Appendix D – Treasury Management

Borrowing

As at 30 September 2015 the Council's total borrowing was £301.6M. Of this amount, £278.1M was with the Public Works Loan Board (PWLB), £10M was short-term fixed rate borrowing from other local authorities and £13.5M was market debt from banks. The table below also shows the split between the General Fund and HRA.

	PWLB Fixed £M	PWLB Variable £M	Short-term Fixed £M	Market (LOBO) £M	Total £M
General Fund	97.0	16.1	10.0	13.5	136.6
HRA	120.0	45.0	0.0	0.0	165.0
TOTAL	217.0	61.1	10.0	13.5	301.6

To manage interest rate risk, the profile of debt is spilt so that overall the Council has 72% fixed rate PWLB debt, 20% variable rate PWLB debt, 3% short-term fixed rate debt, and 5% fixed rate market (LOBO) debt; this is shown in A1 on the Treasury Management Performance Dashboard.

Based on the latest available annual benchmark analysis conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA), A2 of the dashboard shows the Council's cost of borrowing is significantly lower than the 4.2% interest rate faced by other local authorities. The average interest rate paid by the Council was 2.9% as at 31 March 2015, which is mainly due to a higher proportion of variable and short-term fixed rate debt.

In line with the Council's borrowing strategy, new short-term fixed rate borrowing was taken out during the second quarter at a cost of between 0.37% and 0.40% (inclusive of brokerage fees).

Investments

When investing, the Council gives priority to security and liquidity and aims to achieve a yield commensurate with these principles. To diversify its investment portfolio, the Council continues to invest in a range of funds such as notice accounts, call accounts and Money Market Funds as well as using a number of different financial institutions. B1 of the dashboard shows the breakdown by investment counterparty as at 30 September 2015. It should be noted that as cash investments are maintained at minimal levels for operational purposes, the £5M long-term investment in the UK commercial property-based Lime Fund now represents a higher proportion of total investments even though the cash amount invested in it has not changed.

The latest available CIPFA Treasury Management benchmarking results are as at 30 June 2015. B2 of the dashboard shows that the Council's average rate of return on investments was 1.1% which was higher than the benchmarked local authority average of 0.8% – this was due to the relatively high investment return on the Lime Fund.

In addition to the Lime Fund investment, the Council has cash deposits placed on varying interest rates ranging between 0.4% and 0.8%. The Council holds the majority of it investments in liquid form so it is available for cash flow purposes. As at 30 September 2015, the Council held cash investments of £6.5M: £4.0M in instant access call accounts and Money Market Funds (MMFs); and the remaining £2.5M in notice accounts.

Cash Management

The average cash balance the Council holds is considerably lower than other benchmarked authorities. The 12-month rolling average cash balance as at the 31 June 2015 for the Council was £30M compared to a benchmark average of £118M. This reflects the Council's long-standing strategy of holding low cash balances to reduce investment counterparty risk and contain its borrowing costs by utilising internal cash balances in lieu of external borrowing.

Following the 2008 financial crisis, governments injected hundreds of billions to bail-out the banks. Bail-outs of failing banks in Greece, Portugal and Iceland were primarily financed by taxpayers. As time has passed and the cost of government bail-outs has risen, the appeal of asking private-sector investors to suffer a greater proportion of losses has increased. A bail-in forces the bank's bondholders and depositors to bear some of the burden by having part of the debt they are owed written off.

The UK has implemented the final bail-in provisions of the EU Bank Recovery and Resolution Directive over recent months, a year ahead of most other countries. This has led to credit rating downgrades for a number of UK banks and building societies to reflect the reduced likelihood of Central Government support. Aside from maintaining minimal cash levels for operational purposes, the Council also mitigates the higher risk arising from the introduction of the new bank bail-in provisions by spreading its cash balance across a diversified range of investment counterparties.

Outlook

The Council's treasury advisers, Arlingclose, do not expect the Bank of England to raise its Base Rate until Quarter 2 of 2016 and the short-term return on cash investments will continue to remain at very low levels. Indeed, the risks to this forecast remain weighted to the downside; in particular, signs of more widespread deflation could prompt a further downward revision to the forecast.

Over the financial year, the Council plans to continue to source its borrowing needs from other local authorities on a short-term fixed rate rolling basis in order to achieve significant revenue cost savings over the more traditional route of borrowing long-term from the PWLB. This borrowing strategy assumes that interest rates will continue to remain low for longer than previously envisaged.

However, the Council will continue to monitor long-term rates with a view to fixing a portion of its borrowing if rates are favourable.

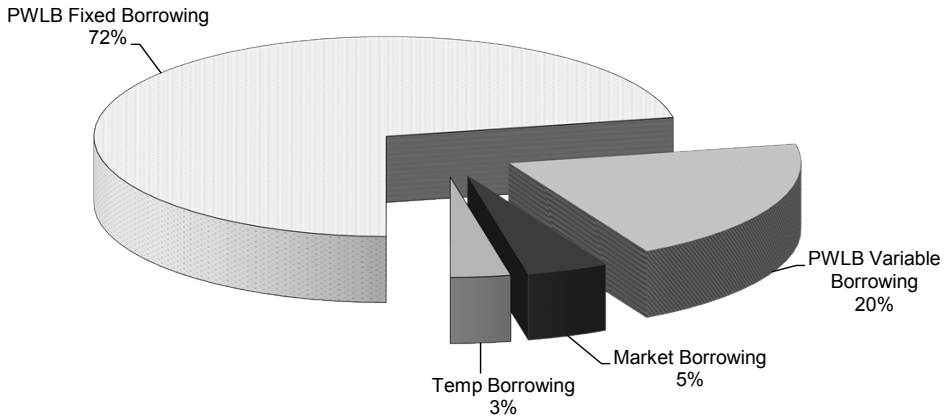
The Council is forecasting a budgetary saving of £0.5M in 2015/16 on its Treasury Management activities. This is due to:

- the Bank of England Base Rate which is assumed to remain at 0.5% until at least May 2016, whereas the budget had factored in an earlier rate rise and an average Base Rate of 0.75% in 2015/16;
- no long-term fixed rate borrowing being taken out, whereas provision has been included in the 2015/16 budget; and
- a lower level of borrowing than assumed in the 2015/16 budget due to Capital Programme slippage.

Treasury Management Performance Dashboard

A1

Analysis of Borrowing Type as at 30th September 2015
Total £301.6m

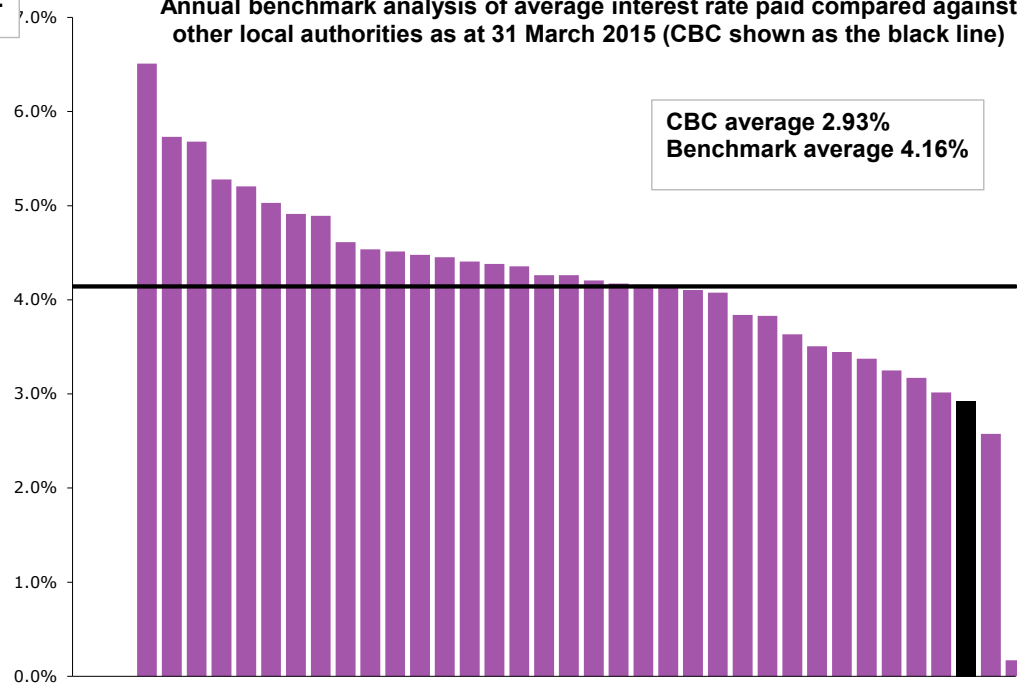


PWLB Fixed Borrowing	£217.1m
PWLB Variable Borrowing	£61.0m
Market Borrowing	£13.5m
Temp Borrowing	£10.0m

Authorised Limits
- Fixed Rate Borrowing 100%
- Variable Rate Borrowing 40%

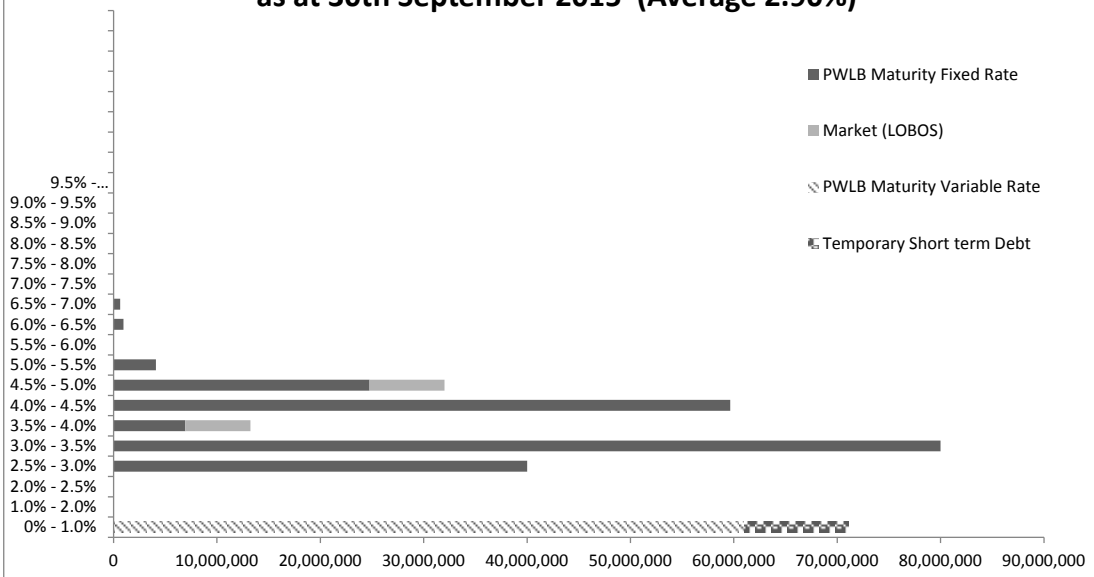
A2

Annual benchmark analysis of average interest rate paid compared against other local authorities as at 31 March 2015 (CBC shown as the black line)



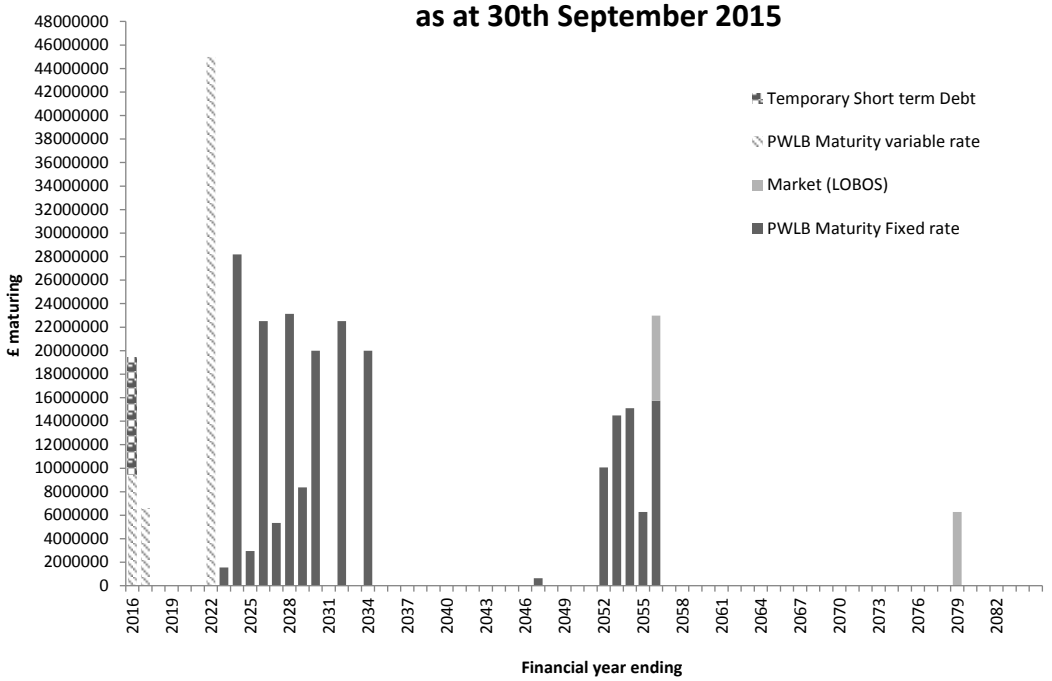
A3

Analysis to show Interest Rate Profile on Debt as at 30th September 2015 (Average 2.90%)



A4

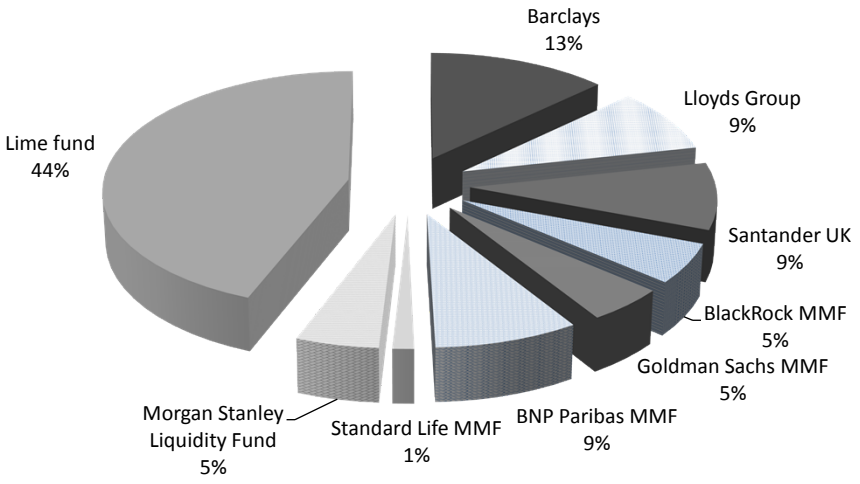
Central Bedfordshire Council: Borrowing Maturity Profile as at 30th September 2015



LOBO assumption : the loans are not called prior to

B1

Analysis of Investments as at 30th September 2015 - Total Investments £11.6m



B2