BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and IT
DATE:	20th September 2016

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2016/17

Based on monitoring information for the quarter 1st June – 31st August 2016

1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

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 2016/17, approved at Finance Council on 29th February 2016, complies with both the CIPFA Code and with current Department for Communities and Local Government (CLG) guidance on investments (issued March 2010). The CIPFA Code, Investment Guidance issued by 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 month period and the borrowing and lending transactions undertaken together with the Council's overall debt position. It also reports on the position against the Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper.

4. KEY ISSUES

4.1 Interest Rates

The Bank of England Bank Rate was reduced from 0.5% to 0.25% on 4th August 2016. It had been at 0.5% since March 2009. This reflected the Bank of England Monetary Policy Committee's desire to stimulate the economy after the "Brexit" vote.

4.2 Investment Rates

Investment returns are on a downward track, with the Council's Money Market Fund (MMF) rates peaking at 0.47% then falling to around 0.35%, and the rates paid on bank instant access accounts falling from a range of 0.40% to 0.25% down to 0.15% and 0.10% after the Bank Rate cut.

The Council's average return over the 3 months was around 0.40%, but this will fall over the coming months.

For comparison, benchmark the LIBID (London Interbank Bid Rate) also fell sharply. For 1 month's lending the average was around 0.30% over the period with the level at 0.15% by period end, and for 3 month's lending the average was around 0.37% with and the level down to 0.26% by period end.

4.3 Borrowing Rates

The cost of long term borrowing through the PWLB (Public Works Loan Board) is linked to Central Government's own borrowing costs. PWLB rates fell in anticipation of, and following, the Bank Rate cut and hit new historically low levels.

Average PWLB borrowing rates also fell for shorter durations - e.g. 5 year loans from 1.7% to around 1% and for longer durations - e.g. 20 to 50 year loans, from around 3% to around 2%.

Short term borrowing rates - based on loans from other councils – also fell as investment rates dipped. By the end of the period short term funding (for 3 months) would be typically available at below 0.25%, and even 6 month and 1 year loans would cost between 0.30% and 0.35%.

4.4 Borrowing and Lending in the 3 month period

The Council took no new long term borrowing in the period, while the Council's CFR (Capital Financing Requirement) i.e the accumulated need to borrow to finance capital spend not covered by any other resources, less the MRP (Minimum Revenue Provision) capital repayment already made – has continued to build up.

The level of "under-borrowing" against the CFR has grown – long term borrowing was more than £75M below the CFR at the start of 2016/17. This is because we have effectively used "internal borrowing" from available revenue cash balances to part cover our outstanding "capital borrowing" requirements. Two benefits of this are:
(a) the saving from interest on long term borrowing **not** taken exceeds the interest that would have been earned on investments, and
(b) there is a lower risk of funds invested being lost.

Over the period £16.5M of temporary (or short term) loans were repaid and £24.5M of new loans were taken out (detailed below). This ensured the Council had sufficient funds, particularly at the "pinch points" at the end of each month, and was able to address future borrowing needs.

Start Date	End Date	Counterparty	Amount	Rate
01-Jun-16	06-Sep-16	Dacorum Borough Council	£2,500,000	0.42%
07-Jun-16	07-Sep-16	Kent Police Authority	£3,000,000	0.45%
09-Jun-16	09-Mar-17	Tendring District Council	£1,000,000	0.52%
19-Jul-16	18-Jul-17	Kent Police Authority	£4,000,000	0.60%
29-Jul-16	31-Oct-16	Worcestershire County Council	£5,000,000	0.40%
15-Aug-16	15-Feb-17	Bath and NE Somerset DC	£3,000,000	0.32%
30-Aug-16	12-Apr-17	West Yorkshire Combined Authority	£5,000,000	0.39%

30-Aug-16	28-Feb-17	Kent Police Authority	£1,000,000	0.34%

4.5 Investment levels and investments made

The first graph in Appendix 1 shows the weekly movements in totals available for investment, both actuals to date and projections for the rest of the year (which allow for further borrowing).

Investments made were mainly in “liquid” (instant access) deposits, either bank “call accounts” or MMFs. The fixed term investments that were made are scheduled below.

Start Date	End Date	Counterparty	Amount	Rate
08-Jul-16	07-Oct-16	Cumberland Building Society	£1,000,000	0.48%
15-Jul-16	17-Oct-16	National Counties Building Society	£1,000,000	0.53%
19-Jul-16	13-Sep-16	Coventry Building Society	£1,000,000	0.37%

4.6 Issues to note in the period

Over the period as a whole net borrowing increased and cash balances built up (as spending was lower than expected over the summer).The Council will either take some long term debt, or more likely continue to take short term loans over the rest of the year, to meet its liquidity needs. Investments will continue to be kept fully liquid or at least short term.

The next corporate monitoring report will reflect lower investment income over the remainder of the financial year, offset by further savings on borrowing costs.

4.7 Analysis of debt outstanding - changes are shown in the table below

	1st June 2016		31st August 2016	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	12,000		9,000	
Greater than 3 months (full duration)	4,500		15,500	
		16,500		24,500
LONGER TERM DEBT				
Bonds	2 1,503		21,503	
Mortgages	17		17	
PWLB	112,906		112,906	
Stock & Annuities	258		258	
		134,684		134,684
Lancs County Council transferred debt		16,658		16,658
Recognition of Debt re PFI Arrangements		70,095		69,452
TOTAL DEBT		237,937		245,294
Less: Temporary Lending - fixed term		(2,000)		(3,000)
- instant access		(9,700)		(15,236)
NET DEBT		226,237		227,058

The key elements of our long term borrowing are

(a) £21.5 M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. The overall average interest rate paid on this debt is now around 5%, with individual deals ranging from 4.35% to 7.625%
(b) £113 M borrowed from the PWLB at a range of fixed rates, at an overall average rate of around 4.5%. Loans repayable on maturity range from 3.06% to 9.375%, while EIP (Equal Instalment of Principal) loans range from 1.94% to 3.77%.
(c) £17M debt still managed by Lancashire County Council following Local Government Reorganisation, which is repaid in quarterly instalments across the year – this was charged on a provisional basis at 2.1%.
(d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use those new school buildings financed through Public Finance Initiative (PFI) arrangements. The Council’s effective control over and use of these assets is thereby shown “on balance sheet”, with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax payer as these are incurred through the payments made from the PFI contractor (and are largely offset by PFI grant funding from the Government).

<u>4.8 Performance against prudential and treasury indicators</u>

Appendix 3 shows the current position against the Prudential Indicators set by the Council for the current year. None of the key indicators have been breached.

Our total borrowing position was at £245.3M against our Authorised and Operational Borrowing Limits (£328.8M and £318.6M respectively) – this is the most significant Prudential Indicator.

This total debt 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 “indebtedness” arising from financing the cost of them. They do not add to the “bottom line” cost met by the Council Tax payer.

Movements in this Indicator across the year are shown as the first graph in Appendix 4.

<u>4.9 Interest risk exposures</u>

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at around + £18M and remained, across the period, within the limit set at +£43M for 2016/17.
This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes;
(a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which are then offset by
(b) any lending (up to 364 days).

Our **Fixed Interest Rate Exposure** is unchanged from the start of 2016/17 at £123M, against a limit of £223M for 2016/17. 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.

The limit was set to allow for the possibility of higher levels of new long term, fixed rate borrowing, which have not been taken.

5. POLICY IMPLICATIONS
None

6. FINANCIAL IMPLICATIONS
The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

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

8. RESOURCE IMPLICATIONS
None

9. CONSULTATIONS
None

10. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

VERSION:	0.01

CONTACT OFFICER:	Ron Turvey - Deputy Finance Manager extn 5303 Louise Mattinson - Director of Finance and IT extn 5600
DATE:	01 September 2016
BACKGROUND PAPER:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 29th Feb 2016