BLACKBURN with DARWEN BOROUGH COUNCIL

BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance And Customer Services
DATE:	24th July 2018

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2018/19

Based on monitoring information for the period 1st March 2018 – 30th June 2018

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, including in particular the potential for the Council to consider moving into taking more longer term borrowing.

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 2018/19, approved at Finance Council in February 2018, complied with both the CIPFA Code and with Department for Communities and Local Government (CLG) Guidance on Investments. New CIPFA and CLG guidance has been issued, and the impact of this is still under review. The CIPFA Code, Investment Guidance issued by CLG and Audit & Assurance reviews of Treasury Management activities all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against 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's Bank Rate held at 0.50% (having increased last November). There were high expectations that there would be an increase in May, but adverse economic indicators caused the Monetary Policy Committee to back away from this, and there is now some uncertainty over when the next rate increase will take place. Interest rates in financial markets moved up, and the rates at which local authorities lend between each other went up in the early part of the period, only to fall away again from mid-May. Any material sustained increase in interest rates would put pressure on the Council's interest budgets.

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 (adjusted for anticipated borrowing).

Investments made in the period were mainly in "liquid" (instant access) deposits, either bank "call accounts" or Money Market Funds (MMFs). Returns on such MMF holdings are slowly improving, now paying approaching 0.45%. Bank account rates still vary, paying from 0.05% to 0.40%.

For limited periods, funds were also placed with the Government's Debt Management Office (at 0.25%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount	Rate %
15-Mar-18	04-Apr-18	Eastleigh BC	£5,000,000	0.85
28-Mar-18	30-Apr-18	Cornwall Council	£5,000,000	0.70
29-Mar-18	09-Apr-18	West Yorks Police	£3,000,000	0.65
13-Apr-18	15-May-18	Wirral MBC	£5,000,000	0.45
02-May-18	27-Jun-18	Suffolk County	£5,000,000	0.46
10-May-18	27-Jun-18	Thurrock MBC	£5,000,000	0.40
16-May-18	05-Jul-18	Tewkesbury	£1,000,000	0.45
01-Jun-18	07-Sep-18	National Counties Building Society	£1,000,000	0.62
11-Jun-18	11-Jul-18	Cornwall Council	£2,000,000	0.35
27-Jun-18	27-Sep-18	Thurrock MBC	£5,000,000	0.50
18-Jun-18	31-Aug-18	Eastleigh	£3,000,000	0.43

At 30th June, the Council had around £21.4 M invested, compared to around £17 M at the start of the period. Appendix 2 shows the breakdown of the investment balance at the end of the period. The Council's investment return over the period was around 0.4%.

For comparison, benchmark LIBID (London Interbank Bid) rates remained fairly stable. The average rate for 1 month's lending was around 0.38% (holding at around 0.37% at period end), and for 3 months were around 0.55% (and holding at around 0.54% at 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. Average PWLB borrowing rates remain historically low, but moved up last autumn and winter, and have fluctuated since then. Though we have not taken new long term loans, if we were to do so, the cost would be higher than a year ago. New 5 year "certainty" loans would now cost around 1.8% (usually ranging between 1.8% and 2.0%), while loans from 20 to 50 years would cost something like 2.7% (ranging between 2.5% and 2.9%)

Short term borrowing rates - based on loans from other councils – remain historically low, and are fluctuating, having been on an upward trend, only to fall later in the period. Currently, 3 month loans cost around 0.45%, while 6 month/ 1 year loans were between 0.60% and 0.75% - these rates are expected to go up later in the year.

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 is around £92 M below the CFR – the gap widens as long term debt is repaid, and the Council has taken no new long term borrowing for several years, and is repaying existing debt at maturity.

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 earn), and
(b) fewer funds held, so a lower risk from default on funds invested.

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 to anticipate future borrowing needs.

Over the period, there was an increase in short term borrowing of £4M, as loans of £58M were repaid and **£62M of new loans** were taken (listed below).

New loans taken in the period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
15/03/2018	22/06/2018	Dacorum	4,000,000	0.70%
15/03/2018	29/06/2018	Sedgemoor District Council	5,000,000	0.59%
15/03/2018	16/04/2018	Durham County Council	5,000,000	0.60%
19/03/2018	19/09/2018	Basildon District Council	2,000,000	0.80%
27/03/2018	18/10/2018	Halton Borough Council	5,000,000	0.95%
28/03/2018	27/03/2019	London Borough of Newham	5,000,000	0.75%
29/03/2018	30/04/2018	Crawley Borough Council	5,000,000	0.85%
16/04/2018	15/04/2019	Brentwood B C	1,000,000	0.90%
17/04/2018	18/10/2018	Basildon District Council	3,000,000	0.80%
20/04/2018	22/10/2018	Gwynedd County BC	3,000,000	0.84%
27/04/2018	29/10/2018	Tendring District Council	2,000,000	0.85%
27/04/2018	27/09/2018	West of England Combined Authority	7,000,000	0.75%
30/04/2018	29/04/2019	Gloucestershire	5,000,000	0.85%
31/05/2018	28/02/2019	Worcester City	2,000,000	0.78%
01/06/2018	28/03/2019	Wokingham BC	5,000,000	0.70%
26/06/2018	02/07/2018	Thurrock	3,000,000	0.45%
			62,000,000	

Future deals already agreed by end of period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
30/07/2018	28/02/2019	Kent Police	3,000,000	0.75%
31/07/2018	31/01/2019	Middlesbrough/Teeside Pension Fund	10,000,000	0.75%
27/07/2018	31/07/2018	Thurrock	3,000,000	0.42%
			16,000,000	

4.5 Analysis of debt outstanding -	1st March 2018		30th June 2018	
.	£000	£000	£000	£000
TEMPORARY DEBT				
Less than 3 months	0		0	
Greater than 3 months (full duration)	65,000		69,000	
		65,000		69,000
LONGER TERM DEBT				
Bonds	20,503		18,003	
Mortgages	17		17	
PWLB	104,564		103,783	
Stock & Annuities	258		258	
		125,342		122,061
Lancs County Council transferred debt		15,512		15,352
Recognition of Debt re PFI Arrangements		66,991		66,419
TOTAL DEBT		**272,845**		**272,832**
Less: Temporary Lending - fixed term		(6,000)		(12,000)
- instant access		(11,400)		(9,441)
NET DEBT		**255,445**		**251,391**

The key elements of long term borrowing included above are:

(a) £18M classed as bonds, borrowed from the money markets, largely in the form of "LOBO" (Lender Option, Borrower Option) debt. A £2.5M LOBO loan was repaid April 26th. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%

(b) £104M borrowed from the PWLB at fixed rates, at an overall average rate of around 4.2%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.94% to 3.77%. £0.78 M of EIP debt was repaid on April 3rd.

(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).

4.6 Issues to note in the period

Over the period as a whole, net borrowing was fairly stable, though levels of short term borrowing and cash balances did vary - they were not, as would normally be the case, at their lowest at 31st March, because anticipated higher levels of spending around the year end did not take place.

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

As has been noted, interest rates, while both low and volatile, have tended to be moving upwards. This increases the possibility that it may be more in the Council's interest, in the medium to long term, to move towards taking more of its borrowing need in longer term borrowing. Such a decision depends on taking a view as to likely future interest rates - both for borrowing and investment. Future rates will always be uncertain, and any such change would only be adopted after extensive deliberation and support from the Council's treasury advisers, Arlingclose. This would be a departure from the strategy of the last few years, which has focussed entirely on internal borrowing and short term borrowing, and could result in short run pressure on interest budgets.

4.7 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the previous and current year.

Movements in the key indicator – Overall Borrowing against Borrowing Limits – are shown as the first graph in Appendix 4. Our total borrowing at 30th June 2018 was, at £272.8 M, within our Operational and Authorised Borrowing Limits for 2018/19 (£309.5 M and £319.5 M respectively). The Authorised Borrowing Limit is the key Prudential Indicator - loans from the PWLB cannot be taken if this Limit is (or would be caused to be) breached.

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.

The Council still holds a large part of its debt portfolio in loans of less than a year's duration - short term loans are currently the best value way to funding marginal changes in its debt.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £61 M, against the **Limit** set for this year of £95M.

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** was around £109 M, against the limit of £217.5 M. This indicator effectively mirrors 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 decades led the Council to hold a large part 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:	0.02

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DATE:	5th July 2018
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategies approved Finance Council 27th February 2017 and 26th February 2018