

QUARTERLY TREASURY MANAGEMENT REPORT – QTR 1

1. Borrowing Requirement and Debt Management

As at the 30 June 2015, the council's overall outstanding long term borrowing was £250M, at an average rate of 3.36% and an average maturity of 23.5years, this has fallen by £2.3M since 1 April due to maturing debt which has not yet been replaced. The total long term debt portfolio is made up of loans from the Public Works Loan Board (PWLB) of £241M and market loans of £9M.

Included within the PWLB portfolio is £35M of variable rate loans, which is currently averaging 0.69% for the year and are helping to keep overall borrowing costs down. Whilst in the current climate of low interest rates this remains a sound strategy, the Council need to review these regularly and if appropriate switching into fixed rate loans if interest rates start to rise rapidly.

The Council does not have any temporary borrowing at present having repaid outstanding balances during 2014/15 and whilst these have remained affordable and attractive, due to our higher than expected level of cash (and subsequent investments) no need has arisen.

As at the 31 March 2015 the Council used £92M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium to long term and the Council will need to borrow to cover this amount as balances fall. Based on the Capital Programme approved by Council in February 2015 and adjusted for actual spend in 2014/15, the Council is expected to borrow up to £82M between 2015/16 and 2017/18. Of this £55M relates to new HRA capital spend, £3M for the GF capital spend and the remainder for the refinancing of existing debt and externalising internal debt to cover the expected fall in balances.

No new borrowing has been taken to date and none is expected to be taken until the third quarter of the year and will be assessed in conjunction with the development of the capital programme, cash balances and advice from the Council's treasury advisor.

Budgeted Expenditure

The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost in 2015/16 of financing the Authority's loan debt is estimated at £11M.

2. Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2015/16.

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings. The Council's minimum long-term counterparty rating is A- (or equivalent across rating agencies Fitch, S&P and Moody's); credit default swaps; financial statements, information on potential government support and reports in the quality financial press.

Investments

There has been an increase in balances since the beginning of the year (£92M), peaking at £125M in mid- April. Based on previous years the balance will be expected to fall around December when we have traditionally needed to borrow short term from the money markets.

Projected balances indicate that on present levels of spend there should be no need to borrow short term unless we feel this is prudent to protect our investments in the higher returning call accounts and to protect against possible interest rate rises.

As reported previously, following advice from our advisors Arlingclose, we have invested longer term deposits in covered bonds with a view of investing up to our £35M limit for long term investments (currently £19.2M plus external investment of £7M) to optimise investment income. In addition the Authority has invested £26.1M in shorter term bonds including £24M in corporate bonds as an alternative to fixed term deposits with banks as although the risk of insolvency remains, there is no risk of pre-emptive bail-in by the regulator and corporates are far less geared than banks. These deals will generate around £0.5M for 2015/16.

The Authority has investments amounting to £100.8M, with an average rate of return of 1.40% as detailed below:

Table TM 1 Investments

Investments	At 30 June 2015 £M	Average Yield %	Rating
CASH			
Money Market Funds	32.5	0.47	A+ to AA
Santander UK Plc	5.0	0.40	A
Svenska Handelsbanken – A SHS	1.0	0.35	AA-
HSBC Bank PLC	5.0	0.80	AA-
Barclays Bank PLC	5.0	0.50	A
TOTAL	48.5	0.54	
LONG TERM BONDS <i>(not subject to bail-in)</i>			
European Investment Bank	3.2	5.30	AAA
Bank of Scotland PLC Covered	3.3	0.68	AAA
Barclays Bank PLC Covered	1.0	0.75	A-
Yorkshire Building Society Covered	3.2	1.94	AAA
Leeds Building Society Covered	5.0	0.85	AAA
Lloyds Bank Covered	2.0	0.67	AAA

Nationwide Covered	1.5	0.76	AAA
TOTAL	19.2	1.81	
CORPORATE BONDS (<i>not subject to bail-in</i>)			
Anglian Water Services Financing Ltd	0.6	0.84	NR
Daimler AG	4.0	0.83	A-
Heathrow Funding Ltd	2.4	0.92	NR
Network Rail Infrastructure	2.1	0.51	AA-
Prudential PLC	5.1	0.95	A
Rolls Royce PLC	0.8	0.77	A-
Volkswagen Financial Service	4.6	0.85	A
Westpac Banking Corp	2.4	0.84	AA-
Yorkshire Building Society Covered	2.0	0.71	AAA
TOTAL	24.0	0.83	
OTHER BONDS			
Rabobank Nederland	2.1	0.95	A+
TOTAL OTHER BONDS	2.1	0.95	
EXTERNALLY MANAGED PROPERTY FUND	7.0	4.86	
TOTAL INVESTMENTS	100.8	1.40	

External Managed investments

On the 30 April 2014 the Council invested £5M in property funds which offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. This investment returned £0.24M in 2014/15, a yield of 5.21% and the net asset value of the fund at 31st March was £5.3M (£5.2M at 31 December) a notional "gain" of £0.3M against initial investment. Whilst recognising the increased risk (as the value of the fund can also go down) due to the strong performance to date an additional £2M was invested on the 30 April 2015, as at the 30 June the sell price of our total investments were valued at £7.2M a notional "gain" of £0.2M against investments. The current dividend yield on the fund is expected to be 4.86%.

Budgeted Income

The Council does not expect any losses from non-performance in relation to its investments by any of its counterparties. The UK Bank Rate has been maintained at 0.5% since March 2009 and as a consequence short-term money market rates have remained at relatively low levels, investments in Money Market Funds and call accounts currently generated an average rate of 0.54%. Investments in bonds have performed better returning an average of 1.22% to date. The average cash balances during the quarter was £109.5M; these are expected to decline towards the end of the financial year as the incidence of government grant income and council tax income is skewed towards the earlier part of the year.

The Authority's budgeted investment income for the year is estimated at £0.6M. As reported previously the Authority continues to review investments in suitable longer term financial instruments which will generate a better return, as it is envisaged that there be sufficient cash balances over the medium term.

3. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2015/16, approved by Full Council on 11 February 2015. The table below summarises the Key Prudential Indicators and performance to date:

Table TM 2 Prudential Indicators

Indicator	Limit	Actual at 31 June 2015
Authorised Limit for external debt £M	£727M	£332M
Operational Limit for external debt £M	£553M	£332M
Maximum external borrowing year to date		£253M
Limit of fixed interest debt %	100%	82.4%
Limit of variable interest debt %	50%	17.6%
Limit for Non-specified investments £M	£50M	£26M