

TREASURY MANAGEMENT MONITORING REPORT 31 AUGUST 2014

1. EXECUTIVE SUMMARY

- 1.1 This report is for noting its sets out the Council's treasury management position for the period 1 July 2014 to 31 August 2014 and includes information on :
- Overall Borrowing Position
 - Borrowing Activity
 - Investment Activity
 - Prudential Indicators.
- 1.2 The Council has not undertaken or made any repayments of long term debt in the period. Due to a reduced Capital Financing Requirement (CFR) of £256m at 31 March 2014 and a reduction of £10m in the forecast capital expenditure the estimated CFR for 31 March 2015 has reduced from £275m to £262m from that predicted in the budget at February 2014.
- 1.3 In respect of investment activity the level of investments have increased by £2.4m from £59.2m at 1 July 2014 to £61.6m at 31 August 2014. The rate of return achieved was 0.668% which compares favourably with the target of 7 day LIBID which was 0.345%.
- 1.4 On 5th August the Council placed £5m with Goldman Sachs for a period of 6 months at a rate of 0.745%. Goldman Sachs has a short term rating of A-2 and long term rating of A.

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2. INTRODUCTION

2.1 This report summarises the monitoring as at 31 August 2014 of the Council's:

- Overall Borrowing Position
- Borrowing Activity
- Investment Activity
- Prudential Indicators.

3. RECOMMENDATIONS

3.1 The treasury management monitoring report is noted.

4. DETAIL**Overall Borrowing Position**

4.1 The table below details the estimated capital financing requirement (CFR) and compares this with the estimated level of external debt at the 31 March 2014. The CFR represents the underlying need for the Council to borrow to fund its fixed assets and accumulated capital expenditure.

	Forecast 2014/15 £000's	Budget 2014/15 £000's	Forecast 2015/16 £000's	Forecast 2016/17 £000's
CFR at 1 April	256,463	258,871	262,499	278,154
Net Capital Expenditure	24,477	34,809	27,439	(8,035)
Less Loans Fund Principal Repayments	(18,441)	(18,441)	(11,784)	(10,784)
Estimated CFR 31 March	262,499	275,239	278,154	259,335
Less Funded by NPDO	(79,603)	(79,603)	(78,055)	(76,507)
Estimated Net CFR 31 March	182,896	195,636	200,099	182,828
Estimated External Borrowing at 31 March	161,235	161,315	169,315	177,315
Gap	21,661	34,321	30,784	5,513

4.2 Borrowing is currently estimated to be below the CFR for the period to 31 March 2014. This reflects the approach taken to minimise surplus cash on deposit in order to avoid overdue exposure to investment / credit worthiness risks. However if it becomes clear that longer term interest rates are due to increase significantly the position will be reviewed to ensure the Council locks in funding at low interest rates.

- 4.3 The Council's estimated net capital financing requirement at the 31 August 2014 is £182.896m. The table below shows how this has been financed. Whilst borrowing is less than CFR there are substantial internal balances (mainly the General Fund) of which £62m is currently invested.

	Position at 30/06/2014 £000's	Position at 31/08/2014 £000's
Loans	161,221	161,235
Internal Balances	91,236	83,276
Less Investments & Deposits	(59,229)	(61,615)
Total	193,228	182,896

Borrowing Activity

- 4.4 The table below summarises the borrowing and repayment transactions in the period 1 July 2014 to 31 August 2014.

	Actual £000's
External Loans Repaid 1st July 2014 to 31st August 2014	0
Borrowing undertaken 1st July 2014 to 31st August 2014	14
Net Movement in External Borrowing	14

- 4.5 No local bonds were repaid in the period 1 July 2014 to 31 August 2014.
- 4.6 No new local bonds were taken out in the period 1 July 2014 to 31 August 2014.
- 4.7 The table below summarises the movement in level and rate of temporary borrowing at the start and end of the period. Owing to the levels of internal balances and surplus cash temporary borrowing has been minimal.

	£000s	% Rate
Temp borrowing at 30th June 2014	1,351	0.30%
Temp borrowing at 31st August 2014	1,363	0.30%

Investment Activity

- 4.8 The average rate of return achieved on the Council's investments to 31st August 2014 was 0.668% compared to the average LIBID rate for the same period of 0.345% which demonstrates that the Council is achieving a reasonable rate of return on its cash investments. At the 31 August 2014 the Council had £62m of short term investment at an average rate of 0.668%. The table below details the counterparties that the investments were placed with, the maturity date, the interest rate and the credit rating applicable for each of the counterparties.

Counterparty	Maturity	Amount £000s	Interest Rate	Rating
Bank of Scotland	Instant Access	3,000	0.40%	Short Term A-1, Long Term A
Bank of Scotland	31/10/2014	5,000	0.98%	
Bank of Scotland	16/12/2014	5,000	0.98%	
Bank of Scotland	07/01/2015	5,000	0.95%	
Bank of Scotland	23/01/2015	5,000	0.95%	
Royal Bank of Scotland	Instant Access	50	0.25%	Short Term A-2, Long Term A-
Clydesdale Bank	Instant Access	4,565	0.50%	Short Term A-2, Long Term BBB+
Goldman Sachs	05/02/2015	5,000	0.75%	Short Term A-2, Long Term A
Handelsbanken	35 Day Notice	20,000	0.65%	Short Term A-1+, Long Term AA-
Santander	Instant Access	9,000	0.40%	Short Term A-1, Long Term A
Total		61,615		

- 4.09 All investments and deposits are in accordance with the Council's approved list of counterparties and within the limits and parameters defined in the Treasury Management Practices. The counterparty list is constructed based on assessments by leading credit reference agencies adjusted for additional market information available in respect of counterparties.
- 4.11 On 5th August the Council placed £5m with Goldman Sachs for a period of 6 months at a rate of 0.745%. Goldman Sachs has a short term rating of A-2 and long term rating of A.
- 4.15 The current market conditions have made investment decisions more difficult as the number of counterparties which meet the Council's parameters has reduced making it harder to achieve reasonable returns while limiting the exposure to any one institution.
- 4.16 In response to the low investment returns available in the market and the reduced likelihood of increases in base rate it has been decided to place fixed deposits with the part nationalised banks for periods up to 12 months to increase returns without significantly increasing the risks associated with the investments.

Prudential Indicators

- 4.18 The prudential indicators for 2013-14 are attached in appendix 1.

5. CONCLUSION

- 5.1 The Council has taken no new long term borrowing or made any repayments during the three months to 31 August 2014. The investment returns were 0.668% which is above the target of 0.345%.

6. IMPLICATIONS

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|-----|--------------------|-------|
| 6.1 | Policy – | None. |
| 6.2 | Financial - | None |
| 6.3 | Legal - | None. |
| 6.4 | HR - | None. |
| 6.5 | Equalities - | None. |
| 6.6 | Risk - | None. |
| 6.7 | Customer Service - | None. |

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Appendix 1 – Prudential Indicators

APPENDIX 1 : PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2014/15	2014/15	2015/16	2016/17
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT				
	Original Estimate	Forecast Outturn	Forecast Outturn	Forecast Outturn
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non - HRA	50,185	44,183	44,497	9,798
TOTAL	50,185	44,183	44,497	9,798
Ratio of financing costs to net revenue stream				
Non - HRA	10.98%	10.98%	8.24%	7.96%
Net borrowing requirement				
brought forward 1 April *	258,871	258,871	262,499	278,154
carried forward 31 March *	275,239	262,499	278,154	259,335
in year borrowing requirement	16,368	3,628	15,655	(18,819)
In year Capital Financing Requirement				
Non - HRA	16,368	3,628	15,655	(18,819)
TOTAL	16,368	3,628	15,655	(18,819)
Capital Financing Requirement as at 31 March				
Non - HRA	275,239	262,499	278,154	259,335
TOTAL	275,239	262,499	278,154	259,335
Incremental impact of capital investment decisions				
Increase in Council Tax (band D) per annum	£ p 53.55	£ p 69.61	£ p 60.04	£ p (17.57)

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
Authorised limit for external debt -			
borrowing	203,000	220,000	205,000
other long term liabilities	81,000	80,000	78,000
TOTAL	284,000	300,000	283,000
Operational boundary for external debt -			
borrowing	198,000	215,000	200,000
other long term liabilities	78,000	77,000	75,000
TOTAL	276,000	292,000	275,000
Upper limit for fixed interest rate exposure			
Principal re fixed rate borrowing	195%	190%	190%
Upper limit for variable rate exposure			
Principal re variable rate borrowing	60%	60%	60%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£20m	£20m	£20m

Maturity structure of new fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%