Nottinghamshire County Council

Report to County Council

23 November 2017

Agenda Item: 9

REPORT OF CHAIRMAN OF FINANCE AND MAJOR CONTRACTS MANAGEMENT COMMITTEE

TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

Purpose of the Report

1. To provide a mid-year review of the Council's treasury management activities in 2017/18 for the 6 months to 30 September 2017.

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 & Improvement), the Group Manager (Financial Management), the Senior Accountant (Pensions & Treasury Management) and the Senior Accountant (Financial Strategy & Compliance).

4. In the first half of 2017/18, 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.
    - £10m of new borrowing has been raised since the start of the financial year, and £3.3m of existing debt has been redeemed on maturity.
    - Over the 6 month period the Council earned 0.40% on its short-term lending, performing better than the average 7 day London Inter-Bank Bid (LIBID) rate of 0.24%.

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 crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment 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

1) That County Council members approve the actions taken by the Section 151 Officer to date as set out in the report.

Councillor Richard Jackson
Chairman of Finance and Major Contracts Management Committee

For any enquiries about this report please contact:
Tamsin Rabbitts – Senior Accountant (Pensions & Treasury Management)

Constitutional Comments

8. This is an updating information report and Full Council is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 31/10/17)

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

TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

1. Treasury Management Activities

1.1 The Council's treasury management strategy and associated policies and practices for 2017/18 were approved in February 2017 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 30/09/2017 is shown in Table 1 below.

Table 1: Treasury Position as at 30 September 2017		**£m**	**£m**	**Average Interest Rate**
External Borrowing				
Fixed Rate	PWLB	337.9		4.74%
	Market Loan	100.0		3.85%
	Other LA	5.0	442.9	2.08%
Variable Rate	PWLB	0.0		
	Market Loan	0.0	0.0	
Temporary			0.0	
Total			**442.9**	4.51%
Other Long-Term Liabilities			**126.4**	
Total Gross Debt			**569.3**	
Less: Investments			(52.2)	0.40%
Total Net Debt			**517.1**	

Note 1: PWLB = Public Works Loans Board
Note 2: Market Loans includes £70m Lenders' Option, Borrowers' Option (LOBO) loans

1.2 The gross temporary lending position above shows outstanding balances of £52.2m, (the opening position for 2017/18 was £80.1m). Over the first 6 months of 2016/17 the Council's cash balances averaged £66.1m, a figure which incorporates the taking of £10m of new PWLB debt on 10 July 2017, and redeeming on maturity some £3.3m of PWLB debt on 25 May 2017. This average balance was significantly lower than last year's figure of £122.1m. This was due mainly to the Council delaying its borrowing and making temporary use of internal cash balances in an effort to make savings, together with the progress of the capital programme. All surplus cash was invested through the wholesale money markets.

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 2017	436.2	(80.1)	356.1
Raised/ (lent) during period	10.0	(337.2)	(327.2)
Repayments during period	(3.3)	406.0	402.7
Outstanding 30 Sep 2017	442.9	(52.2)	390.7

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 0.40%. Over the same period the average 7 day LIBID was 0.24%.

1.5 This outperformance of LIBID is still partly due to the long-term fixed interest investments which were 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%. However, for the majority of its investments the Council makes use of lower yielding money market funds in order to optimize security and liquidity. Liquidity becomes especially important when cash balances are purposely kept low. Over the period to 30 September the average return on these was around 0.22%.

1.6 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 – LAMS	4.5	2.59
Fixed Term Investments - Other	0.0	0.00
Money Market Funds	47.7	0.19
Total	**52.2**	**0.40**

1.7 There were no major changes made to the Council's lending criteria during the first half of the year. The lending list itself is regularly monitored.

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 holding lower cash balances).

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. Therefore, it sometimes might be necessary for the Council to borrow before the demand for cash is felt from a cashflow perspective.

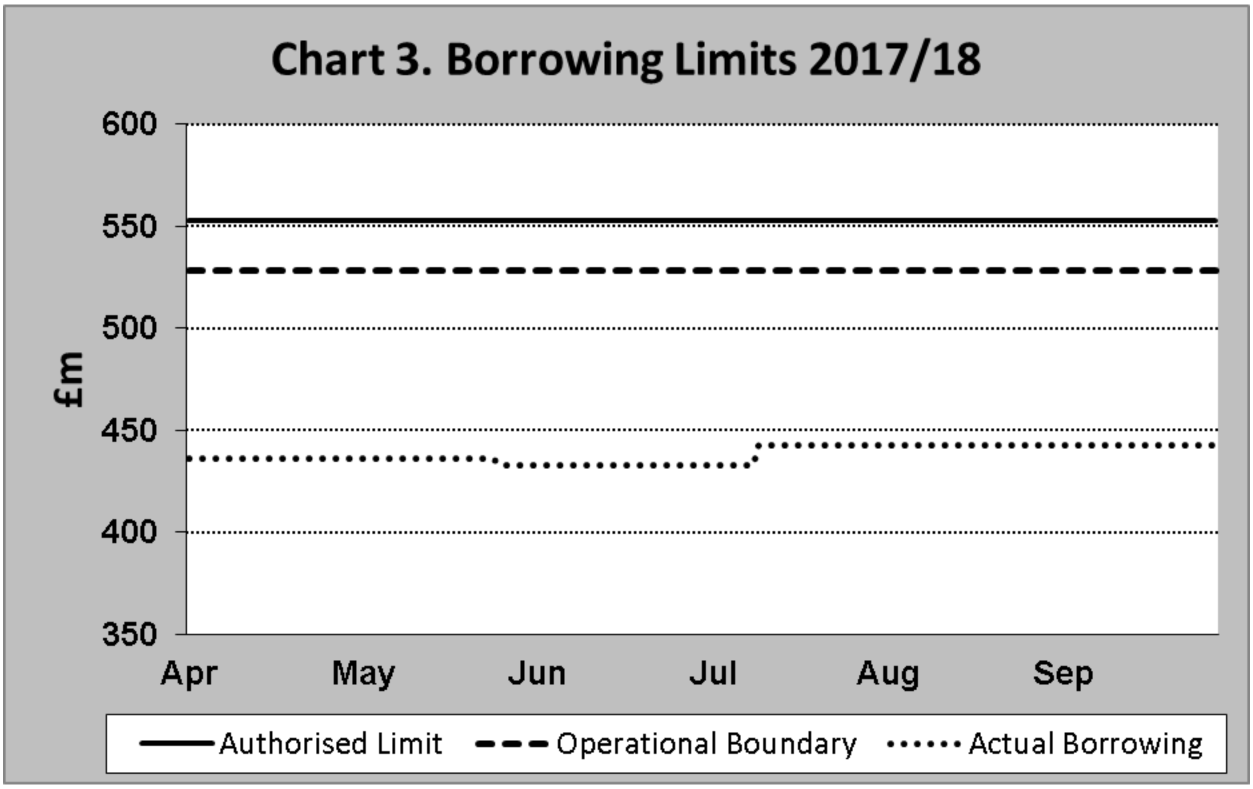
2.3 The Council's Treasury Management Strategy for 2017/18 indicated borrowing of at least £30m would be required to finance the capital programme and maintain liquidity. In July 2017 it undertook £10m of borrowing from PWLB.

2.4 An update to the Council's forecast borrowing requirement for 2017/18 is provided in Table 4 below:

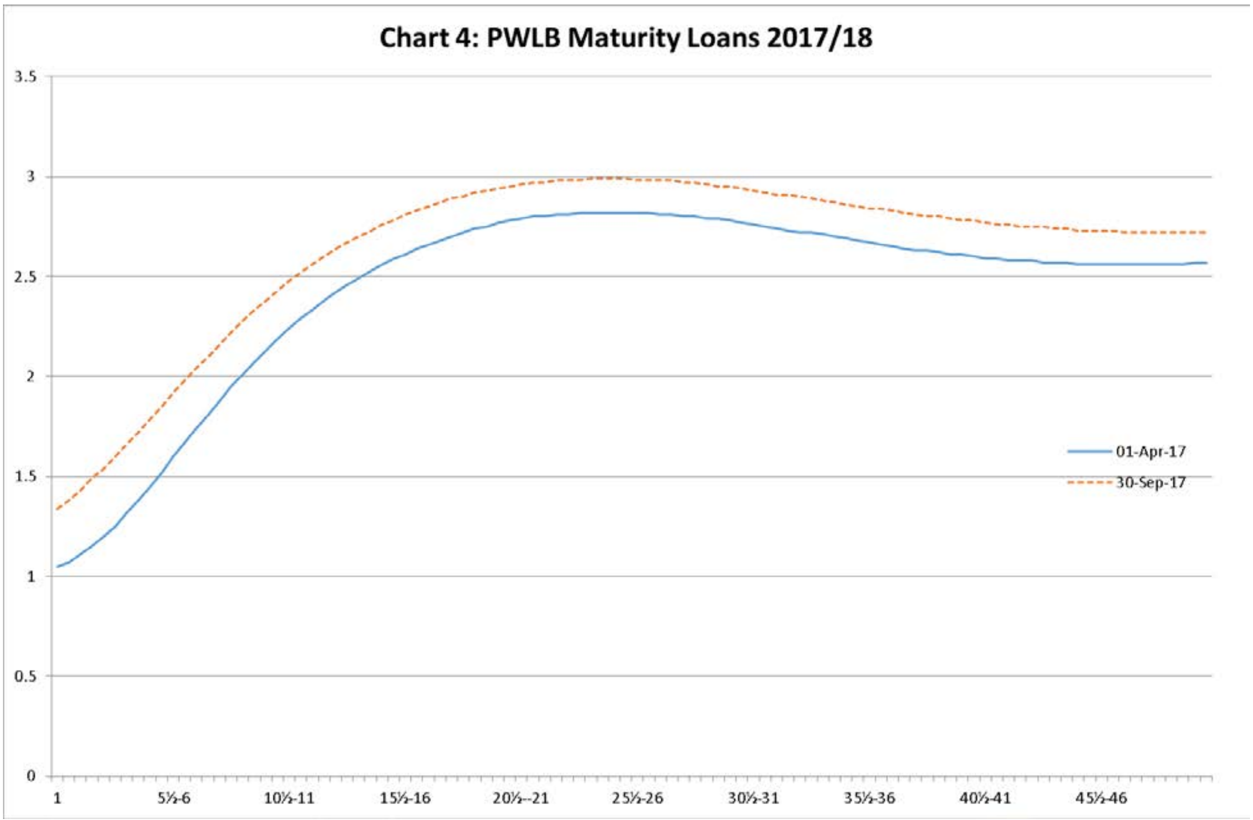
Table 4	**2017/18 Strategy**	**2017/18 Revised**
	£m	**£m**
Borrowing requirement		
Capital Financing Requirement	793.0	775.0
Less:		
- Long-term liabilities	(129.8)	(126.4)
- Existing borrowing	(426.1)	(436.1)
- Cap Ex to be financed by borrowing (1)	(56.9)	(68.0)
- Replenishment/Replacement borrowing (2)	26.5	57.7
Internal borrowing (A)	**206.8**	**202.2**
Cash and cash equivalents	5.0	20.0
Fixed investments	2.5	2.5
Y/E investment balances (B)	**7.5**	**22.5**
Cash deployed (A+B)	**214.3**	**224.7**
comprising:		
- Forecast earmarked reserves	154.4	175.0
- Forecast working capital	59.9	49.7
Borrowing summary:		
2017/18 borrowing requirement (1+2)	**30.4**	**10.3**

2.5 This table shows that the Council remains under-borrowed by £202.2m relative to its Capital Finance Requirement, and that further borrowing of around £10m will be required during 2017/18. However, if PWLB or market rates appear favourable, and if cashflow demands, then an amount greater than this may be taken.

2.6 Chart 3 below shows how current borrowing compares with the prudential indicators and shows that borrowing has been managed within these limits. The operational boundary for 2017/18 was set at £528m and the authorised limit at £553m.



2.7 Chart 4 below shows that borrowing rates from the PWLB have slightly increased over the first half of the year. Most of this increase came during September when the Governor of the Bank of England suggested there would be an imminent base rate increase. Treasury officers therefore continue to monitor PWLB rates, with a view to borrowing when these are favourable.



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