

REPORT OF CHAIRMAN OF FINANCE AND PROPERTY COMMITTEE**TREASURY MANAGEMENT MID-YEAR REPORT 2015/16****Purpose of the Report**

1. To provide a mid-year review of the Council's treasury management activities in 2015/16 for the 6 months to 30 September 2015.

Information and Advice

2. Treasury management is defined as "the management of the council's investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
3. County Council approves the Treasury Management Policy and Strategy and also receives mid-year and full year outturn reports. The Council delegates responsibility for the implementation, scrutiny and monitoring of its treasury management policies and practices to the Treasury Management Group, comprising the Service Director (Finance, Procurement & Performance), the Group Manager (Financial Management), the Senior Accountant (Pensions & Treasury Management) and the Senior Accountant (Financial Strategy & Compliance).
4. In the first half of 2015/16, borrowing and investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. Appendix A provides a detailed report on the treasury management activities and Appendix B provides a breakdown of the transactions during the period. The main points to note are:
 - All treasury management activities were undertaken by authorised officers within the limits agreed by the Council.
 - All investments were made to counterparties on the Council's approved lending list.
 - No new borrowing has been raised since the start of the financial year, but £7.6m has been redeemed on maturity.
 - The Council earned 0.67% on its short-term lending, performing better than the average 7 day London Inter-Bank Bid (LIBID) rate of 0.36%.

Reason for recommendation

5. It is considered good practice for Members to consider treasury management planned and actual performance at least three times per financial year, firstly in the Strategy Report

before the start of the year, then in this Mid-Year Report, and also in the Outturn Report, after the close of the financial year.

Statutory and Policy Implications

6. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

7. There are no direct financial implications arising from this report.

RECOMMENDATION/S

- 1) That the Council's treasury management activities for the first half of 2015/16 are noted.

Councillor David Kirkham
Chairman of Finance and Property Committee

For any enquiries about this report please contact:
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Constitutional Comments

8. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (SRC 05/11/15)

9. There are no direct financial implications arising from this report.

TREASURY MANAGEMENT MID-YEAR REPORT 2015/16

1. Treasury Management Activities

- 1.1 The Council's treasury management strategy and associated policies and practices for 2015/16 were approved in February 2015 by Full Council. The Council manages its investments in-house and invests with institutions on its approved lending list, aiming to achieve the optimum return on investments commensurate with appropriate levels of security and liquidity. The Council's treasury portfolio position at 30/09/2015 is shown in Table 1 below.

Table 1

Treasury Position as at 30 September 2015		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Fixed Rate	PWLB	295.5		5.11%
	Market Loan	100.0		3.85%
	Other	5.0	400.5	2.08%
Variable Rate	PWLB	0.0		
	Market Loan	0.0	0.0	
Temporary			0.0	
Total			400.5	4.75%
Other Long-Term Liabilities			125.7	
Total Gross Debt			526.2	
Less: Investments			(79.8)	0.62%
Total Net Debt			446.4	

Note 1: PWLB = Public Works Loans Board

Note 2: Market Loans = Lenders' Option, Borrowers' Option (LOBO) loans

- 1.2 Over the first 6 months of 2015/16 the Council's cash balances were maintained at an average of £94.4m without taking on any new debt and redeeming on maturity some £7.5m on PWLB debt. Surplus cash was invested through the wholesale money markets. The gross temporary lending position above shows outstanding balances of £79.8m, compared to the opening position of £70.2m. The average level of funds available for investment purposes over the period (£94.4m) was slightly lower than last year's figure of £99.7m. This was mainly a result of changes to the timing of precept payments, receipt of grants, progress on the capital programme and net movement on creditors and debtors.

- 1.3** The Council's borrowing and lending activity over the period is set out in Table 2 below. For the purposes of this analysis, other long-term liabilities (debt mainly relating to assets secured under PFI contracts) have been excluded.

Table 2: Borrowing and Lending	Borrowing £m	Lending £m	Net Position £m
Outstanding 1st April 2015	408.1	(95.8)	312.3
Raised/ (lent) during period	0.0	(385.3)	(385.3)
Repayments during period	(7.6)	401.3	393.7
Outstanding 30 Sep 2015	400.5	(79.8)	320.7

- 1.4** The Council's investment return (total interest receivable divided by the average outstanding principal) for the first half of the financial year was 0.67%. Over the same period the average 7 day LIBID was 0.36%.
- 1.5** This outperformance is partly due to the long-term fixed interest investments it has made as part of the Local Lend a Hand Scheme (operated by Lloyds Bank) whereby the investment also underwrites the mortgage deposit of local first-time buyers. On average the return on these is 2.59%.
- 1.6** For the majority of its investments the Council makes use of call accounts and money market funds to optimize security and liquidity. Over the period to 30 September the average return on call accounts was 0.40% and on money market funds it was 0.46%.
- 1.7** A snapshot of the Council's investments outstanding as at 30 September is shown in the table below.

Table 3: Returns on Investments	Balance	Investment Return
	£m	%
Fixed Term Investments	39.5	0.90
Bank Call Accounts	20.0	0.20
Money Market Funds	20.3	0.49
Total	79.8	0.62

- 1.8** There were no major changes made to the Council's lending criteria during the first half of the year, and the lending list itself remained stable. However, a modification was made at the July Council to take account of the Bank of England's change of policy regarding bank bailout: the Council amended its lending criteria in light of there being reduced government support in future for any UK financial institution that requires bailing out.

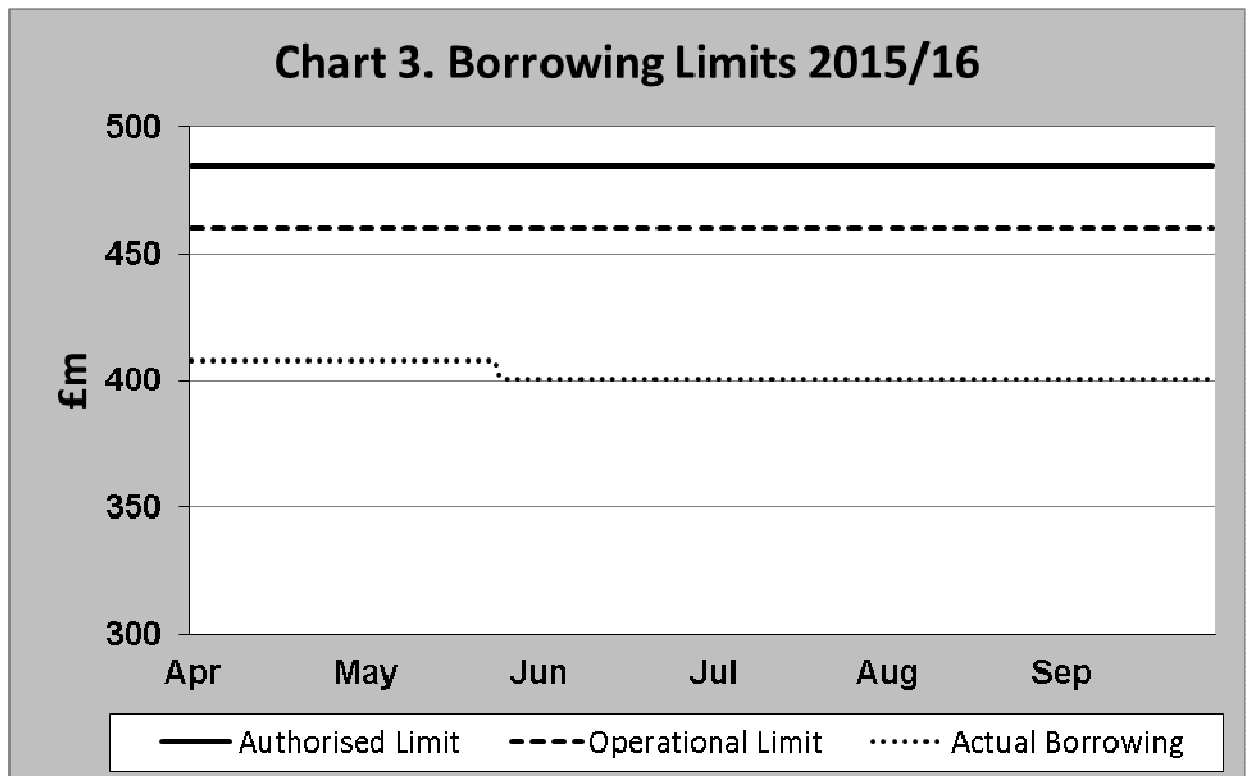
2. Long Term Borrowing

- 2.1** Over the past several years the Council has partly financed the capital programme by using its cash balances (referred to as 'internal borrowing'). This utilises earmarked reserves, general fund reserves and net movement on current assets until the cash is required for their specific purposes.

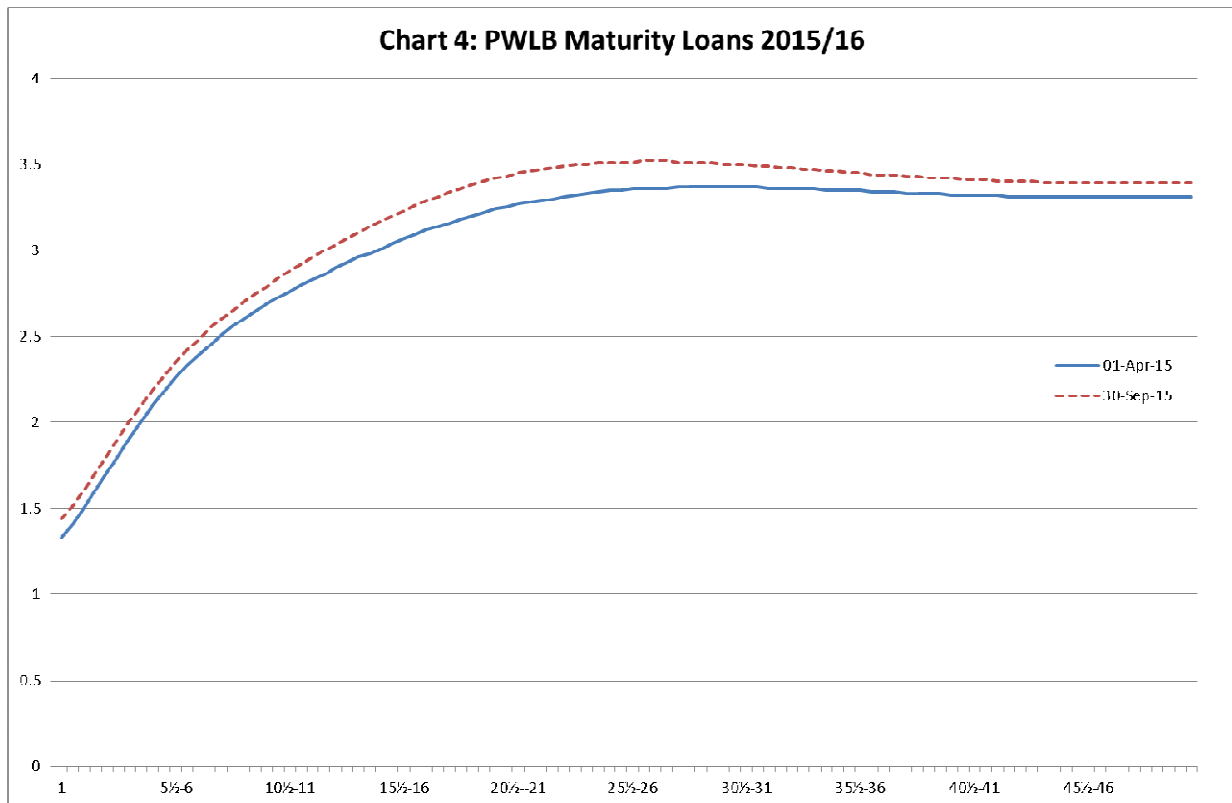
- 2.2** This strategy has the effect of postponing external borrowing, thereby making short-term savings for the Council and also reducing credit risk (by having lower balances available for investments). However, this cashable benefit has to be weighed against the risk of not borrowing and taking advantage of lower interest rates which may increase in future. Delaying borrowing could therefore potentially lead to increased long-term costs. Maintaining absolute minimal cash balances is therefore not advisable, making some borrowing necessary despite relatively high existing cash balances.
- 2.3** The Council's Treasury Management Strategy for 2015/16 indicated borrowing of up to £78m would be required to finance the capital programme and maintain liquidity. However, during the first half of 2015/16 the Council undertook no additional borrowing, and may not need to borrow before the end of the financial year. This is partly due to PWLB interest rates remaining stable over the first half of the year (giving the Council little opportunity to benefit from temporary dips in the rates), and partly due to the Council's reserves forecast for 2015/16 not being as low as previously estimated. This should permit increased 'internal borrowing'. Of course, some borrowing within what is ultimately required for the capital programme may still be undertaken if PWLB rates appear favourable.
- 2.4** An update to the Council's borrowing requirement for 2015/16 is provided in Table 4 below:

Table 4	2015/16 Strategy	2015/16 Midyear
	£m	£m
Borrowing requirement		
Capital Financing Requirement	754.0	738.5
Less:		
- Long-term liabilities	(127.0)	(125.7)
- Existing borrowing	(387.0)	(397.1)
- Cap Ex to be financed by borrowing (1)	(29.0)	(49.6)
- Replenishment/Replacement borrowing (2)	(49.0)	48.7
Internal borrowing (A)	162.0	214.8
Cash and cash equivalents	5.0	5.0
Fixed investments	5.0	4.5
Y/E investment balances (B)	10.0	9.5
Cash deployed (A+B)	172.0	224.3
comprising:		
- Forecast earmarked reserves	120.0	170.0
- Forecast working capital	52.0	54.3
Borrowing summary:		
2015/16 borrowing requirement (1+2)	78.0	(0.9)

- 2.5** Chart 3 shows how current borrowing compares with the prudential indicators and shows that borrowing has been managed within these limits. The authorised limit was set at £485m and the operational boundary at £460m.



- 2.6** Standard borrowing rates from the PWLB in Chart 4 below have slightly increased over the first half of the year. Since the start of the financial year, rates are higher overall, with 25–50 year rates up by approximately 15 basis points. This firming up of rates has discouraged the Council from borrowing, especially as there has been no immediate demand for the cash from a liquidity perspective. Treasury officers therefore continue to monitor these rates, with a view to borrowing when rates dip.



- 2.7** Although the Council always has the option of rescheduling (ie. redeeming old debt and replacing it with new debt) its existing long-term PWLB debt, it remains unlikely that this will occur in the near future, given the PWLB's current redemption policy which generally means that local authorities pay a large premium to reschedule. In practice, the Council's policy is to let all debt mature naturally.