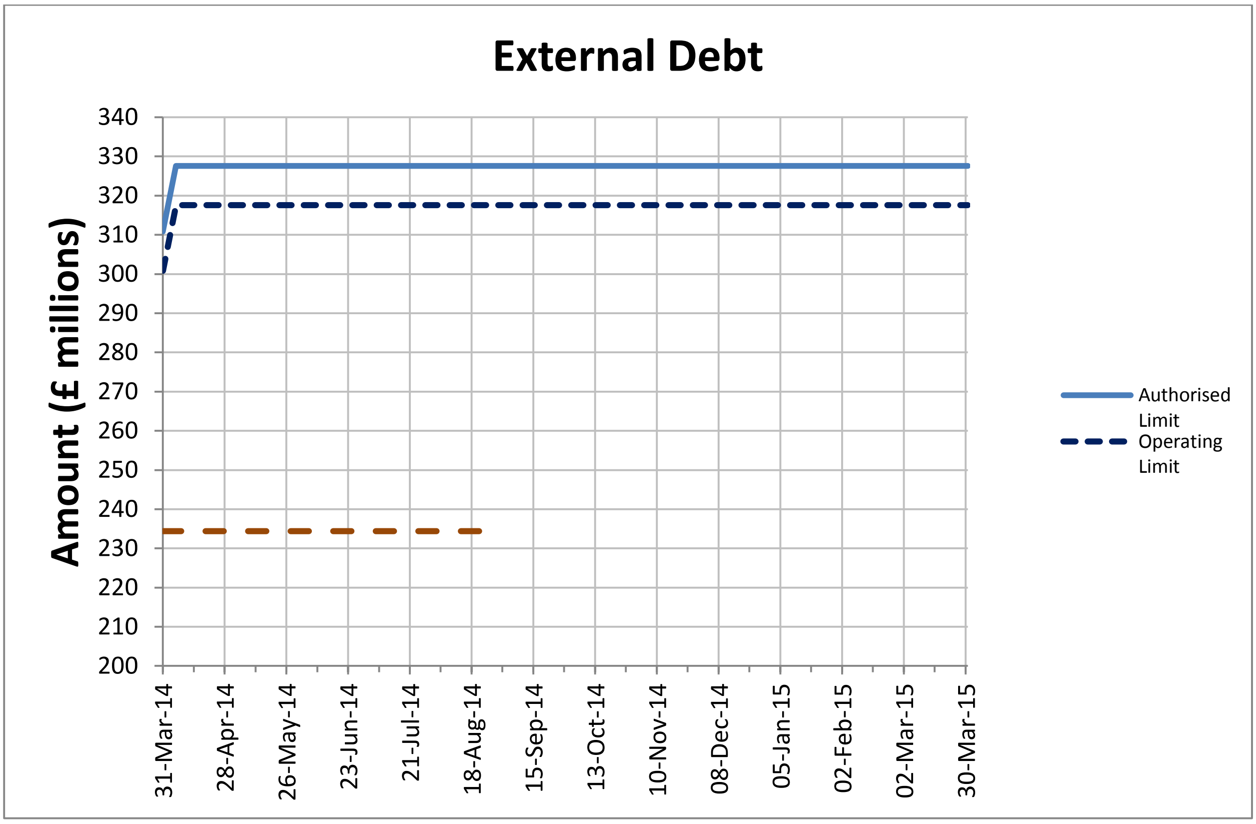
The only change in the period was a decrease in temporary lendings of £13.95M, which resulted in a corresponding decrease in the net debt.

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 and 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 £234.4M against our Authorised and Operational Borrowing Limits (£327.6 million and £317.6 million respectively) – this is the most significant Prudential Indicator.

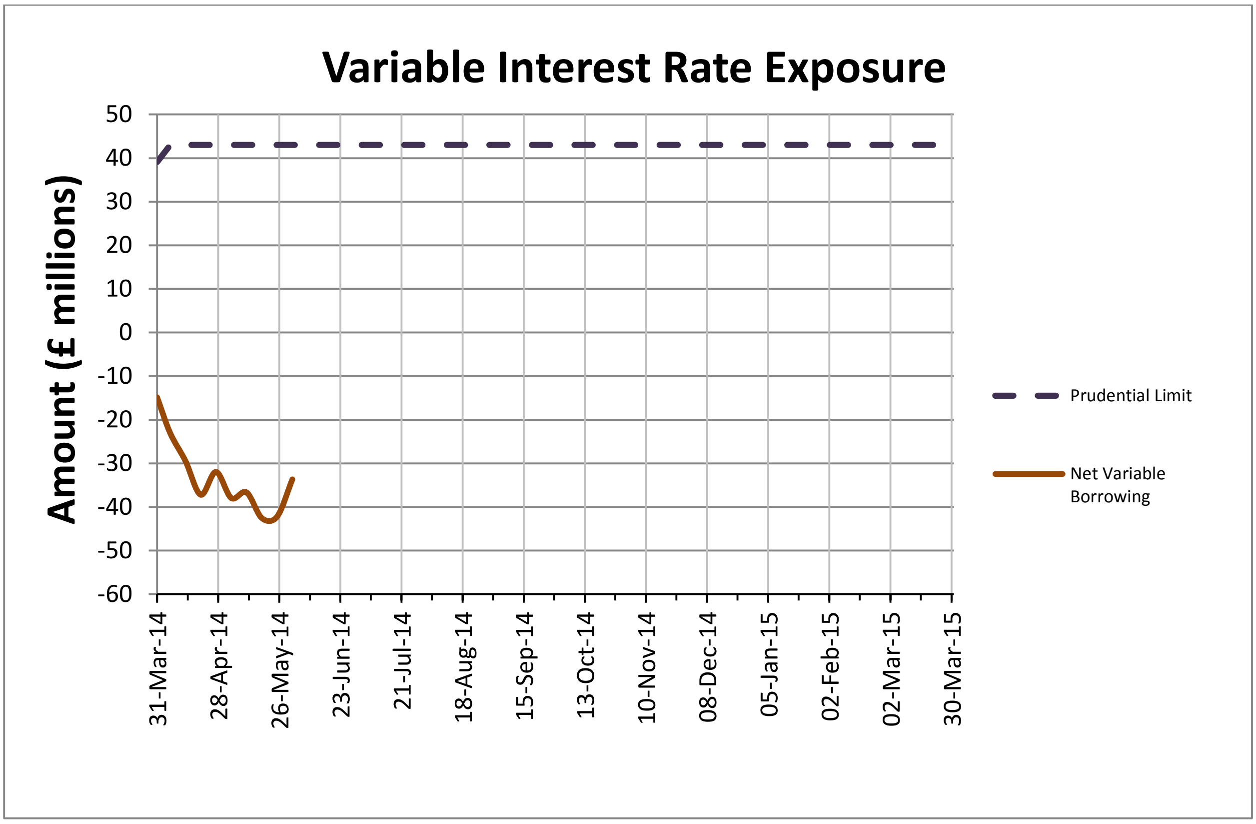


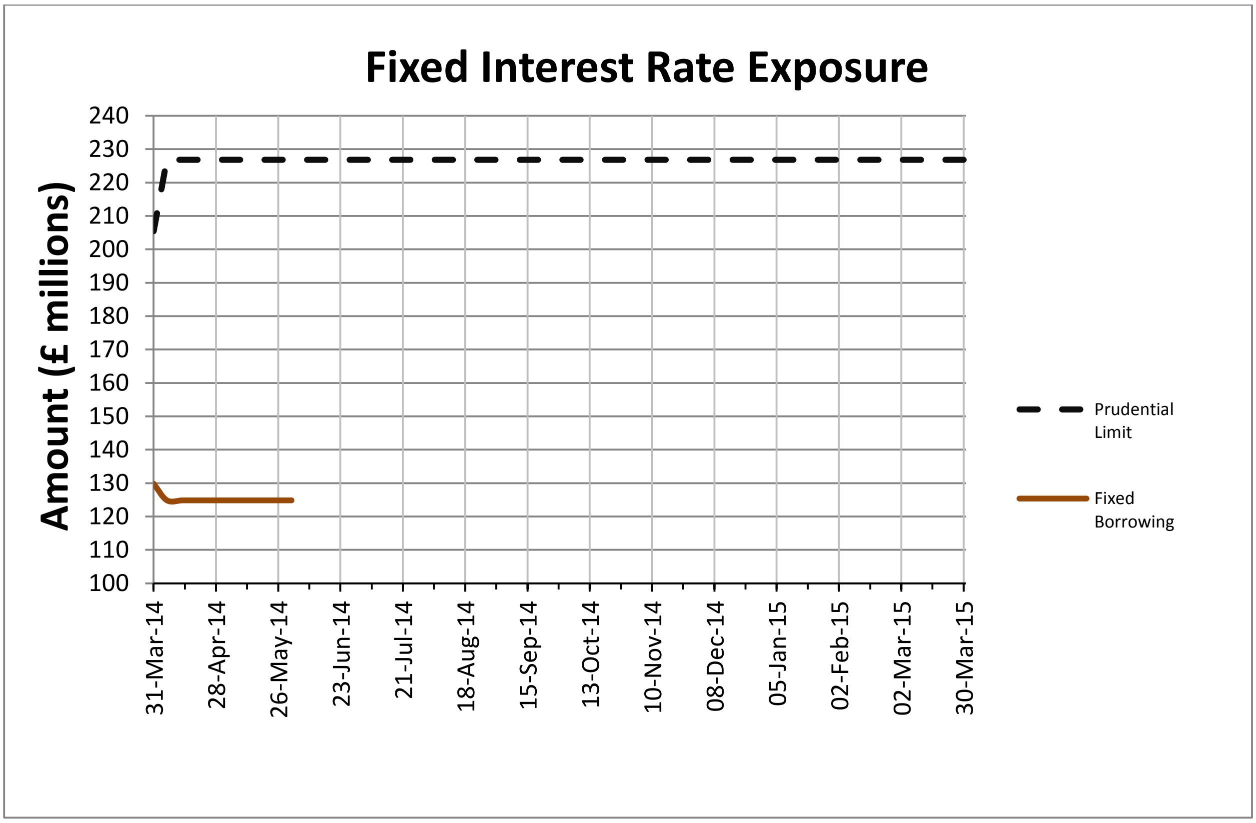
5.5.4 The above "actual borrowing" includes the impact on the balance sheet of the recognition of assets brought into use that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the parallel "indebtedness" arising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

5.6 <u>Interest risk exposures</u>

5.6.1 Our Variable Interest Rate Exposure ended the period at around -£19.7M, and remained within the limit set at +£43M for 2014/15 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. It tracks together the variable parts of the debt portfolio and the investment portfolio.

5.6.2 Our Fixed Interest Rate Exposure is £124.8M, against a Limit of £226.8M for 2014/15. 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:	5th September 2014
BACKGROUND PAPERS:	CIPFA Code of Practice and Guidance Notes on Treasury Management in the Public Services (2011)