

## Appendix D - Treasury management

### Borrowing

1. As at 30 September 2016 the Council's total borrowing was £335.2M. Of this amount, £268.7M was with the Public Works Loan Board (PWLB), £53.0M 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	6.7	53.0	13.5	170.2
HRA	120.0	45.0	0.0	0.0	165.0
<b>TOTAL</b>	<b>217.0</b>	<b>51.7</b>	<b>53.0</b>	<b>13.5</b>	<b>335.2</b>

2. To manage interest rate risk, the profile of debt is split so that overall the Council has 65% fixed rate PWLB debt, 15% variable rate PWLB debt, 16% short-term temporary debt and 4% fixed rate market (LOBO) debt; this is shown in A1 on the Treasury Management Performance Dashboard.
3. 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.
4. In line with the Council's borrowing strategy, new short-term temporary borrowing was taken out during Quarter 2 at a cost of between 0.23% p.a. and 0.50% p.a. (inclusive of brokerage fees).
5. 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**

6. 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 30 September 2016. It should be noted that as cash investments are maintained at minimal levels for operational purposes, the £5.2M 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.
7. The latest available CIPFA Treasury Management benchmarking results are as at 30 June 2016. B2 of the Dashboard shows that the Council's average rate of return on investments was 1.6% which was higher than the benchmarked local authority average of 1.0% – this was due to the relatively high investment return on the Lime Fund (inclusive of capital appreciation).
8. In addition to the Lime Fund investment, the Council has cash deposits placed on varying interest rates ranging between 0.3% and 0.8%. The Council holds the majority of its investments in liquid form so it is available for cash flow purposes. As at 30 September 2016, the Council held cash investments of £11.4M (exclusive of the £5.2M Lime Fund investment). Of the total cash investment balance, £9.4M was held in liquid form in instant access call accounts and Money Market Funds (MMFs); and the remaining £2.0M was equally split between a notice account and a fixed term deposit which matures in October 2016.

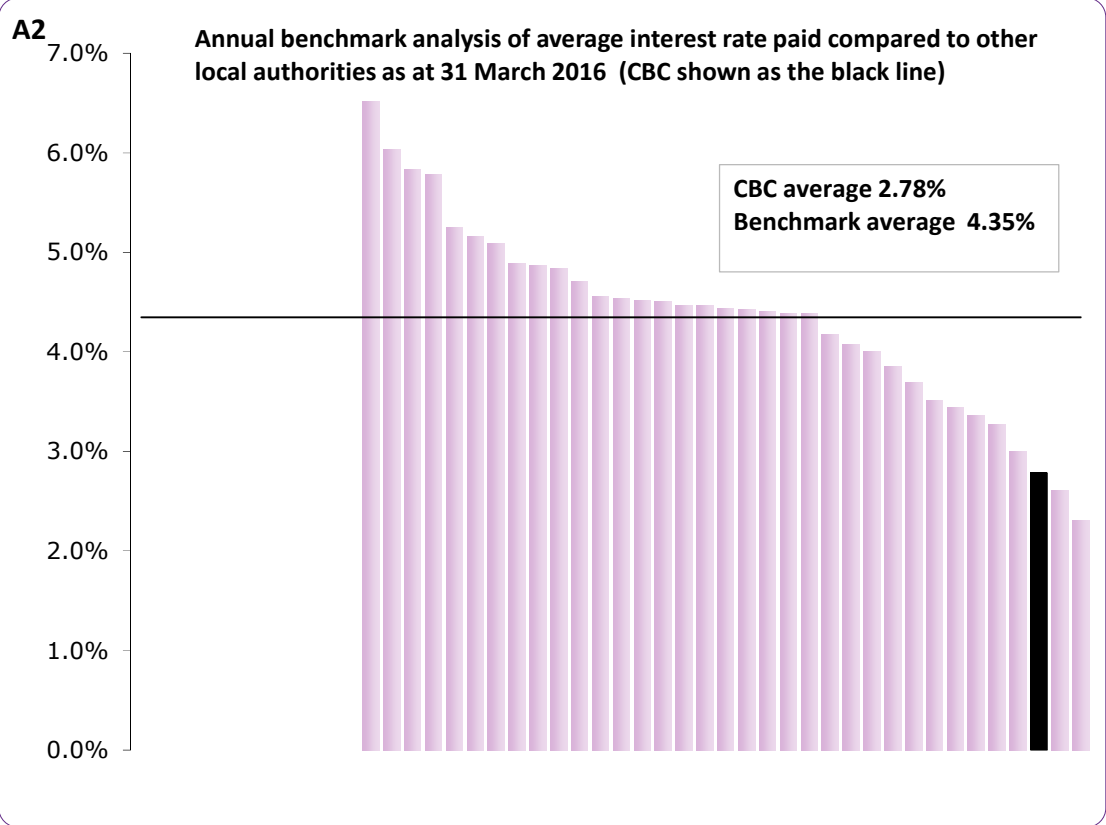
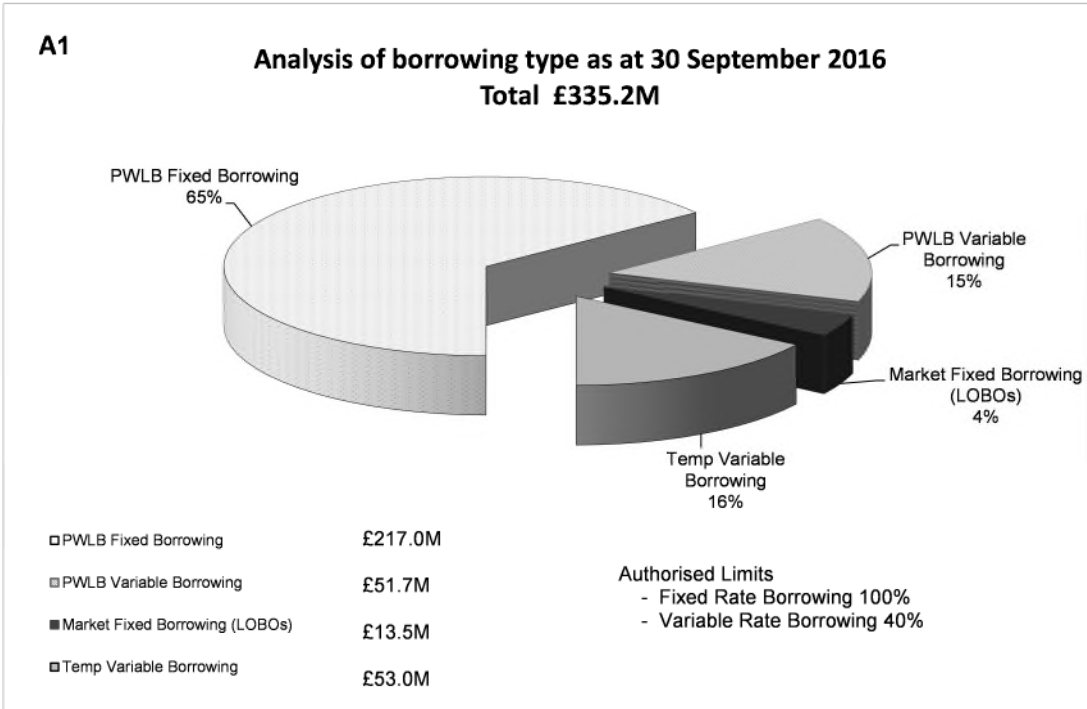
## **Cash Management**

9. 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 June 2016 for the Council was £27M compared to a benchmark average of £87M. 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

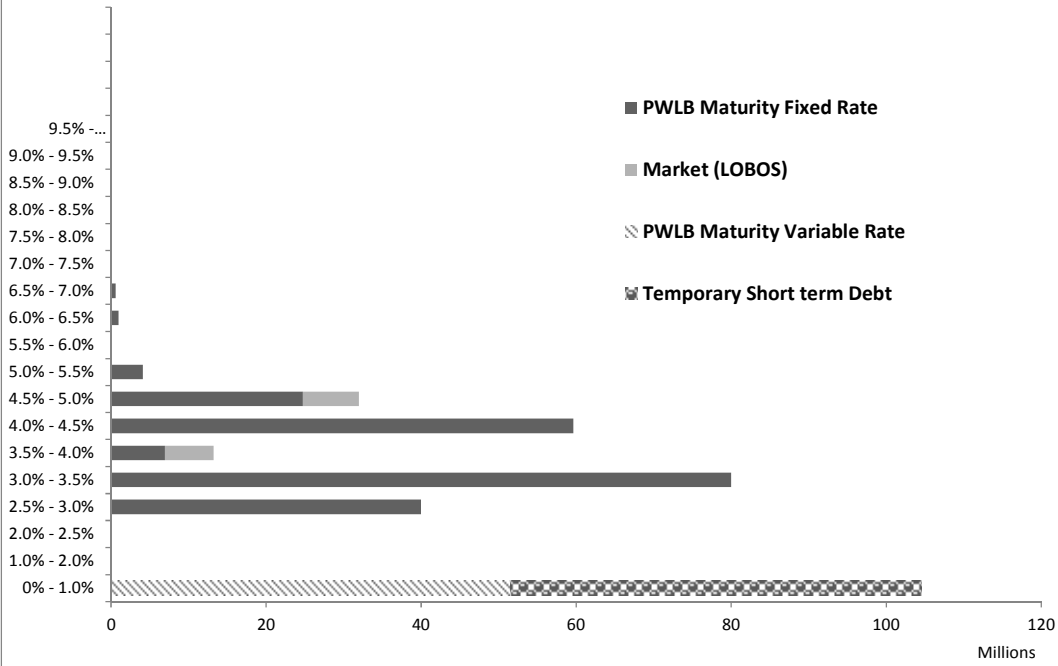
- 10 The Council's treasury advisers, Arlingclose, do not expect the Bank of England to raise the Bank Rate from its current level of 0.25% over the next three years with risks weighted to the downside, i.e., there is a possibility of a drop to close to zero. Over the financial year, the Council plans 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.
- 11 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.
- 12 A budget underspend of £700K with a further potential upside of £50K 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 A: DEBT INFORMATION**



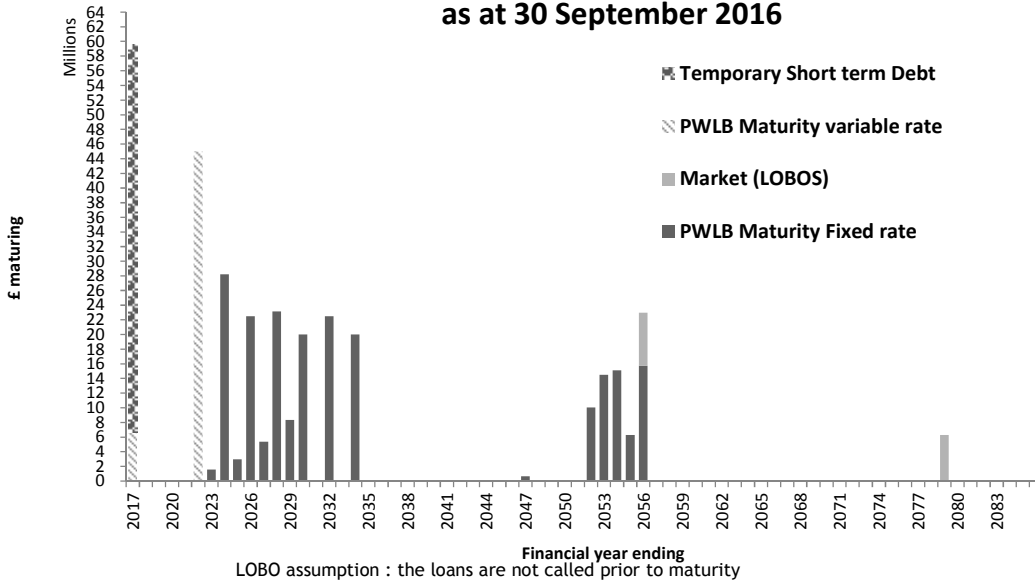
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**Analysis to show interest rate profile on debt as at 30 September 2016 (average 2.84 %)**



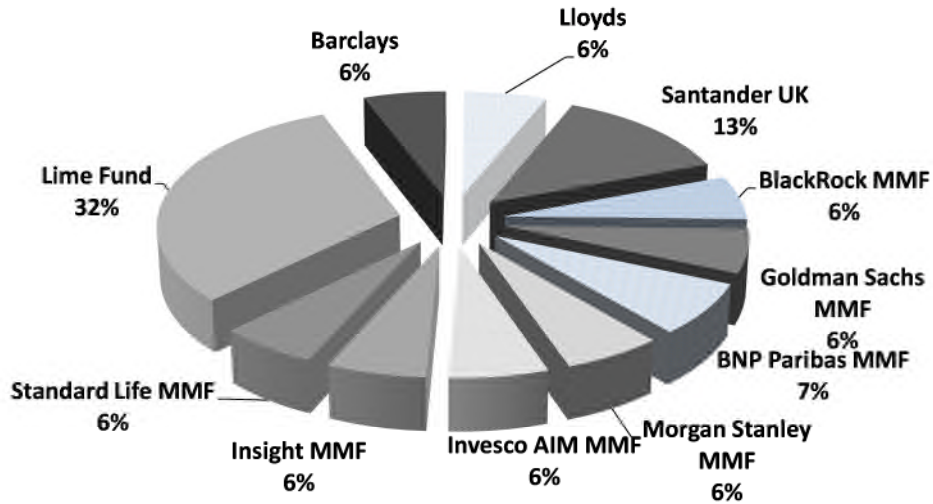
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**Central Bedfordshire Council: Borrowing Maturity Profile as at 30 September 2016**



## SECTION B: INVESTMENT INFORMATION

**B1** Analysis of investments as at 30 September 2016  
Total investments £16.6m



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

