BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and IT
DATE:	11th April 2017

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2016/17

Based on monitoring information for the quarter 1st December 2016 – 28th February 2017

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

Since the Bank of England Bank Rate was reduced to 0.25% in August 2016, market interest rates, including the cost of government borrowing, have fluctuated, in reaction to political events and announcements. From a broader perspective, rates have remained at very low levels.

4.2 Investments Made and Interest Earned

The 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 have been inflated by taking significant short term borrowing ahead of the year end).

Investments made were mainly in "liquid" (instant access) deposits, either bank "call accounts" or Money Market Funds (MMFs). Returns on such investments were low, with MMF rates falling slightly to around 0.24% to 0.22%. Bank accounts continue to yield 0.10 to 0.15%.

For limited periods, funds were also placed with the Government's Debt Management Office (at 0.15%). The only other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
24-Jan-17	04-May-17	National Counties Building Society	1,000,000	0.35%
22-Feb-17	30-Mar-17	Newport City Council	5,000,000	0.35%

Appendix 2 shows the breakdown of the £27 million invested at the end of the period.

The Council's average return over the 3 months was around 0.22% (a little down compared to 0.25% the last quarter), and this will probably continue to fall over the coming months.

For comparison, benchmark LIBID (London Interbank Bid) rates also remained low, falling very slightly. Average rates for 1 month's lending were around 0.14%, and for 3 months around 0.25%.

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, before moving up recently after the US election results.

Average PWLB borrowing rates are historically low. Based on the cost of new "maturity" loan to the Council, 5 year loans averaged around 1.4% (generally between 1.3 and 1.6%), while loans in the 20 to 50 year range averaged around 2.7% (generally between 2.5% and 3%).

Short term borrowing rates - based on loans from other councils – were also low, as alternative options for lenders (investment rates) were low. There was a continued slight upward movement over the period, suggesting some tightening in availability of such funds. By the end of February, 3 month loans usually cost at least 0.45%, and 6 month/ 1 year loans between 0.50% and 0.60%.

4.4 Borrowing and Lending in the 3 month period

The Council's CFR (Capital Financing Requirement) is the key measure of the Council's borrowing **need** in the long term. It is

(a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)
less
(b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -
less
(c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council's **actual** long term debt was more than £75M below the CFR at the start of 2016/17, and this gap is widening (as CFR increases and long term debt is repaid). The Council has taken no new long term borrowing for several years, and is repaying existing debt at maturity, including a £6M PWLB loan repaid at the end of September 2016.

We are effectively using "internal borrowing" from available revenue cash balances to part cover this gap. Two benefits of this are:

(a) a net saving on interest (as long term borrowing costs more than investments would earn), and
(b) fewer funds held, so a lower risk of funds invested being lost.

The rest of the gap is covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and in anticipating future borrowing needs.

Over the period, there was an increase in short term borrowing of £16M, as loans of £6M of were repaid and **£22M of new loans** (listed below) were taken.

Start Date	End Date	Counterparty	Amount £	Rate
23/12/2016	23/01/2017	Oadby & Wigston District Council	2,000,000	0.27%
09/01/2017	30/06/2017	Gwent Police Authority	2,000,000	0.31%
23/01/2017	23/10/2017	Vale of Glamorgan Council	2,000,000	0.43%
27/01/2017	03/04/2017	London Borough of Brent	6,000,000	0.28%
10/02/2017	10/05/2017	Runnymede District Council	2,000,000	0.30%
15/02/2017	31/10/2017	Swansea City and County	2,000,000	0.35%
28/02/2017	29/08/2017	Kent Police Authority	1,000,000	0.33%
28/02/2017	25/08/2017	Derbyshire County Cncl Pension Fund	5,000,000	0.45%

4.5 Analysis of debt outstanding -

	1st December 2016		28th February 2017	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	0		8,000	
Greater than 3 months (full duration)	37,000		45,000	
		37,000		53,000
LONGER TERM DEBT				
Bonds	21,503		21,503	
Mortgages	17		17	
PWLB	106,125		106,125	
Stock & Annuities	258		258	
		127,903		127,903
Lancs County Council transferred debt		16,325		15,992
Recognition of Debt re PFI Arrangements		69,195		68,680
TOTAL DEBT		**250,423**		**265,575**
Less: Temporary Lending - fixed term		(1,000)		(6,000)
- instant access		(17,911)		(21,415)
NET DEBT		**231,512**		**238,160**

The key elements of long term borrowing included above are:

(a) £21.5M 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) £106M borrowed from the PWLB at a range of fixed rates, at an overall average rate of around 4.2%. Loans repayable on maturity range from 3.06% to 7.875%, while EIP (Equal Instalment of Principal) loans range from 1.94% to 3.77%.
(c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year – charged provisionally at 2%.
(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).

Further loans have also been agreed, by the end of the period, to cover into and across the next financial year, listed below.

Start Date	End Date	Counterparty	Amount £	Rate
09/03/2017	09/01/2018	Tendring District Council	1,000,000	0.42%
15/03/2017	15/12/2017	Vale of Glamorgan	1,000,000	0.43%
15/03/2017	22/06/2017	Derby City Council	3,000,000	0.40%
15/03/2017	14/06/2017	Bridgend Borough Council	2,000,000	0.40%
20/03/2017	20/09/2017	Kent Police Authority	5,000,000	0.40%
20/03/2017	20/06/2017	Portsmouth City Council	5,000,000	0.40%
31/03/2017	30/06/2017	Vale of White Horse District Cncl	2,000,000	0.40%

4.6 Issues to note in the period

Over the period as a whole net borrowing increased and cash balances built up (as short term borrowing was taken ahead of year end needs).The Council has taken most of the short term loans it needs to meet its liquidity requirements. If it appears likely that the short run cost of carrying long term borrowing would be outweighed by future interest rate increases, some longer term borrowing may be taken.

Investments will continue to be kept short term, and mainly in liquid deposits.

The Government’s consultation on the future of the PWLB has concluded and it appears likely that the PWLB – the Board and its Commissioners – will be abolished and their functions be transferred to the Treasury. It is not expected that there will be any material changes in borrowing arrangements as a result of this change.

4.7 Performance against prudential and treasury indicators

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 at 28th February 2017 was £265.6M 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.

4.8 Interest risk exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at around + £37M 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).

The high level of short term, variable borrowing now being taken increases the risk that the Council will breach this limit, particularly at the end of this financial year. If there were a breach, this should be taken as a warning flag, rather than a serious concern.

Our **Fixed Interest Rate Exposure** remained at around £116M, against the 2016/17 limit of £223M – this indicator last moved with the PWLB debt repayment made at the end of September. 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.
This 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

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DATE:	31st March 2017
BACKGROUND PAPER:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 29th Feb 2016