

## Appendix D – Treasury Management

### Borrowing

As at 31 December 2015 the Council's total borrowing was £313.4M. Of this amount, £274.9M was with the Public Works Loan Board (PWLB), £25.0M was Short-Term Temporary Debt 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.

	<b>PWLB Fixed £m</b>	<b>PWLB Variable £m</b>	<b>Temporary Debt £m</b>	<b>Market (LOBO) £m</b>	<b>Total £m</b>
General Fund	97.0	12.9	25.0	13.5	148.4
HRA	120.0	45.0	0.0	0.0	165.0
<b>TOTAL</b>	<b>217.0</b>	<b>57.9</b>	<b>25.0</b>	<b>13.5</b>	<b>313.4</b>

To manage interest rate risk, the profile of debt is split so that overall the Council has 69% fixed rate PWLB debt, 19% variable rate PWLB debt, 8% short-term temporary debt, and 4% 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% average annual interest rate paid by other local authorities. The average annual 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 (temporary) fixed rate borrowing was taken out during the third quarter at a cost of between 0.38% p.a. and 0.50% p.a. (inclusive of brokerage fees).

### Investments

When investing, the Council prioritises security and liquidity and aims to achieve a yield commensurate with these principles. To diversify the 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 31 December 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 September 2015. B2 of the dashboard shows that the Council's average rate of return on investments was 1.34% which was higher than the benchmarked local authority average of 0.86% – 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 its investments in liquid form so it is available for cash flow purposes. As at 31 December 2015, the Council held cash investments of £18.8M: of which £16.9M represents school balances. Of the total investment balance £16.2M was held 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 December 2015 for the Council was £27.3M compared to a benchmark average of £152.5M. This reflects the Council's long-standing strategy of holding low cash balances to reduce investment counterparty risk and contain borrowing costs by utilising internal cash balances in lieu of external borrowing to fund capital expenditure.

## Outlook

The Council's treasury advisers, Arlingclose, do not expect the Bank of England to raise the Base Rate until end of Quarter 2 of 2016 and the short-term return on cash investments will continue to remain at very low levels.

Over the financial year, the Council plans to continue to source any borrowing requirements from other local authorities on a short-term temporary basis. The low market interest rates for temporary debt offer revenue cost savings relative to borrowing on a long-term basis from the PWLB. This borrowing strategy assumes that interest rates will continue to remain at historically low levels for the medium term.

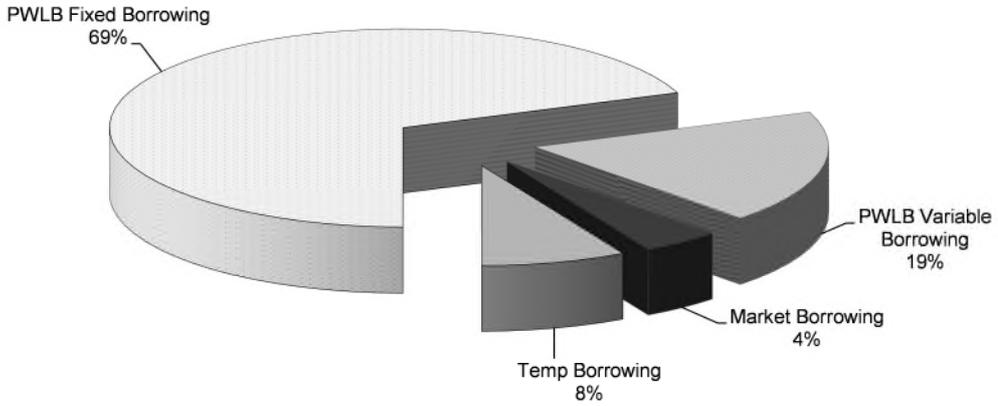
However, the Council advised by Arlingclose will continue to monitor long-term rates with a view to fixing a portion of any borrowing requirement if rates are viewed favourable.

A budget underspend of £0.5M in 2015/16 is forecast in respect of Treasury Management activities reflecting:

- the Bank of England Base Rate which is expected to remain at 0.5% until at least September 2016, whereas the budget had been based on the assumption of rate rises in 2015/16 and an average Base Rate of 0.75% in 2015/16;
- an element of new long-term fixed rate borrowing had been included in the 2015/16 budget which has not been taken; and
- Capital Programme slippage has been higher than originally assumed leading to a lower level of overall borrowing than assumed in the 2015/16 budget.

A1

### Analysis of Borrowing Type as at 31st December 2015 Total £313.4m

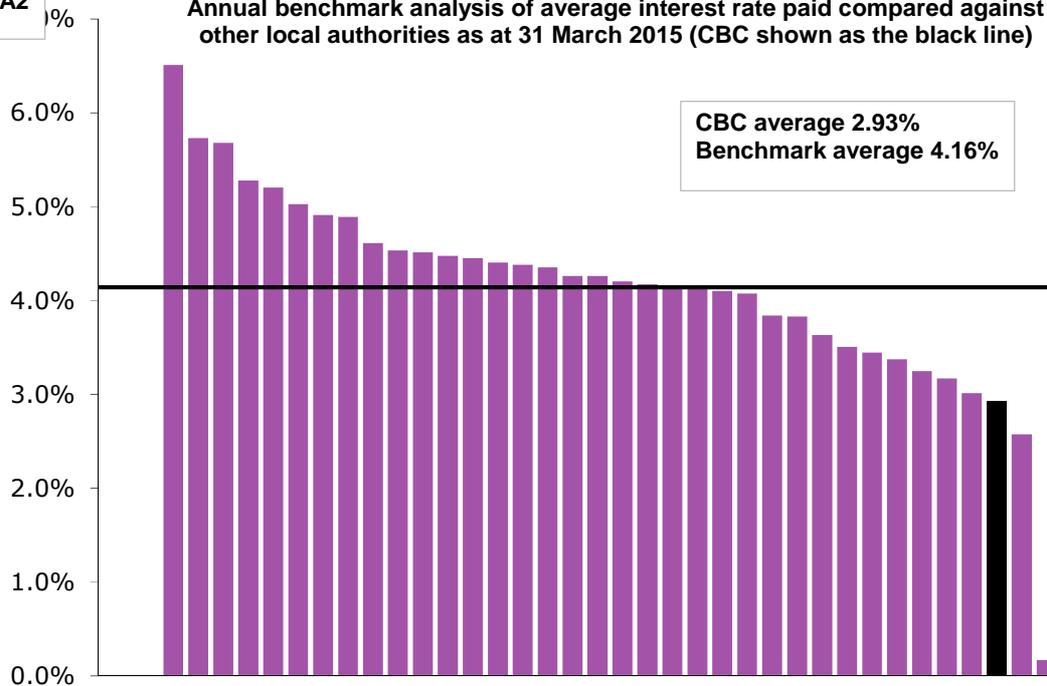


□PWLB Fixed Borrowing	£217.1m
▒PWLB Variable Borrowing	£57.9m
■Market Borrowing	£13.5m
□Temp Borrowing	£25.0m

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

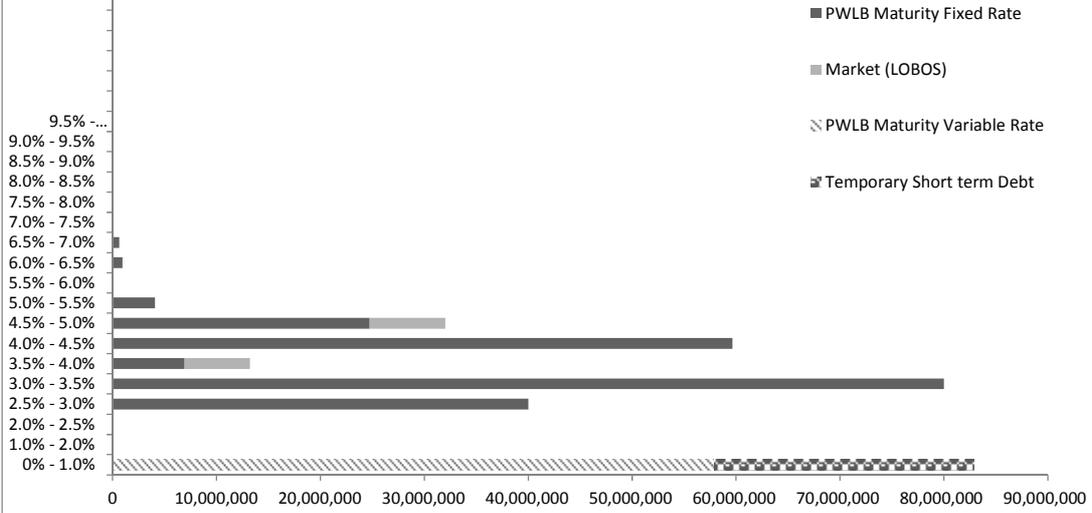
A2

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



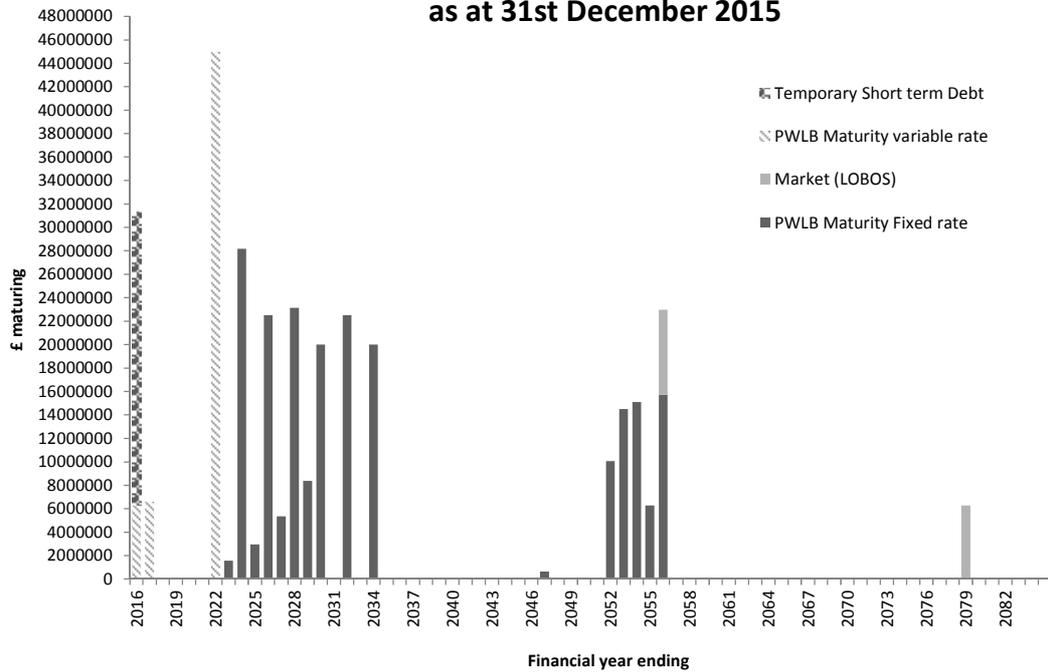
**A3**

**Analysis to show Interest Rate Profile on Debt as at 31st December 2015 (Average 2.92%)**



**A4**

**Central Bedfordshire Council: Borrowing Maturity Profile as at 31st December 2015**



LOBO assumption : the loans are not called prior to

**B1 Analysis of Investments as at 31st December 2015 - Total Investments £23.9m**

