9 December 2015	ITEM 12 01104430
Cabinet	
Borrowing And Investment Performance And Policy 2015/16 Mid-Year Report	
Portfolio Holder: Councillor John Kent, Portfolio Holder for Finance and Strategy	
Wards and communities affected: None	**Key Decision:** Yes
Accountable Head of Service: Sean Clark, Head of Corporate Finance	
Accountable Director: Lyn Carpenter, Chief Executive	
This report is Public	
Purpose of Report: To review the borrowing and investment activity and report on the forecast outturn position for 2015/16	

EXECUTIVE SUMMARY

In accordance with the Revised CIPFA Prudential Code, this report

(a) reviews borrowing and investment activity to 30 September 2015

(b) reports on the forecast treasury outturn position for 2015/16

1. Recommendations:

1.1 Note the results of Treasury Management activities undertaken in the first half of 2015/16

2. Introduction and Background:

2.1 This report is prepared in accordance with the requirements of the CIPFA Prudential Code.

2.2 The report presents details of treasury management activity for 6 months to 30 September 2015.

3. Issues, Options and Analysis of Options:

Borrowing

The Council's borrowing activity for the period from 1 April 2015 to 30 September 2015 is summarised in the table below:-

Table 1

Source of Loan	Balance at 1/4/15	New loans raised	Loans repaid	Balance at 30/9/15
	£'000	£'000	£'000	£'000
LOBO Loans	29,000	0	0	29,000
PWLB	160,889	0	0	160,889
Temporary Market Loans	119,750	131,000	131,250	119,500
Total Debt	309,639	131,000	131,250	309,389

3.1 The Council is continuing to fund the £84.0m ex-Public Works Loan Board (PWLB) debt on a temporary basis. Current interest rate projections from the Council's advisors, Arlingclose, show a central projected case of 0.50 per cent through to mid-June 2016 with the next move upwards of 0.25 per cent to 0.75 per cent anticipated in late June 2016. The forecast thereafter is for gradual increases in the base rate up to 1.75 per cent by December 2018. This forecast would suggest that further interest savings could still be accrued for at least two further financial years following 2015/16 against borrowing long term debt. However, these predictions for the bank base rate are open to change according to government authorities response to market events and all possibilities will be closely monitored by both officers and the Council's advisors, Arlingclose, with appropriate action taken as necessary.

3.2 As at 30 September 2015 total debt outstanding is £309.4m made up of £160.9m of Housing Revenue Account (HRA) debt with PWLB, £29.0m Long Term Market debt and £119.5m of temporary borrowing. The large turnover of loans in Table 1 is attributable to financing the £84.0m ex-PWLB debt on a temporary basis (loans can often be for a period of 1 month only leading to a high turnover of loans to service the entire debt).

3.3 Officers will continue to monitor any difference between the level of the Council's actual debt and the Capital Financing Requirement (CFR) at the start of the year (This is the measurement of the underlying need to borrow to finance capital expenditure and is based on the Council's balance sheet) to ascertain whether any further funding is required. Current estimates show the CFR increasing from £304.8m at the end of 2014/15 to £377.8m by the end of 2017/18 and current debt stand at £309.4m, a funding gap of £68.4m over the next three years. However, the basis for this borrowing, either by use of internal balances or long term and short term borrowing, will be assessed as the need arises. Any decisions on new borrowing will be made in conjunction with the Council's advisors taking into account all relevant factors.

3.4 The Council has been successful in the past few years in using internally held investments to repay maturing debt, and to continue to finance elements of the Capital Programme that would otherwise have been funded by borrowing. However, as stated in paragraph 3.3 the time may be approaching when the Council requires further borrowing as the CFR rises and where internally held investments reach a point of around £15m at the financial year end, it would no longer be sustainable to use those resources for funding the Capital Programme. Officers will continue to monitor the situation and assess any borrowing requirements that may result.

3.5 The Council's PWLB debt portfolio currently consists solely of loans taken out with regards to the HRA settlement undertaken on 28 March 2012. These loans are now eligible for rescheduling. The loans were borrowed at preferential rates made available specifically for the settlement. PWLB redemption rates have fallen and these loans would now incur a premium. The refinancing of these loans would now be at a lower level, the original loans were taken over an average of 47.5 years at an average rate of 3.49%, current rates in the 44.5 year period would equate to 3.31%, however, this is not significant enough to outweigh the significant cost of the premiums of approximately £48m.

3.6 Officers have also assessed the Council's Lender Option Borrower Option (LOBO) loans for any early repayment opportunities, but, the premia involved of approximately £29m and the high refinancing costs again make it unfavourable to currently undertake any rescheduling. Officers will continue to monitor the Council's debt portfolio for any rescheduling opportunities.

3.7 The Council will also need to borrow funds in the region of £35m to facilitate the building works carried out by Gloriana at the St Chads site in Tilbury. Officers are currently investigating opportunities to raise long term funds to finance these works, but, in the meantime as the building work starts, funds will be borrowed on a short term basis until such time as the long term funds become available. All interest costs will be met by Gloriana.

Investments

3.8 The corresponding figures for investments are set out in Table 2 below:-

Table 2

Source of Loan	**Balance at 1/4/15**	**New loans raised**	**Loans repaid**	**Balance at 30/9/15**
	£'000	£'000	£'000	£'000
Overnight Investments	5,500	1,014,400	1,013,600	6,300
Other Investments (2 to 365 days)	32,500	110,000	127,000	15,500
Total Debt	38,000	1,124,400	1,140,600	21,800

3.9 A significant proportion of the internally managed investments are held for very short time periods in order to meet day to day cash requirements, hence the very high turnover figures in Table 2 above. The figures for overnight investments have been separated from those for longer periods to demonstrate the difference in volumes.

3.10 At the end of November 2014 the Council invested £20m in the Church, Charities and Local Authorities (CCLA) Property Fund which earned an annualised return of 4.92% for the four months it was operational in 2014/15. The return for the first quarter of 2015/16 was 5.29%. Following the excellent returns received to date it was decided to add a further £10m to the fund as of July 2015 to make a total of £30m in the fund. The return on the £30m for the second quarter was 5.17% and the fund returned £0.62m of income for the half year to 30 September 2015. At the current time, and with surplus cash available, a further investment of £20m will be made on 27 November 2015 to bring the total to £50m. The projected total return on the investment for the year is £1.7m.

3.11 Internally held balances currently stand at £21.8m with a view to falling to around £15m at the financial year end. These investments are mainly held with Banks and Building Societies on a fixed term basis ranging from overnight to 3 months in duration.

3.12 All investments made have been with organisations included on the "List of Acceptable Counterparties and Credit Limits" and the total sums invested with individual institutions have been contained within the limits specified therein.

4. Consultation (including Overview and Scrutiny, if applicable)

4.1 The Council's Treasury Advisors, Arlingclose, have been consulted. Significant treasury decisions are made in consultation with the Chief Executive and the Leader of the Council.

5. Impact On Corporate Policies, Priorities, Performance And Community Impact

5.1 The financial implications of the above treasury management activities on the Council's revenue budget are illustrated in table 3 below for 2015/16.

6. Implications

6.1 <u>**Financial**</u>

Implications verified by: **Jonathan Wilson**
Telephone and email: **01375 652015**
jwilson@thurrock.gov.uk

Table 3		2015/16 Revised Budget £000's	2015/16 Forecast outturn £000's	2015/16 Variance £000's
	Interest payable on external debt			
1	Debt Interest		2,407.1	
2	Total Internal Interest		121.1	
3	Interest Payable	2980.0	2,528.2	-451.8
	Income			
4	Interest on Investments	-1,055.0	-1,441.9	-386.9
5	Net Interest charged to GF	1,925.0	1,086.3	-838.7
6	MRP Supported/Unsupported Borrowing	5982.0	3,879.0	-2,103.0
7	Overall Charge to GF	7,907.0	4,965.3	-2,941.7

As shown in Table 3 above, the overall effect of Treasury Management operations on the General Fund in 2015/16 is currently forecast to be a benefit of £2.9m. The reasons for this are as follows:

- Interest Payable – the continuation of the low levels of interest rates on Temporary Borrowing means that the budgeted increase of costs has not transpired.
- Interest on Investments – increasing the CCLA Property Fund by £10m has increased dividends receivable to the Council over and above the originally forecast figure.
- MRP – The benefits of the change in calculation of the MRP agreed with the Council's external Auditors, Ernst & Young, during the closure of the 2014/15 final accounts process continues in 2015/16 and beyond.

6.2 **Legal**

Implications verified by: **David Lawson**
Deputy Head of Legal and Governance

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the ''Prudential Code for Capital Finance in Local Authorities'' (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document ''Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes'' (Revised Edition 2009) published by CIPFA.

6.3 **Diversity and Equality**

Implications verified by: **Natalie Warren**
Community Development and Equalities Manager

There are no specific implications from this report.

6.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

- None

7. Conclusion

7.1 In 2015/16 the overall impact to the General Fund is £4.96m which is a favourable position of £2.94m.

8. Background Papers Used In Preparing This Report:

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- 2015/16 Annual Borrowing & Investment Strategy
- Arlingclose's Investment Review.

9. Appendices to This Report:

- None

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