

**BLACKPOOL COUNCIL**  
**REPORT**  
**of the**  
**DIRECTOR OF RESOURCES**  
**to the**  
**EXECUTIVE**  
**on**  
**2<sup>nd</sup> NOVEMBER 2015**

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**TREASURY MANAGEMENT HALF-YEARLY PROGRESS REPORT**  
**TO 30<sup>th</sup> SEPTEMBER 2015**

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**1. INTRODUCTION**

The Council has adopted CIPFA's Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition). A feature of the Code is that periodic reports on treasury management activities are prepared. This report relates to treasury management activities for the six months to 30<sup>th</sup> September 2015 and its content is reflective of the scale of the Council's current capital programme.

**2. BORROWING TRANSACTIONS**

**2.1 Overview**

The Bank of England Official Bank Rate (ie. the 'base rate' short-term interest rate to which all interest rates are related) stood at 0.5% on 1<sup>st</sup> April 2015 (0.5% on 1<sup>st</sup> April 2014). Since the beginning of the 2015/16 financial year, the rate has stayed constant at 0.5%. As of 30<sup>th</sup> September 2015 the rate remains at 0.5%.

Annex 1 shows movements in the base rate from October 2007 to September 2015 in order to display the recent trend.

Annex 2 shows movements in the borrowing rates available since September 2006 for Public Works Loan Board (PWLB) long-term (20-25 year rates), Public Works Loan Board one year and variable one month rates.

The consequences of the slow rate of economic recovery and the Government's actions to bring down the current high level of borrowing have continued to depress the financial markets during the last 12 months. As a result the cost of short-term borrowing continues at historically low levels. The market expectation is that the bank base rate will remain low for the next 12 months and then climb gradually to more normal levels.

**2.2 Loans Raised**

The long term borrowing requirements for the 2015/2016 Capital Programme have been deferred until such time that interest rates are judged to be favourable to the Council. This action reduces the Council's exposure to counterparty risk whilst enabling savings to be made in long-term borrowing costs. The Treasury Management Panel's view is that there will be no need to take any new long-term borrowing in the next 6 months.

Temporary borrowing has been required to deal with the normal peaks and troughs of the cash flow, including creditor payments, grant receipts, etc. It has also been used to finance any shortfalls in cash flow caused by capital expenditure. The temporary financing of capital expenditure is prudent while short-term interest rates remain low and has the advantage of minimising temporary investments and the associated counterparty risk.

### 2.3 Loans Repaid

In addition to the regular repayment of £197,00 in respect of the Business Loans Fund and the temporary borrowing referred to in 2.2 above. Within the Public Works Loan Board loans portfolio £5,328k was repaid at maturity on 30<sup>th</sup> September 2015.

### 2.4 Summary

The Council's borrowing activities for the first half-year of the financial year are summarised below:

Source of funding:	Borrowings 1 <sup>st</sup> April '15 £000s	Loans raised £000s	Loans repaid £000s	Borrowings 30 <sup>th</sup> Sep '15 £000s
PWLB	55,639	-	(5,526)	50,113
Market Loans	39,250	-	-	39,250
Sub-total	94,889	-	(5,526)	89,363
Temporary Loans	46,500	62,550	(68,050)	41,000
LGR debt with LCC	20,419	-	(408)	20,011
<b>Total borrowings</b> <i>(excluding PFI Schemes and finance leases)</i>	<b>161,808</b>	<b>62,550</b>	<b>(73,984)</b>	<b>150,374</b>

Annex 3 to this report shows the maturity profile for the £89.4m of long-term external loans (ie. the Public Works Loan Board and market debt only from the above table) outstanding at the end of September 2015. The maturity profile is in line with the Council's approved strategy.

## 3. TRANSACTIONS FOR THE FIRST HALF OF 2015/16

### 3.1 Level of Investments

Annex 4 to this report sets out an analysis of the Council's receipts and payments during the first half of the financial year. The Council's temporary investments stood at £9.9m on 30<sup>th</sup> September 2015. This compares with temporary investments valued at £1.6m on 30<sup>th</sup> September 2014. Temporary surplus funds are invested in accordance with the Treasury Management Strategy's requirements regarding security, liquidity and yield.

### 3.2 Investment Earnings

The Council takes advantage of peaks and troughs in receipts and payments by investing surplus funds over appropriate timescales within the context of the Council's overall cash flows. The actual investment interest earned to 30<sup>th</sup> September was £11,000 excluding interest received on the Local Authority Mortgage Schemes. Annex 5 shows a monthly analysis of interest receipts compared to budget.

### 3.3 Approved Investment Institutions

In order to manage prudently any surplus funds as set out within the Treasury Management Strategy the Council restricts its temporary investments to an authorised list of institutions. According to the creditworthiness of each institution, an appropriate investment ceiling has been set with each as well as a maximum investment period. The credit ratings are monitored on a regular basis and checks are made via the internet and other media sources for signs of banks and building societies in difficulty. Council officers continue to use their contacts in the money market and speak regularly with other members of the Manchester Treasury Group to obtain market intelligence.

The Treasury Management Panel includes the Director of Resources and Chief Accountant and meets regularly throughout the year to review the list of approved investment institutions.

For banks the approved list is based on credit ratings issued by Fitch (single A categories or above, or the equivalent from other ratings agencies). The list also includes the more stable building societies, banded according to total asset size.

The proportion of temporary investments placed in the period 1<sup>st</sup> April 2015 to 30<sup>th</sup> September 2015 across the various categories of approved institutions is set out in the table below:

Type of institution invested with:	Amount £000s	% of total
UK banks & UK subsidiaries of overseas banks	94,670	100.0%
Building societies	-	0.0%
Debt Management Office - deposit facility	-	0.0%
<b>Total temporary investments placed</b>	<b>94,670</b>	<b>100.0%</b>

These values show the total of all new investments made during the six months. Due to the recycling nature of investing and lending, these values are not the absolute value of the portfolio of temporary investments as at 30<sup>th</sup> September 2015, which was £9.9m.

Annex 4 to this Report shows how the investing and maturing of temporary investments fits in with the rest of the Council's bank transactions.

### 3.4 Group Companies and Partners

During the first six months of the year we have provided advice and assistance to some of our group companies and partners. In particular the Treasury Management team has offered advice to the New Housing Company about how best to manage peaks and troughs of working capital and IS talking to Blackpool Transport about pooling long-term borrowing requirement.

#### 4. TREASURY MANAGEMENT BUDGET MONITORING 2015/16

The month 6 financial performance monitoring report, shows a favourable forecast outturn for Treasury Management in 2015/2016 of £1,231k. The main components of this (favourable) position are as follows:

	£'000s
Reduced interest charge on Local Government Reorganisation Debt	(270)
Lower financing costs on long term debt	(878)
Temporary interest on short term loans	(83)
<b>Net (favourable)/adverse outturn forecast</b>	<b>(1,231)</b>

#### 5. PRUDENTIAL CODE FOR CAPITAL FINANCE

- 5.1 Where capital expenditure has been incurred which is financed by debt assumed under the *Prudential Code for capital finance in local authorities*, budget has been vired from the service area incurring the spend. This budget is used to pay for the additional capital financing costs which are incurred within Treasury Management as a consequence of the capital spend. In the case of Leisure Assets an actual charge for financing costs has been made to the scheme. The cost to the Council of employing its capital in these schemes arises from both the interest cost of the investment and from the subsequent need to repay the principal.

Cost savings or revenue increases within the services as a result of the capital investment will have been previously identified within a business case in order to demonstrate that these schemes are self-funding or better.

##### 5.2 Prudential Indicators

At its meeting of 27th February 2015 the Council adopted the framework set out within *CIPFA's Prudential Code for capital finance in Local Authorities (2011 edition)*.

The Code requires that monitoring of our performance against the performance indicators (the Prudential Indicators) is reported to the appropriate decision-making body.

Annex 6 to this report shows the Prudential Indicators from 1st April 2015 to 30th September 2015, separately identifying the affordability indicators, the indicators of prudence and the treasury management indicators.

The format of these indicators is set out in the CIPFA Code of Practice.

Performance in the first half of 2015/2016 is in line with expectations.

### 5.3 **Capital Schemes Funded by Prudential Borrowing**

Annex 7 to this report shows the headroom to the authorised (borrowing) limit and operational boundary, and identifies the expenditure on schemes which are prudentially funded by year.

## 6. **RECOMMENDATION**

To note the report concerning treasury management activities for the first half of the 2015/2016 financial year.

Steve Thompson

Director of Resources