

BLACKPOOL COUNCIL
REPORT
of the
DIRECTOR OF RESOURCES
to the
EXECUTIVE
on
10th NOVEMBER 2014

TREASURY MANAGEMENT HALF-YEARLY PROGRESS REPORT
TO 30th SEPTEMBER 2014

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 30th September 2014 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 1st April 2014 (0.5% on 1st April 2013). Since the beginning of the 2014/15 financial year, the rate has stayed constant at 0.5%. As of 30th September 2014 the rate remains at 0.5%.

Annex 1 shows movements in the base rate from October 2007 to September 2014 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), PWLB 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 6 months and then climb gradually to more normal levels.

2.2 Loans Raised

The long term borrowing requirements for the 2014/15 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 £197k in respect of the Business Loans Fund and the temporary borrowing referred to in 2.2 above. Within the PWLB loans portfolio £296k was repaid at maturity on 30th September 2014.

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 st April '14	Loans raised	Loans repaid	Borrowings 30 th Sep '14
	£000s	£000s	£000s	£000s
PWLB	59,882	0	(493)	59,389
Market Loans	39,250	-	-	39,250
Sub-total	99,132	0	(493)	98,639
Temporary Loans	41,500	37,400	(42,400)	36,500
LGR debt with LCC	21,270	-	-	21,270
Total borrowings <i>(excluding PFI Schemes and finance leases)</i>	161,902	37,400	(42,893)	156,409

Annex 3 to this report shows the maturity profile for the £98.6m of long-term external loans (ie. the PWLB and market debt only from the above table) outstanding at the end of September 2014. The maturity profile is in line with the Council's approved strategy.

3. TRANSACTIONS FOR THE FIRST HALF OF 2014/15

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 £1.6m on 30th September 2014. This compares with temporary investments valued at £3.2m on 30th September 2013. 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 30th September was £14k 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 1st April 2014 to 30th September 2014 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 and UK subsidiaries of overseas banks	96,790	85.8%
Building societies	6,500	5.8%
Debt Management Office - deposit facility	9,550	8.4%
Total temporary investments placed	112,840	100.0%

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 30th September 2014, which was £1.6m.

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 we agreed to transfer funds between Blackpool Coastal Housing and the Council and as a result have increased the overall security of balances held. In the case of Crown Leisure we have invested monies for events which they previously held on our behalf and in doing so have increased the yield on those deposits fourfold.

4. TREASURY MANAGEMENT BUDGET MONITORING 2014/15

The month 6 financial performance monitoring report, shows a favourable forecast outturn for Treasury Management in 2014/15 of £1,678k. The main components of this (favourable) position are as follows:

	£'000s
Reduced interest charge on Local Government Reorganisation Debt	(53)
Lower financing costs on long term debt	(1,319)
Temporary interest on short term loans	(306)
Net (favourable)/adverse outturn forecast	(1,678)

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 28th February 2014 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 2014 to 30th September 2014, 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 2014/15 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

The Executive is asked to note the report concerning treasury management activities for the first half of the 2014/15 financial year.

Steve Thompson
Director of Resources
17th October 2014