Appendix D- Treasury Management

Borrowing

As at 30 June 2017 the Council's total borrowing was £340.6M. Of this amount, £262.0M was with the Public Works Loan Board (PWLB), £65.0M was short-term temporary debt from other local authorities and £13.6M 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	0.0	65.0	13.6	175.6
HRA	120.0	45.0	0.0	0.0	165.0
TOTAL	**217.0**	**45.0**	**65.0**	**13.6**	**340.6**

To manage interest rate risk, the Council's debt is split between 64% fixed rate PWLB debt, 13% variable rate PWLB debt, 19% 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 4.06% average annual interest rate paid by other local authorities. The average annual interest rate paid by the Council was 2.57% as at 31 March 2017, 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 1 at a cost of between 0.18% p.a. and 0.43% p.a. (inclusive of brokerage fees).

The Council's underlying need to borrow as measured by its Capital Financing Requirement (CFR) was £524.4M at 31 March 2017. Given external borrowing of £365.1M (inclusive of a £17.2M PFI outstanding liability) as at 31 March 2017, deferred borrowing was £159.3M 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.

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 30 June 2017. 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 31 March 2017. B2 of the Dashboard shows that the Council's average rate of return on investments was 1.64% which was higher than the benchmarked local authority average of 0.85% – 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 30 June 2017, the Council held cash investments of £13.2M (exclusive of the £5.3M Lime Fund investment). Of the total cash investment balance, £9.2M was held in liquid form in instant access call accounts and Money Market Funds (MMFs); and the remaining £4.0M was held in notice accounts.

Cash Management

The average cash balance the Council holds is considerably lower than other benchmarked local authorities. The 12-month rolling average cash balance as at the 31 March 2017 for the Council was £22.4M compared to a benchmark average of £170.4M. 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.

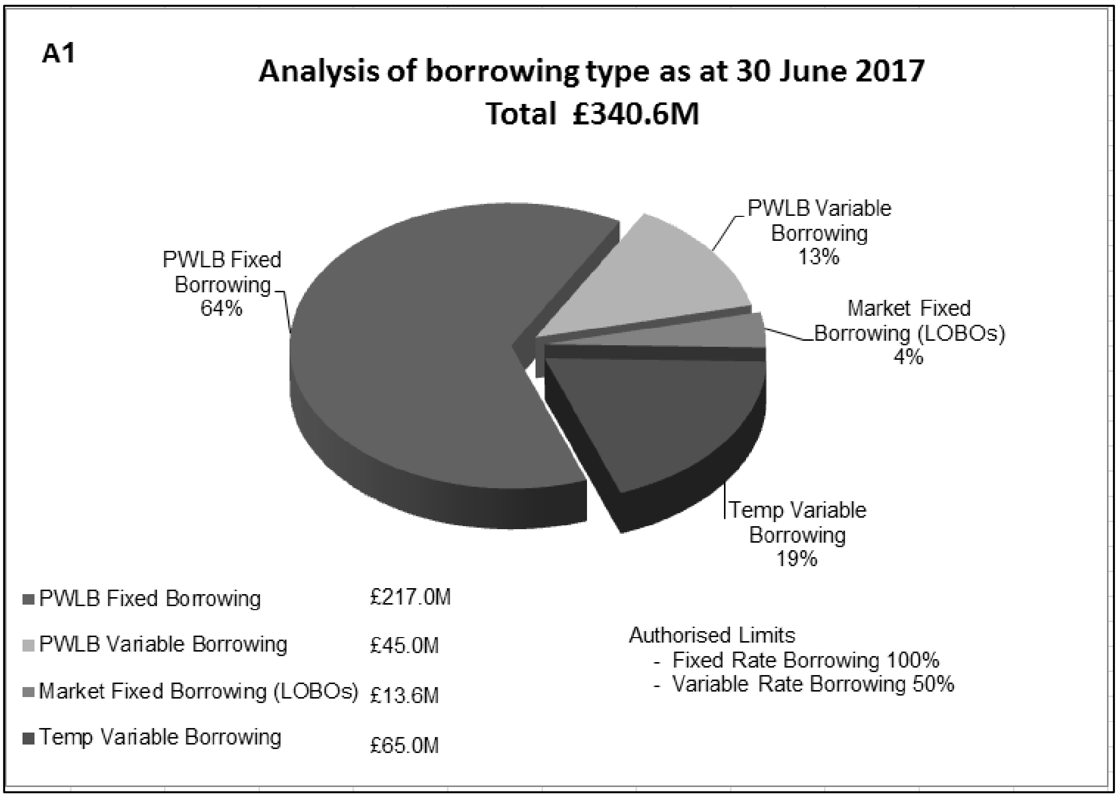
Outlook

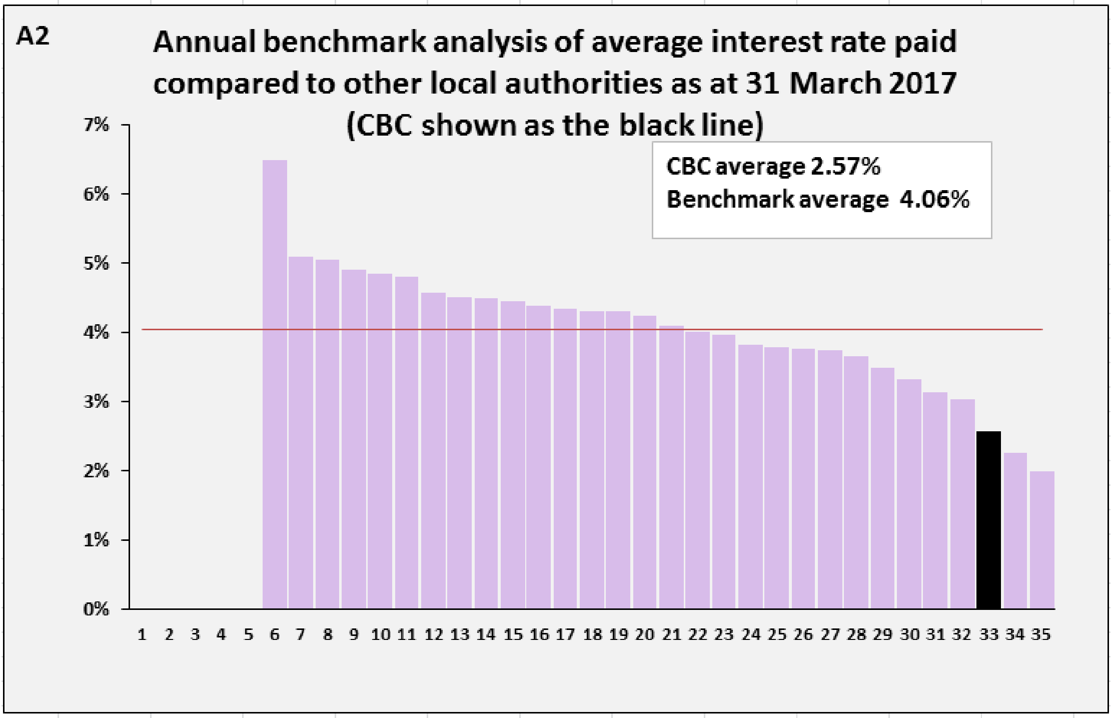
The Council's treasury advisers, Arlingclose, do not expect the Bank of England to raise the Bank Rate from its current level of 0.25% over the next three years. The new main measure of inflation, the Consumer Price Index including owner occupiers (CPIH) fell to 2.6%, down from 2.7% in May 2017. Whilst this continues to be above the Bank of England's 2.0% target, 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.

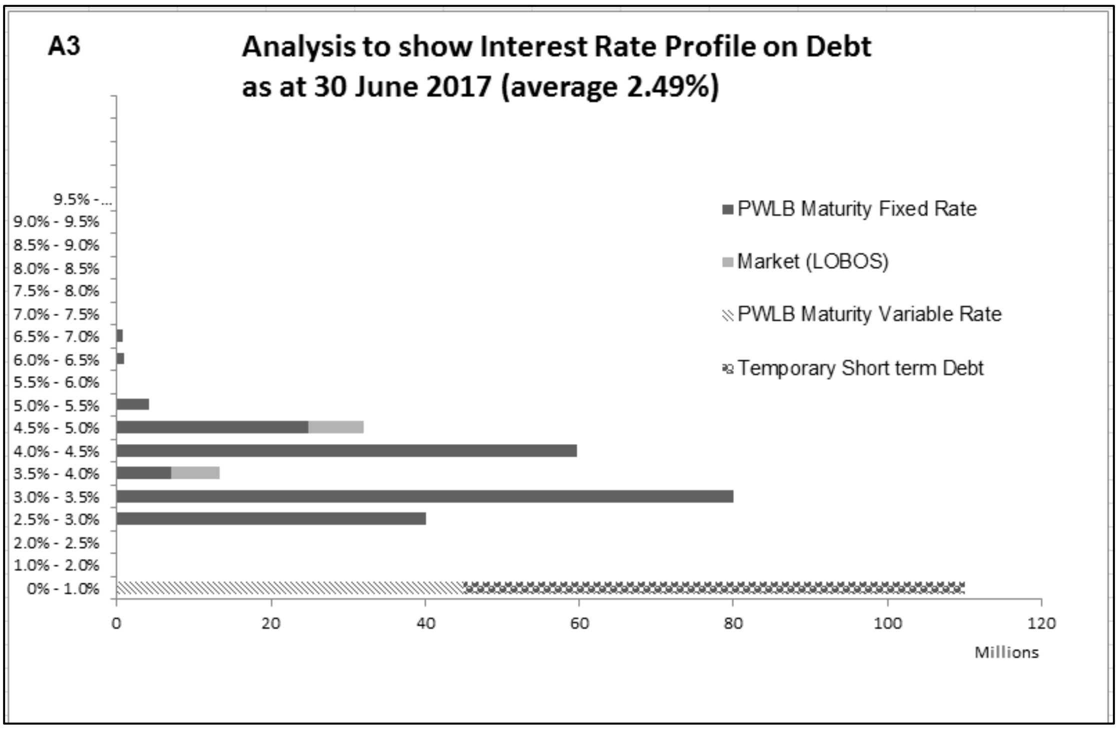
The Council has continued to source its new borrowing requirements from other local authorities and other public sector bodies such as Police and Crime Commissioners, on a short-term temporary basis. The low market interest rates for temporary debt offer revenue cost savings relative to borrowing on 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.

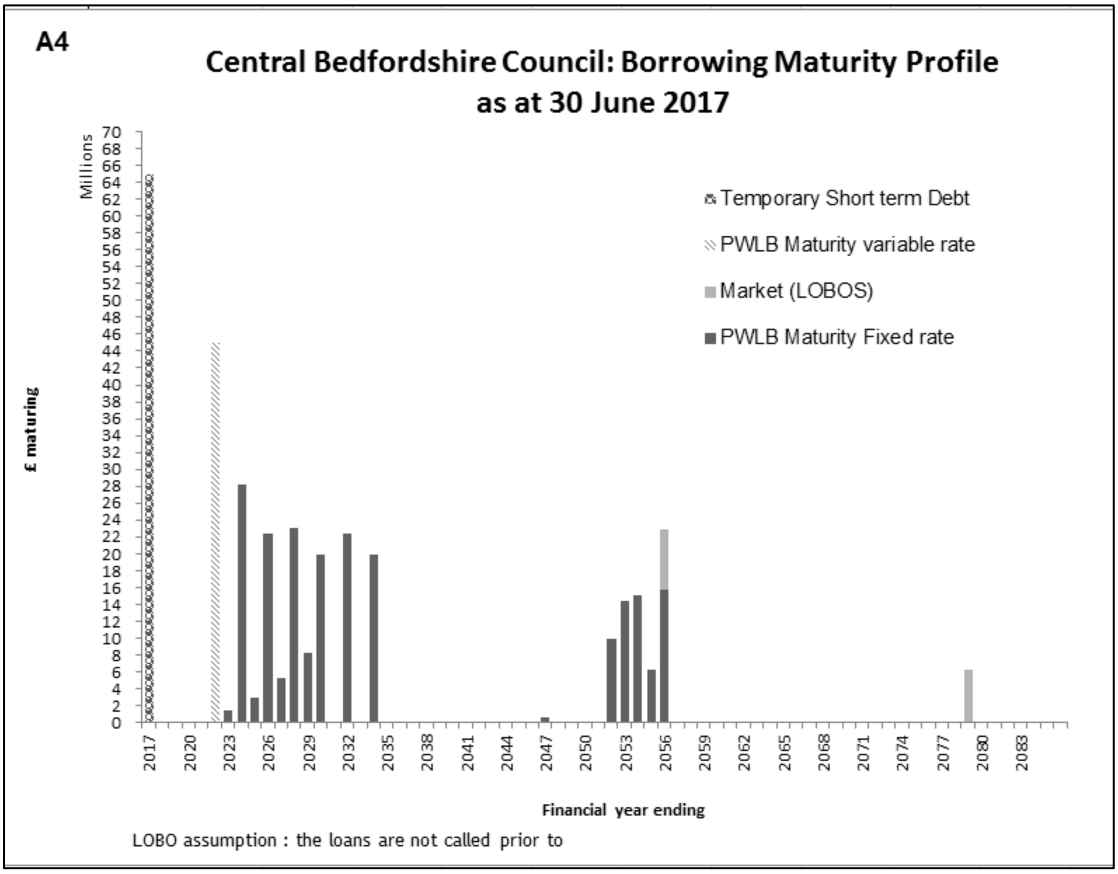
Section A : Debt Information







A3
Analysis to show Interest Rate Profile on Debt
as at 30 June 2017 (average 2.49%)
9.5% -...
9.0% - 9.5%
8.5% - 9.0%
8.0% - 8.5%
7.5% - 8.0%
7.0% - 7.5%
6.5% - 7.0%
6.0% - 6.5%
5.5% - 6.0%
5.0% - 5.5%
4.5% - 5.0%
4.0% - 4.5%
3.5% - 4.0%
3.0% - 3.5%
2.5% - 3.0%
2.0% - 2.5%
1.0% - 2.0%
0% - 1.0%
0
20
40
60
80
100
120
Millions
PWLB Maturity Fixed Rate
Market (LOBOS)
PWLB Maturity Variable Rate
Temporary Short term Debt



A4
Central Bedfordshire Council: Borrowing Maturity Profile
as at 30 June 2017
Millions
£ maturing
Temporary Short term Debt
PWLB Maturity variable rate
Market (LOBOS)
PWLB Maturity Fixed rate
Financial year ending
LOBO assumption : the loans are not called prior to

Section B : Investment Information