

## Appendix C- Treasury Management

### Section A : Debt Information

#### Borrowing

1. As at 30 September 2018 the Council's total borrowing was £299.5M. Of this amount, £261.9M was with the Public Works Loan Board (PWLB), £24.0M 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.

	<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	0.0	24.0	13.6	134.6
HRA	120.0	44.9	0.0	0.0	164.9
<b>TOTAL</b>	<b>217.0</b>	<b>44.9</b>	<b>24.0</b>	<b>13.6</b>	<b>299.5</b>

2. To manage interest rate risk, the Council's debt is split between 72% fixed rate PWLB debt, 15% variable rate PWLB debt, 8% short-term temporary debt and 5% 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 3.8% average annual interest rate paid by other local authorities. The average annual interest rate paid by the Council was 2.7% as at 31 March 2018, 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 0.45% p.a. and 0.75% p.a. (inclusive of brokerage fees).
5. The Council's underlying need to borrow as measured by its Capital Financing Requirement (CFR) was £519.2M at 31 March 2018. Given external borrowing of £317.1M (inclusive of a £16.5M PFI outstanding liability) as at 31 March 2018, deferred borrowing was £202.1M 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

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 2018. It should be noted that as cash investments are maintained at minimal levels for operational purposes, the £5.6M 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 investment benchmarking results are as at 31 March 2018. B2 of the Dashboard shows that the Council's average rate of return on investments was 1.9% 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 (inclusive of capital appreciation).
8. In addition to the Lime Fund investment, the Council has cash deposits placed on varying interest rates ranging between 0.50% and 0.95%. The Council holds the majority of its investments in liquid form so it is available for cash flow purposes. As at 30 September 2018, the Council held cash investments of £12.2M (exclusive of the £5.5M Lime Fund investment). Of the total cash investment balance, £7.7M was held in liquid form in instant access call accounts and Money Market Funds (MMFs); and the remaining £4.5M was held in notice accounts.

### **Cash Management**

9. The average cash balance the Council holds is considerably lower than other benchmarked local authorities. The 12-month rolling average investment balance as at the 31 March 2018 for the Council was £26.7M (inclusive of the Lime fund) compared to a benchmarked local authority average of £180.4M. 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.

### **10. Budget**

A budget underspend of £0.5M is forecasted in 2018/19 in respect of Treasury Management activities reflecting:

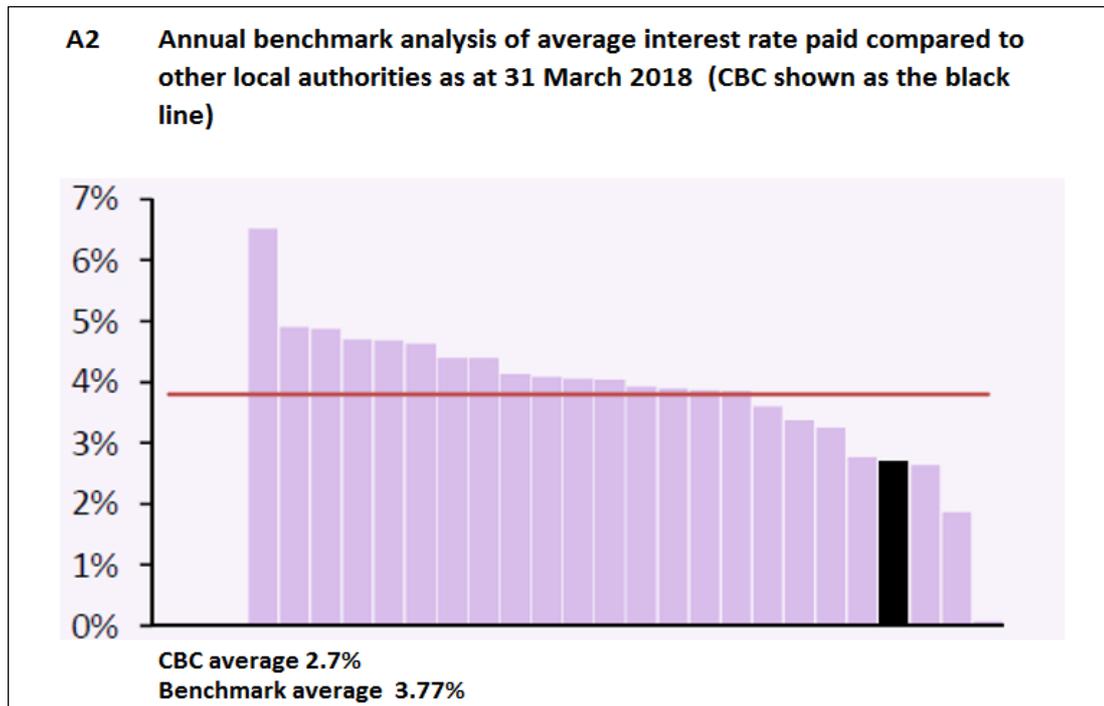
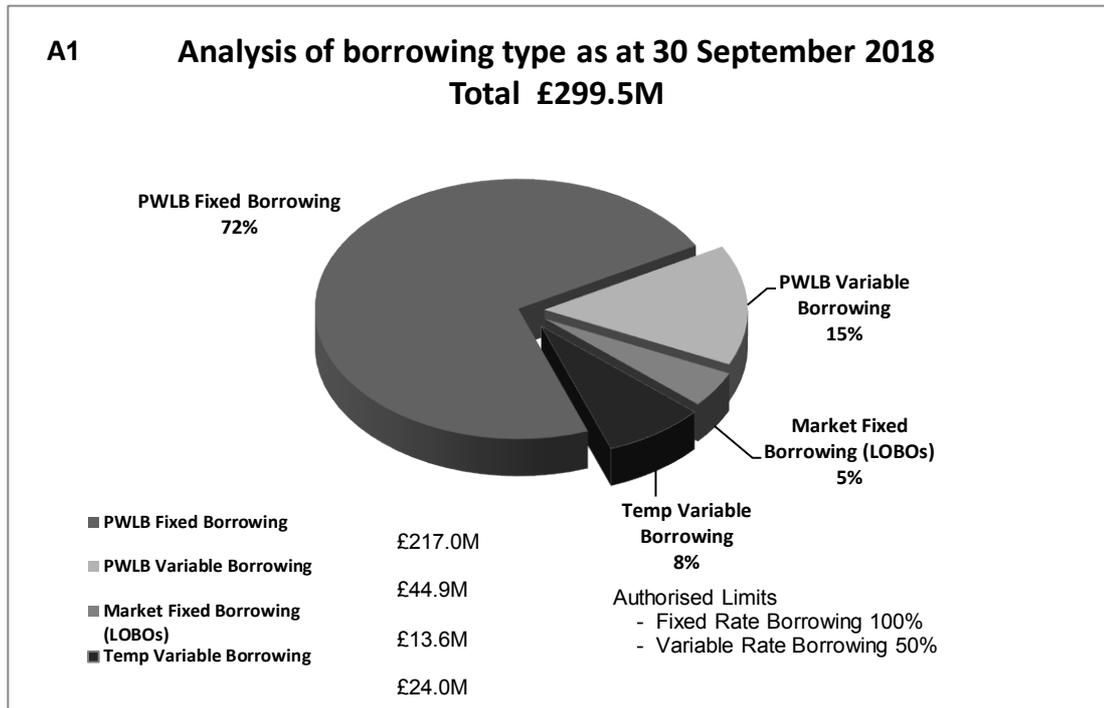
- new borrowing being taken from local authorities and other public sector bodies such as Police and Crime Commissioners on a short-term temporary basis at lower than budgeted rates; and
- Capital Programme slippage which has been higher than originally assumed in the interest payable budget, leading to a lower level of overall borrowing being required than assumed in the 2018/19 budget.

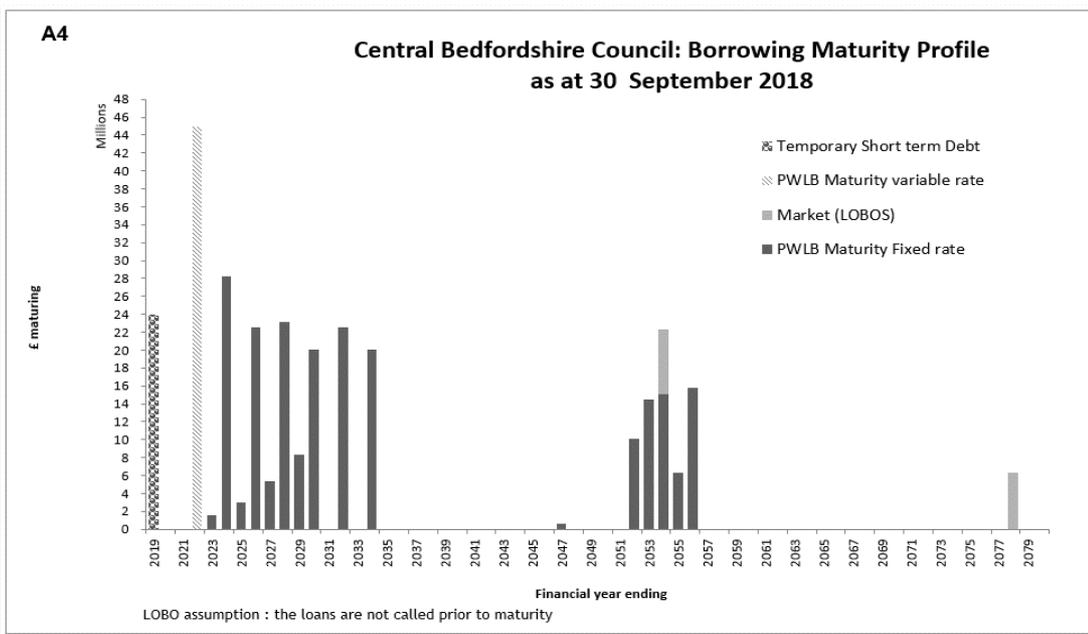
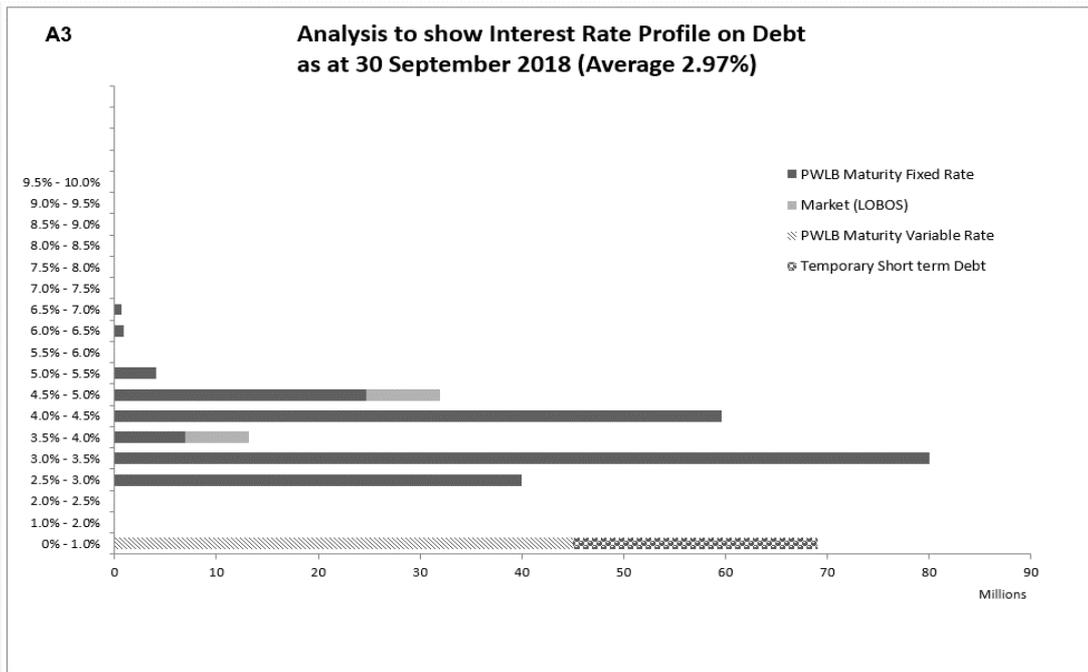
## 11. Outlook

The UK economy expanded by 0.6% in the three months to 31 July 2018, its highest since August 2017. Gross Domestic Product (GDP) was estimated to have increased by 1.7% between 2016 and 2017. The annual Consumer Price Index (CPI) measure of inflation decreased to 2.4% as at the end of September 2018, down from 2.7% in August 2018. The labour market saw the unemployment rate for the three months to 31 July 2018 at 4.0%, down from 4.3% a year earlier and at its lowest level for 40 years.

12. The Bank of England's MPC sets monetary policy to meet the 2.0% inflation target, and help sustain growth and employment. At its meeting ending on 12 September 2018, the MPC voted unanimously to maintain the Base Rate at 0.75%. A relatively weak economic environment limits the speed of any further rises in the Base Rate, although the Bank is of the view that it will "need to raise interest rates a bit more over the next few years". The long term neutral level of Base Rate is considered by the Bank to be between 2% and 3%.
13. The Council has continued to source its new borrowing requirements from 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.
14. 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 B: Treasury Management Performance Dashboard

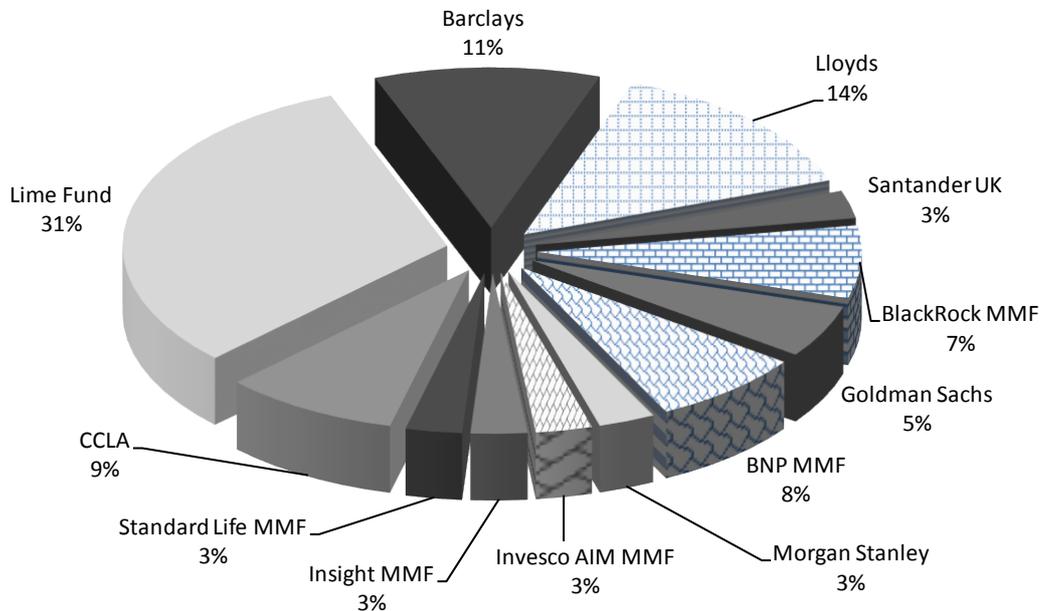




## SECTION B: INVESTMENT INFORMATION

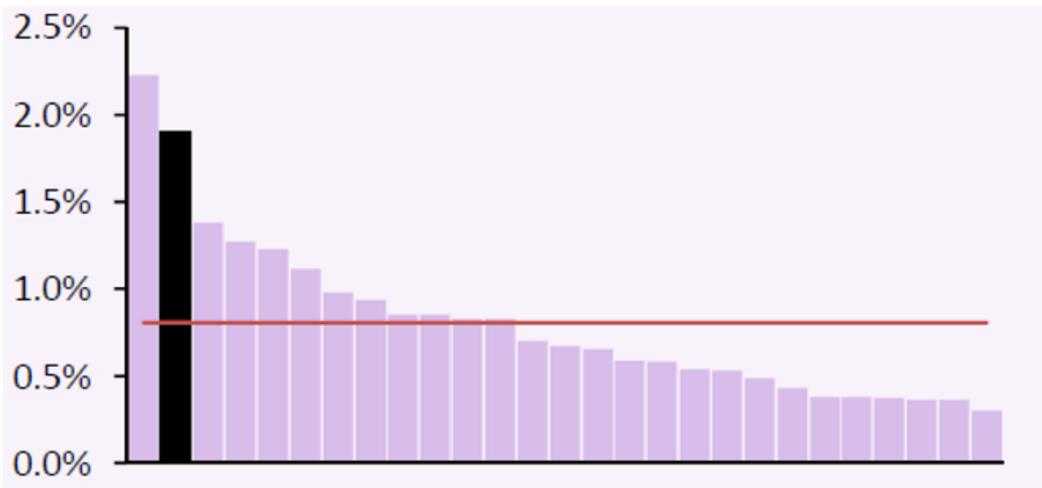
B1

### Analysis of investments as at 30 September 2018 Total investments £17.7M



B2

### Average interest rate received on investments compared to other local authorities as at 31 March 2018 (CBC shown as the black line)



CBC average 1.9%  
Benchmark average 0.8%