

Appendix D - Treasury management

Borrowing

As at 31 December 2016 the Council's total borrowing was £341.2M. Of this amount, £268.7M was with the Public Works Loan Board (PWLB), £59.0M 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.

	PWLB Fixed £M	PWLB Variable £M	Temporary Debt £M	Market (LOBO) £M	Total £M
General Fund	97.0	6.7	59.0	13.5	176.2
HRA	120.0	45.0	0.0	0.0	165.0
TOTAL	217.0	51.7	59.0	13.5	341.2

To manage interest rate risk, the profile of debt is split so that overall the Council has 64% fixed rate PWLB debt, 15% variable rate PWLB debt, 17% 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 4.4% average annual interest rate paid by other local authorities. The average annual interest rate paid by the Council was 2.8% as at 31 March 2016, which is mainly due to a higher proportion of variable rate and short-term temporary debt.

In line with the Council's borrowing strategy, new short-term temporary borrowing was taken out during Quarter 3 at a cost of between 0.23% p.a. and 0.40% p.a. (inclusive of brokerage fees).

The Council's underlying need to borrow as measured by its Capital Financing Requirement (CFR) was £475.8M at 31 March 2016. Given external borrowing of £353.8M (inclusive of a £15.7M PFI outstanding liability), deferred borrowing was £122.0M at 31 March 2016 using internal resources to fund the capital programme. In line with the approved treasury strategy, the Council used internal resources in lieu of borrowing to the full extent as this has continued to be the most cost effective means of funding capital expenditure. The CFR is expected to increase to £520.9M at 31 March 2017, with deferred borrowing estimated to be £110.2M (assumes £10M estimated reduction in working capital and no increase in usable reserves).

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 2016. It should be noted that as cash investments are maintained at minimal levels for operational purposes, the £5.3M 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 2016. B2 of the Dashboard shows that the Council's average rate of return on investments was 1.7% which was higher than the benchmarked local authority average of 0.9% – this was due to the relatively high investment return on the Lime Fund (inclusive of capital appreciation).

In addition to the Lime Fund investment, the Council has cash deposits placed on varying interest rates ranging between 0.15% and 0.55%. The Council holds the majority of its investments in liquid form so it is available for cash flow purposes. As at 31 December 2016, the Council held cash investments of £14.8M (exclusive of the £5.3M Lime Fund investment). Of the total cash investment balance, £11.3M was held in liquid form in instant access call accounts and Money Market Funds (MMFs); and the remaining £3.5M was equally split between a notice account and a fixed term deposit which matures in February 2016.

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 30 September 2016 for the Council was £26.3M compared to a benchmark average of £125.9M. 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 Bank Rate from its current level of 0.25% over the next three years. The currency-led rise in CPI inflation (1.6% in the year to December 2016) will continue, breaching the Bank of England's 2.0% target in 2017. However, the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy given the pressure on household spending and business investment.

Over the financial year, the Council has continued to source its new 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 available are viewed as favourable.

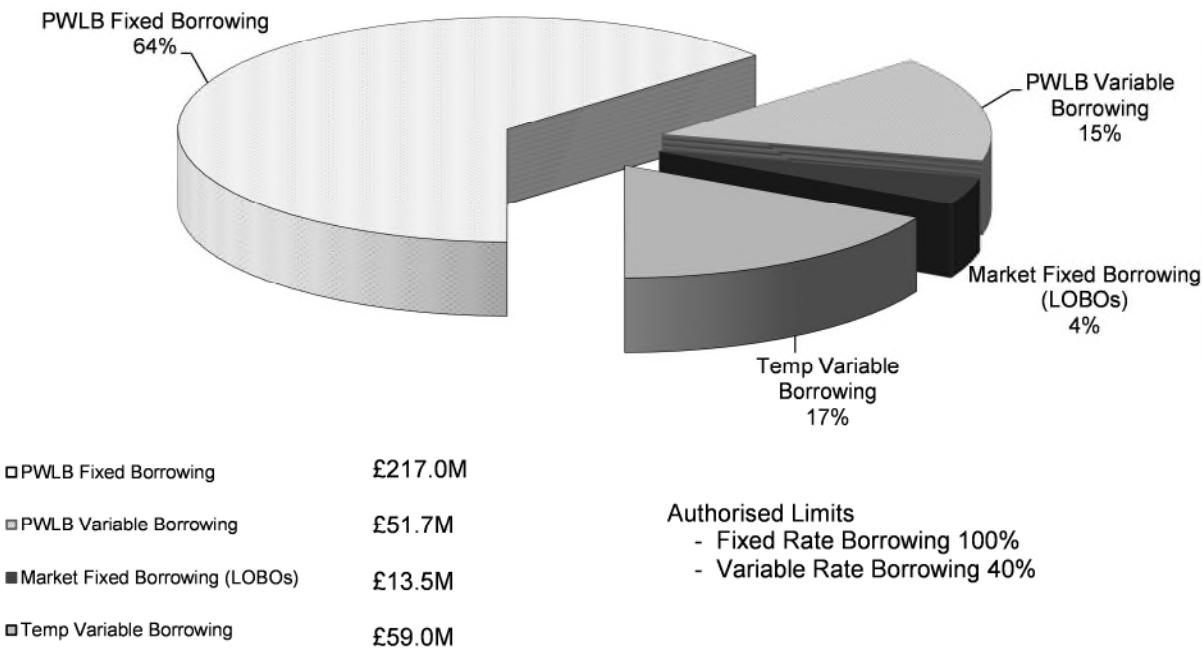
A budget underspend of £0.700M with a further potential upside of £0.050M is forecasted in 2016/17 in respect of Treasury Management activities reflecting:

- the Bank of England Base Rate cut to 0.25% in August 2016, whereas the budget had been based on an assumption of official interest rate rises to commence in the third quarter of 2016 and an average Base Rate of 0.6% in 2016/17;
- a budget saving arising from the clearance of early debt repayment premia costs;
- a budget saving on the Minimum Revenue Provision (MRP) for 2016/17;
- Capital Programme slippage has been higher than originally assumed in the interest payable budget, leading to a lower level of overall borrowing than assumed in the 2016/17 budget; and
- new borrowing being taken out at short-term fixed rates from other public bodies at very low rates.

SECTION B: INVESTMENT INFORMATION

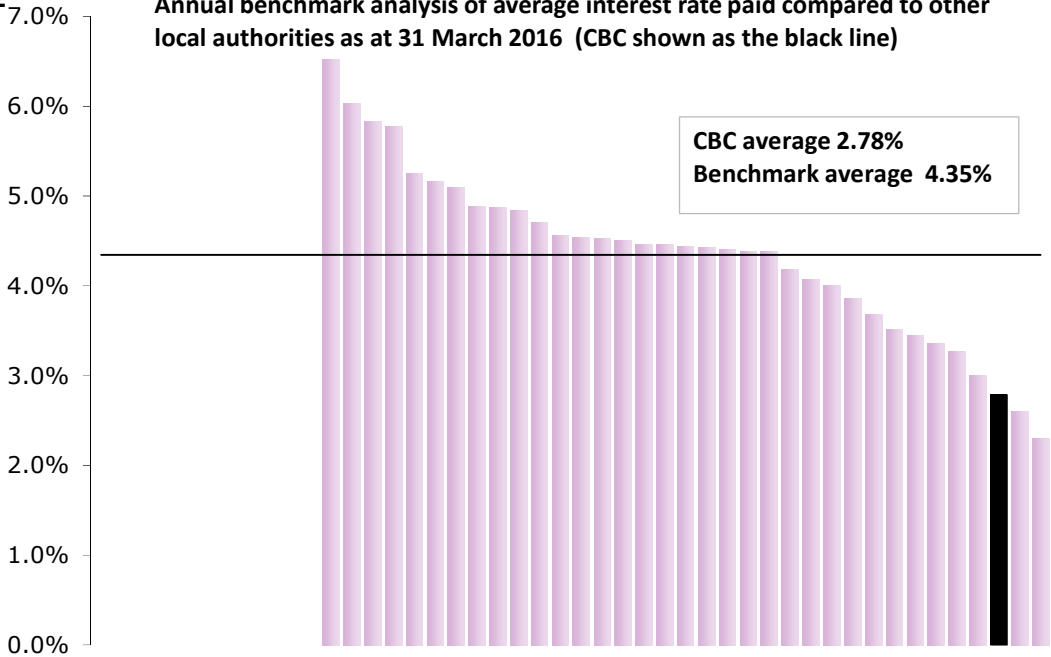
A1

Analysis of borrowing type as at 31 December 2016
Total £341.2M



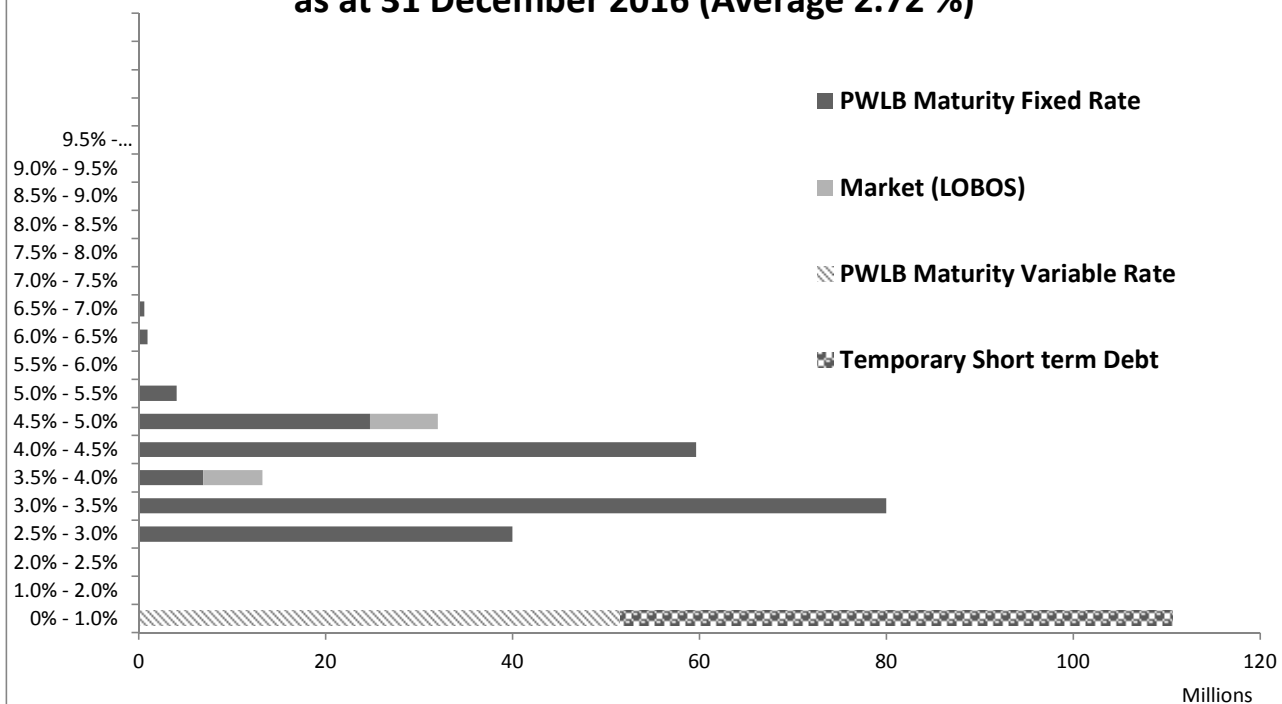
A2

Annual benchmark analysis of average interest rate paid compared to other local authorities as at 31 March 2016 (CBC shown as the black line)



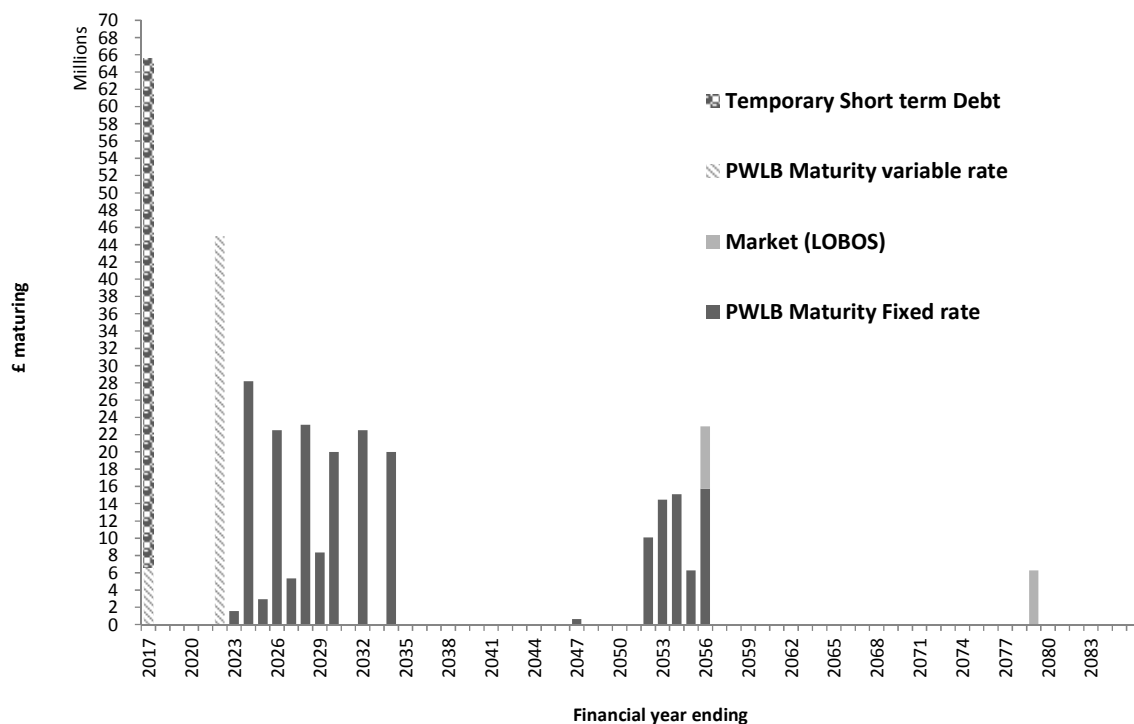
A3

Analysis to show Interest Rate Profile on Debt as at 31 December 2016 (Average 2.72 %)



A4

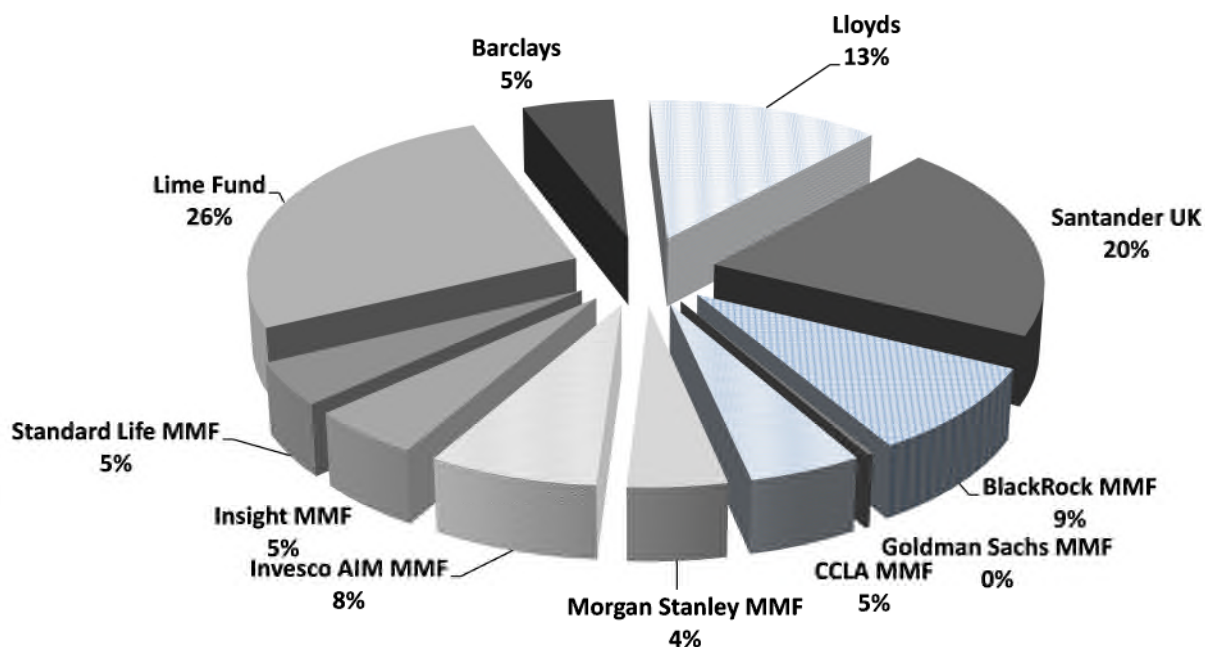
Central Bedfordshire Council: Borrowing Maturity Profile as at 31 December 2016



LOBO assumption : the loans are not called prior to

SECTION B: INVESTMENT INFORMATION

B1 Analysis of investments as at 31 December 2016 Total investments £20.1M



B2 Average interest rate received on investments compared to other local authorities as at 30 September 2016 (CBC shown as the black line)

