

Finance and Resources Committee

10.00am, Thursday, 26 November 2015

Treasury Management – Mid Term Report 2015/16

Item number	7.8
Report number	
Executive/routine	
Wards	

Executive summary

The purpose of this report is to give an update on Treasury Management activity in 2015/16.

In accordance with the Strategy set in March 2015 the Council completed no borrowing during the first half of the financial year that had any cost to the Council and continued to fund capital expenditure temporarily from cash deposits. This approach generates significant short-term savings in Loans Charges for the Council. In following this strategy account is also being taken of the likely movement in interest rates in the medium and longer term and the Council's future estimated borrowing requirement.

The investment return for 2015/16 continues to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments as a priority.

Links

Coalition pledges
Council outcomes
Single Outcome Agreement

Treasury Management: Mid Term Report 2015/16

Recommendations

- 1.1 It is recommended that the Committee:
- 1.1.1 notes the mid term report on Treasury Management for 2015/16;
 - 1.1.2 refers the report to Council for approval and subsequent referral by Council to the Governance Risk and Best Value Committee for scrutiny.

Background

- 2.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, the mid-term report has been prepared setting out activity undertaken.

Main report

3.1 Interest Rate Background

- 3.1.1 Throughout the 6 months, the Bank of England's Monetary Policy Committee kept Quantitative Easing (QE) at £375bn and UK Bank Rate at 0.50%. QE has remained at that level since July 2012 and UK Bank Rate at 0.50% since March 2009.

- 3.1.2 Figure 1 below shows Inter-Bank Lending Rates since the start of 2006.

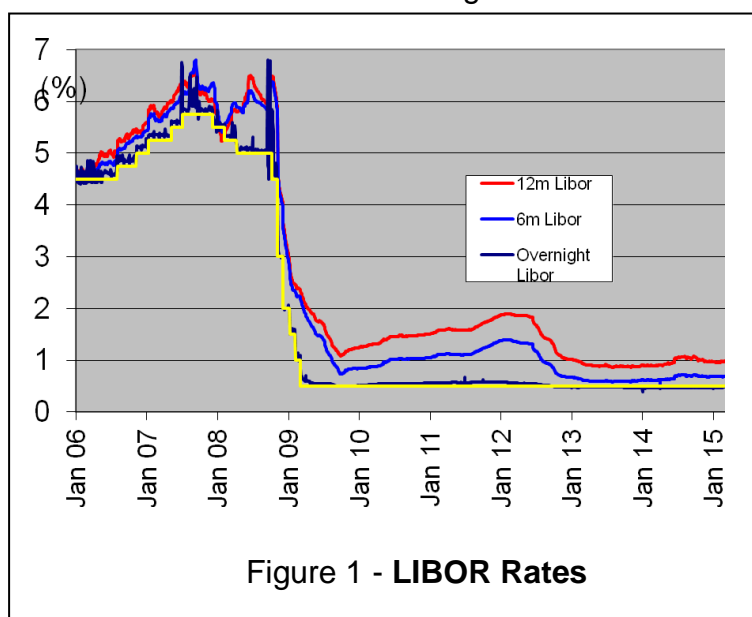


Figure 1 - LIBOR Rates

3.1.3 Figure 1 shows that the overnight and 1 month rate continues to follow the Bank Rate and 12 month rate has increased slightly since the start of the 2014/15 financial year and then remained steady.

3.2 Interest Rate Forecast

3.2.1 Table 1 gives a Reuters poll of up to 60 economists, taken 15th October, showing their forecasts for UK Bank Rate until Quarter 4 2016. This continues to show most economists polled believe that the UK Bank Rate will be at 0.75% by the end of quarter 1 2016. However, we continue to hold onto the ‘lower for even longer’ view on UK Bank Rate. There is little inflationary pressure in the UK, and no need to increase UK Bank Rate from the current ‘emergency rate’ for some time to come.

	2015			2016	
	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Median	0.5	0.75	0.75	1	1
Mean	0.5	0.64	0.80	0.93	1.11
Mode	0.5	0.75	0.75	1	1
Min	0.5	0.5	0.5	0.5	0.75
Max	0.5	0.75	1.00	1.25	1.5
Count	43	44	43	40	39

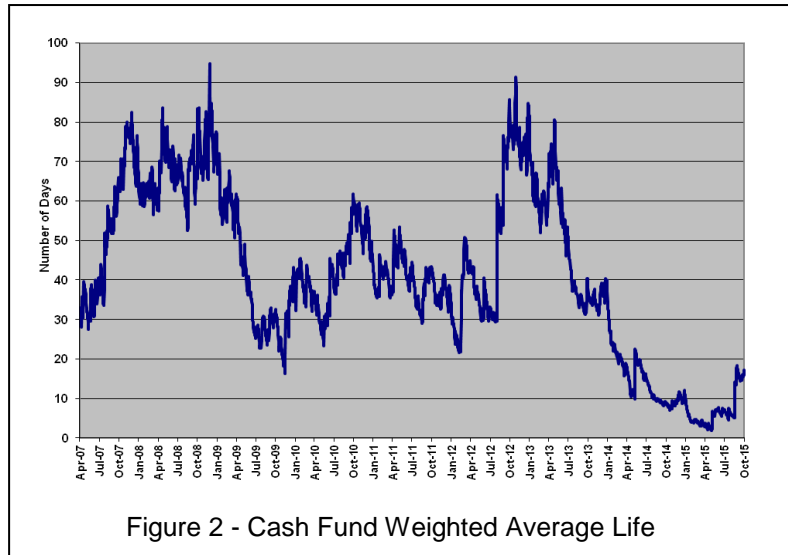
Table 1 – Economists’ Forecasts for UK Bank Rate

3.2.2 As we have mentioned in previous forecasts annual rate of inflation (CPI) has remained well below the Bank of England’s lower limit. The rate of inflation in September was -0.1%. The minutes of the Bank of England’s October meeting noted that near term inflation appeared slightly weaker than at the time of the August Inflation report, mainly due to the further decline in oil price. They believe inflation is likely to remain below 1% until spring 2016.

3.3 Investment Out turn

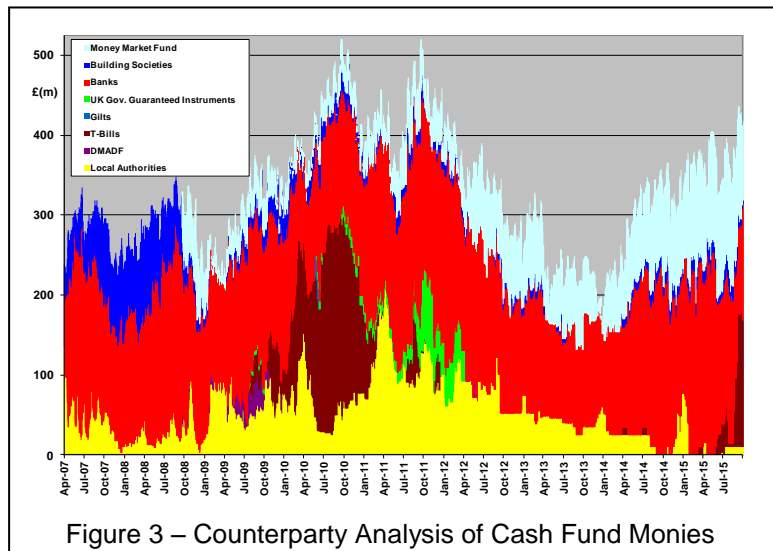
3.3.1 The Treasury Management strategy is to ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks. The Cash Fund’s Investment Strategy continues to be based around security of the investments.

3.3.2 Figure 2 below shows the Weighted Average Life (WAL) – i.e. the average time to maturity of the Cash Fund investments since inception.

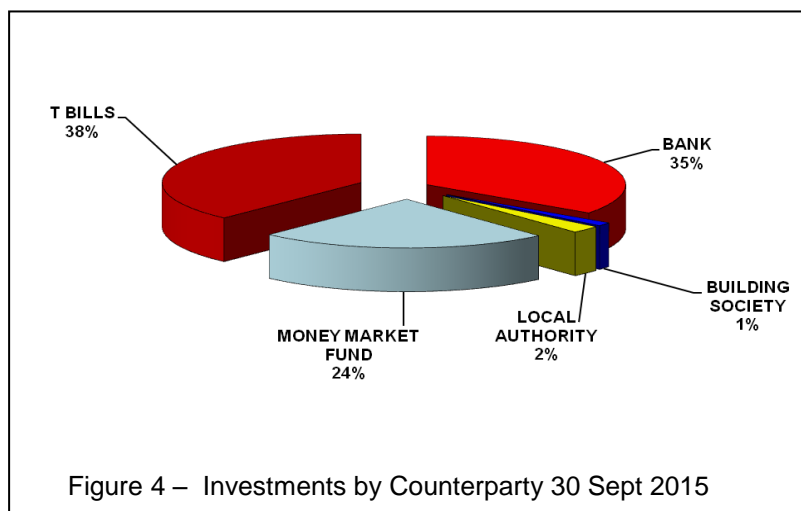


3.3.3 Since the enactment in January of the new ‘Bail-In’ legislation for the resolution of financial institutions, other than the most secure of institutions, deposits with banks have been kept in accounts where the money is immediately available as a way of managing the Council’s counterparty risk. The WAL (weighted average time to the final maturity of investments) was therefore very low at the start of the year, but has increased to over 17 days by the end of September, mainly due to the purchase of Treasury Bills with maturities between one and six months.

3.3.4 Figure 3 below shows the distribution of Cash Fund deposits since inception. Appendix 2 shows the detail of cash fund investments as at 30th September 2015.



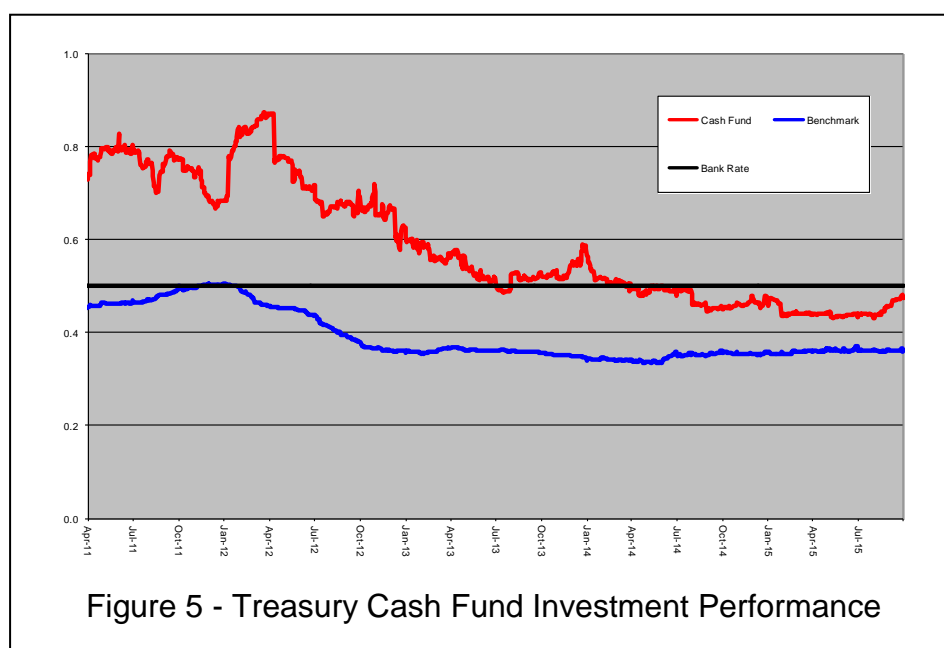
3.3.5 With Local Authorities continuing to lend to each other at low rates of interest the Treasury team continue to find difficulty in striking the balance between high levels of security and achieving an adequate return. The recent increase in yields on offer through Treasury Bill Auction has allowed the Treasury team to increase yield with increased security.



3.3.6 As can be seen in Figure 4 above over a third of the fund is invested UK Treasury Bills. When yields rose significantly in July, the Treasury team took the opportunity to move from lower yielding call accounts to Treasury Bills. A third is also invested with Banks, including higher rated institutions such as HSBC and Svenska Handelsbanken. At the end of the quarter, all Bank deposits were held in instant access call accounts and the Treasury team remain in dialogue with these institutions to maintain the best interest rates. There is a short term deposit with a Building Society and as mentioned previously, rates on offer in the inter-local authority market have remained extremely low.

3.4 Cash Fund Performance

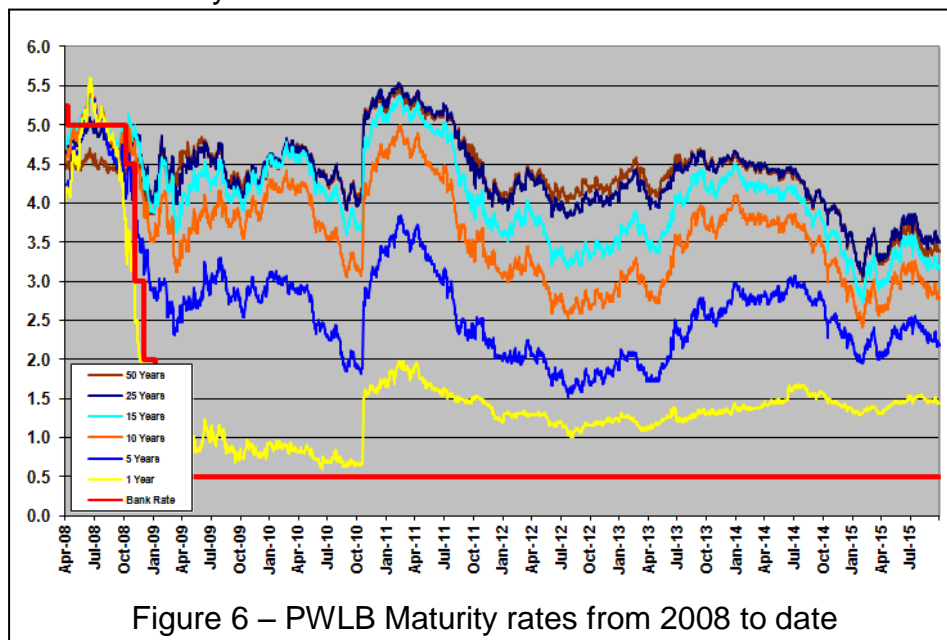
3.4.1 The annualised rate of return for the Cash Fund for the year to September 2015 was 0.451% against the benchmark of 0.360%. Figure 5 below shows the daily investment performance of the Cash Fund against its benchmark since April 2011.



3.5 Debt Management Activity

3.5.1 The Treasury strategy for 2015/16 is to continue to use the Council's Investment balances to fund capital expenditure. There has been no PWLB borrowing, on behalf of the Council, completed since December 2012. Appendix 1 shows the current debt portfolio.

3.5.2 Figure 6 below shows the PWLB borrowing interest rates since the start of the 2008/09 financial year.



3.5.3 PWLB rates rose at the start of the financial year, peaking around the start of July then have reduced towards the mid-term. Yields increased at the start of the financial year due to the seemingly decrease in the risk of deflation. There was then a drop in yields after the General Election before rising again. Concerns around China saw yields drop again throughout August and into September. After weak economic data in China the People's Bank of China (PBoC) devalued the yuan to its lowest rate against the dollar in almost three years. It aggressively devalued the yuan by 1.9% on the 11th August with further devaluations on the 12th and 13th August knocking over 3% off its value. The PBoC also changed the way its currency is 'fixed' each day against the dollar. Instead of the PBoC solely determining the rate using the previous day's closing level it announced that market participants would play a greater role in determining the yuan's initial trading level.

3.5.4 At the start of the new financial year the Council was £97m under borrowed from 2014/15. The strategy for 2015/16 has been to continue to reduce the Council's investments and temporarily fund capital expenditure from cash rather than long term borrowing. The only borrowing which has been completed in 2015/16 was a loan of £351,679.50 re-payable in equal instalments with zero interest until 2023 in connection with LED street lighting. Since the start of the financial year £19.4m of debt has matured at an average rate of 6.33%. For the financial year 2015/16 £45m of debt is due to mature in total at an average rate of 8.79%. It is

not intended to replace the matured debt at present. Based on the approved capital programme and any known slippage it is estimated that the Council will be under borrowed in the region of £121m at the end of the financial year if no further borrowing is undertaken. Therefore capital expenditure is being funded in the short-term at the marginal cost of foregone interest on the Council's investments which is very low in absolute terms.

Measures of success

- 4.1 The success of the Treasury Section can be measured by the out-performance of the Treasury Cash Fund against its benchmark and managing the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

Financial impact

- 5.1 The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects.
- 5.2 The Treasury Cash Fund has generated significant additional income for the Council.

Risk, policy, compliance and governance impact

- 6.1 The Council complies with the relevant CIPFA code of practice whilst undertaking Treasury Management activities. The significant financial risks associated with Treasury Management activities have been successfully managed during the first half of 2015/16.

Equalities impact

- 7.1 There are no adverse equality impacts arising from this report.

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

- 9.1 None.

Background reading / external references

None.

Alastair Maclean

Deputy Chief Executive

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Links

Coalition pledges	P30 - Continue to Maintain a sound financial position including long-term financial planning
Council outcomes	C025 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	1: Outstanding Debt at 30 September 2015 2: Outstanding Investments at 30 September 2015

Appendix 1

Outstanding Debt at 30 September 2015

Loan Type	Start Date	Maturity Date	Principal Outstanding	Interest Rate
Maturity	06/11/1990	25/03/2016	10,000,000.00	11.375
Maturity	17/05/1991	25/03/2016	10,000,000.00	11
Maturity	13/10/2009	13/04/2016	5,000,000.00	2.95
Maturity	23/04/2009	23/04/2016	5,000,000.00	2.96
Maturity	17/01/1991	15/05/2016	15,000,000.00	11.25
Maturity	09/06/2009	09/06/2016	5,000,000.00	3.37
Maturity	27/09/1991	25/09/2016	2,736,307.00	10.5
Maturity	15/08/1991	15/11/2016	10,000,000.00	10.875
Maturity	10/12/2008	10/12/2016	5,000,000.00	3.61
Maturity	02/12/2011	02/06/2017	5,000,000.00	2.28
Maturity	27/03/1992	25/09/2017	10,000,000.00	10.625
Maturity	09/10/2008	09/10/2017	5,000,000.00	4.39
Maturity	03/04/1992	25/03/2018	30,000,000.00	10.875
Maturity	23/04/2009	23/04/2018	15,000,000.00	3.24
Maturity	17/09/1992	15/05/2018	8,496,500.00	9.75
Maturity	09/06/2009	09/06/2018	5,000,000.00	3.75
Maturity	17/09/1993	15/11/2018	5,000,000.00	7.875
Maturity	23/03/1994	15/11/2018	5,000,000.00	8
Maturity	14/03/1994	11/03/2019	2,997,451.21	7.625
Maturity	18/10/1993	25/03/2019	5,000,000.00	7.875
Maturity	30/03/2009	30/03/2019	5,000,000.00	3.46
Maturity	21/04/2009	21/04/2019	10,000,000.00	3.4
Maturity	23/04/2009	23/04/2019	5,000,000.00	3.38
Annuity	12/11/2008	12/11/2019	2,308,548.94	3.96
Maturity	23/03/1994	15/11/2019	5,000,000.00	8
Maturity	07/12/1994	15/11/2019	10,000,000.00	8.625
Annuity	01/12/2008	01/12/2019	2,288,031.27	3.65
Maturity	01/12/2009	01/12/2019	5,000,000.00	3.77
Maturity	14/12/2009	14/12/2019	10,000,000.00	3.91
Maturity	15/02/1995	25/03/2020	5,000,000.00	8.625
Maturity	21/04/2009	21/04/2020	10,000,000.00	3.54
Maturity	12/05/2009	12/05/2020	10,000,000.00	3.96
Maturity	21/10/1994	15/05/2020	5,000,000.00	8.625
Maturity	07/12/1994	15/05/2020	5,000,000.00	8.625
Maturity	21/11/2011	21/05/2020	15,000,000.00	2.94
Maturity	16/08/1995	03/08/2020	2,997,451.21	8.375
Maturity	09/12/1994	15/11/2020	5,000,000.00	8.625
Annuity	10/05/2010	10/05/2021	2,934,788.59	3.09
Maturity	21/10/1994	15/05/2021	10,000,000.00	8.625
Maturity	10/03/1995	15/05/2021	11,900,000.00	8.75

Loan Type	Start Date	Maturity Date	Principal Outstanding	Interest Rate
Maturity	12/06/1995	15/05/2021	10,000,000.00	8
Maturity	02/06/2010	02/06/2021	5,000,000.00	3.89
Maturity	16/08/1994	03/08/2021	2,997,451.21	8.5
Maturity	28/04/1994	25/09/2021	5,000,000.00	8.125
Maturity	23/04/2009	23/04/2022	5,000,000.00	3.76
Maturity	12/06/1995	15/05/2022	10,200,000.00	8
Maturity	14/06/2010	14/06/2022	10,000,000.00	3.95
Maturity	31/03/1995	25/09/2022	6,206,000.00	8.625
Maturity	16/02/1995	03/02/2023	2,997,451.21	8.625
Maturity	24/04/1995	25/03/2023	10,000,000.00	8.5
Maturity	05/12/1995	15/05/2023	5,200,000.00	8
Maturity	20/09/1993	14/09/2023	2,997,451.21	7.875
Maturity	20/09/1993	14/09/2023	584,502.98	7.875
Maturity	08/05/1996	25/09/2023	10,000,000.00	8.375
Maturity	13/10/2009	13/10/2023	5,000,000.00	3.87
Maturity	05/12/1995	15/11/2023	10,000,000.00	8
Maturity	10/05/2010	10/05/2024	10,000,000.00	4.32
Maturity	28/09/1995	28/09/2024	2,895,506.10	8.25
Maturity	14/05/2012	14/11/2024	10,000,000.00	3.36
Annuity	14/12/2009	14/12/2024	6,946,281.72	3.66
Maturity	17/10/1996	25/03/2025	10,000,000.00	7.875
Maturity	10/05/2010	10/05/2025	5,000,000.00	4.37
Maturity	16/11/2012	16/05/2025	20,000,000.00	2.88
Maturity	13/02/1997	18/05/2025	10,000,000.00	7.375
Maturity	20/02/1997	15/11/2025	20,000,000.00	7.375
Annuity	01/12/2009	01/12/2025	10,785,100.45	3.64
Maturity	21/12/1995	21/12/2025	2,397,960.97	7.875
Maturity	21/05/1997	15/05/2026	10,000,000.00	7.125
Maturity	28/05/1997	15/05/2026	10,000,000.00	7.25
Maturity	29/08/1997	15/11/2026	5,000,000.00	7
Maturity	24/06/1997	15/11/2026	5,328,077.00	7.125
Maturity	07/08/1997	15/11/2026	15,000,000.00	6.875
Maturity	13/10/1997	25/03/2027	10,000,000.00	6.375
Maturity	22/10/1997	25/03/2027	5,000,000.00	6.5
Maturity	13/11/1997	15/05/2027	3,649,966.00	6.5
Maturity	17/11/1997	15/05/2027	5,000,000.00	6.5
Maturity	13/12/2012	13/06/2027	20,000,000.00	3.18
Maturity	12/03/1998	15/11/2027	8,677,693.00	5.875
Maturity	06/09/2010	06/09/2028	10,000,000.00	3.85
Maturity	14/07/2011	14/07/2029	10,000,000.00	4.9
EIP	14/07/1950	03/03/2030	3,665.36	3
Maturity	14/07/2011	14/07/2030	10,000,000.00	4.93
EIP	15/06/1951	15/05/2031	3,749.78	3
Maturity	06/09/2010	06/09/2031	20,000,000.00	3.95
Maturity	15/12/2011	15/06/2032	10,000,000.00	3.98

Loan Type	Start Date	Maturity Date	Principal Outstanding	Interest Rate
Maturity	15/09/2011	15/09/2036	10,000,000.00	4.47
Maturity	22/09/2011	22/09/2036	10,000,000.00	4.49
Maturity	10/12/2007	10/12/2037	10,000,000.00	4.49
Maturity	08/09/2011	08/09/2038	10,000,000.00	4.67
Maturity	15/09/2011	15/09/2039	10,000,000.00	4.52
Maturity	06/10/2011	06/10/2043	20,000,000.00	4.35
Maturity	09/08/2011	09/02/2046	20,000,000.00	4.8
Maturity	23/01/2006	23/07/2046	10,000,000.00	3.7
Maturity	23/01/2006	23/07/2046	10,000,000.00	3.7
Maturity	19/05/2006	19/11/2046	10,000,000.00	4.25
Maturity	07/01/2008	07/01/2048	5,000,000.00	4.4
Maturity	27/01/2006	27/07/2051	1,250,000.00	3.7
Maturity	16/01/2007	16/07/2052	40,000,000.00	4.25
Maturity	30/01/2007	30/07/2052	10,000,000.00	4.35
Maturity	13/02/2007	13/08/2052	20,000,000.00	4.35
Maturity	20/02/2007	20/08/2052	70,000,000.00	4.35
Maturity	22/02/2007	22/08/2052	50,000,000.00	4.35
Maturity	08/03/2007	08/09/2052	5,000,000.00	4.25
Maturity	30/05/2007	30/11/2052	10,000,000.00	4.6
Maturity	11/06/2007	11/12/2052	15,000,000.00	4.7
Maturity	12/06/2007	12/12/2052	25,000,000.00	4.75
Maturity	05/07/2007	05/01/2053	12,000,000.00	4.8
Maturity	25/07/2007	25/01/2053	5,000,000.00	4.65
Maturity	10/08/2007	10/02/2053	5,000,000.00	4.55
Maturity	24/08/2007	24/02/2053	7,500,000.00	4.5
Maturity	13/09/2007	13/03/2053	5,000,000.00	4.5
Maturity	12/10/2007	12/04/2053	5,000,000.00	4.6
Maturity	05/11/2007	05/05/2057	5,000,000.00	4.6
Maturity	15/08/2008	15/02/2058	5,000,000.00	4.39
Maturity	02/12/2011	02/12/2061	5,000,000.00	3.98
			1,094,279,935.21	

Loan Type	Start Date	Maturity Date	Principal Outstanding	Interest Rate
Maturity / LOBO	03/12/1990	04/12/2015	2,000,000.00	11
Maturity / LOBO	12/12/1990	11/12/2015	2,000,000.00	11
Maturity / LOBO	30/03/1992	30/03/2017	1,000,000.00	10.25
Maturity / LOBO	21/08/1992	21/08/2017	500,000.00	9.75
Maturity / LOBO	21/08/1992	21/08/2017	500,000.00	9.75
Maturity / LOBO	12/11/1998	13/11/2028	3,000,000.00	4.75
Maturity / LOBO	15/12/2003	15/12/2053	10,000,000.00	5.25
Maturity / LOBO	18/02/2004	18/02/2054	10,000,000.00	4.54
Maturity / LOBO	28/04/2005	28/04/2055	12,900,000.00	4.75
Maturity / LOBO (Rev)	25/02/2011	25/02/2060	15,000,000.00	7.036
Maturity / LOBO (Rev)	25/02/2011	25/02/2060	10,000,000.00	7.036

Loan Type	Start Date	Maturity Date	Principal Outstanding	Interest Rate
Maturity / LOBO (Rev)	26/02/2010	26/02/2060	5,000,000.00	6.993
Maturity / LOBO (Rev)	26/02/2010	26/02/2060	10,000,000.00	6.993
Maturity / LOBO	30/06/2005	30/06/2065	5,000,000.00	4.4
Maturity / LOBO	01/07/2005	01/07/2065	10,000,000.00	3.86
Maturity / LOBO	07/07/2005	07/07/2065	5,000,000.00	4.4
Maturity / LOBO	24/08/2005	24/08/2065	5,000,000.00	4.4
Maturity / LOBO	07/09/2005	07/09/2065	10,000,000.00	4.99
Maturity / LOBO	13/09/2005	14/09/2065	5,000,000.00	3.95
Maturity / LOBO	03/10/2005	05/10/2065	5,000,000.00	4.375
Maturity / LOBO	21/12/2005	21/12/2065	5,000,000.00	4.99
Maturity / LOBO	23/12/2005	23/12/2065	10,000,000.00	4.75
Maturity / LOBO	28/12/2005	24/12/2065	12,500,000.00	4.99
Maturity / LOBO	06/03/2006	04/03/2066	5,000,000.00	4.625
Maturity / LOBO	14/03/2006	15/03/2066	15,000,000.00	5
Maturity / LOBO	17/03/2006	17/03/2066	10,000,000.00	5.25
Maturity / LOBO	03/04/2006	01/04/2066	10,000,000.00	4.875
Maturity / LOBO	03/04/2006	01/04/2066	10,000,000.00	4.875
Maturity / LOBO	03/04/2006	01/04/2066	10,000,000.00	4.875
Maturity / LOBO	07/04/2006	07/04/2066	10,000,000.00	4.75
Maturity / LOBO	05/06/2006	07/06/2066	20,000,000.00	5.25
Maturity / LOBO	05/06/2006	07/06/2066	16,500,000.00	5.25
Maturity / LOBO	18/08/2006	18/08/2066	10,000,000.00	5.25
Maturity / LOBO	01/02/2008	01/02/2078	10,000,000.00	3.95
			280,900,000.00	

Loan Type	Start Date	Maturity Date	Principal Outstanding	Interest Rate
EIP 0% INTEREST	07/01/2015	01/09/2021	473,742.84	0
EIP 0% INTEREST	31/03/2015	01/04/2023	1,442,317.95	0
EIP 0% INTEREST	22/09/2015	01/10/2023	351,679.50	0
			2,267,740.29	

Appendix 2

Outstanding Deposits at 30 September 2015

<u>COUNTERPARTY</u>	<u>Type</u>	<u>START DATE</u>	<u>MATURITY</u>	<u>OUTSTANDING</u>	<u>INT RATE</u>
BANK OF SCOTLANDCORP DEPOSIT BASE +25	CALL	27/09/2007	/ /	41,067,008.31	0.5
ROYAL BANK OF SCOTLAND- SIBA	CALL	23/05/2008	/ /	4,119,829.83	0.25
Santander UK Business Reserve	CALL	16/09/2008	/ /	525,326.78	0.4
Barclays BankFIBCA	CALL	26/11/2010	/ /	41,183,330.66	0.5
Deutsche Bank AG, London	MMF	01/06/2011	/ /	61,994,474.11	0.485487
SVENSKA HANDELSBANKEN	CALL	13/01/2012	/ /	58,082,936.73	0.45
GOLDMAN SACHS STERLING LIQUID RESERVE	MMF	08/05/2012	/ /	36,684,076.03	0.410151
HSBC BANK PLC	CALL	01/07/2013	/ /	966,008.83	0.4
Lancashire County Council	TD	05/05/2015	05/11/2015	10,000,000.00	0.5
Nationwide Building Society	TD	08/09/2015	08/10/2015	5,000,000.00	0.43
HM TREASURY	TBILL	20/07/2015	18/01/2016	3,906,701.60	0.58
H M TREASURY	TBILL	17/08/2015	15/02/2016	19,944,308.93	0.56
H M TREASURY	TBILL	24/08/2015	22/02/2016	9,972,204.05	0.559
HM TREASURY	TBILL	07/09/2015	07/03/2016	19,944,804.80	0.555
HM TREASURY	TBILL	07/09/2015	05/10/2015	19,992,960.29	0.459
HM TREASURY	TBILL	07/09/2015	05/10/2015	19,993,113.60	0.449
HM TREASURY	TBILL	14/09/2015	12/10/2015	19,993,098.27	0.45
H M TREASURY	TBILL	21/09/2015	19/10/2015	19,993,098.27	0.45
H M TREASURY	TBILL	21/09/2015	19/10/2015	14,994,720.22	0.459
HM TREASURY	TBILL	28/09/2015	26/10/2015	9,996,480.14	0.459
				418,354,481.45	

Call: Call Account (money available same day)

MMF: Money Market Fund (money available same day)

TD: Term Deposit (money only available when deposit matures)

TBILL: UK Treasury Bills (tradable – money available if TBILL sold)

The £418m on deposit is represented by:

- £252m Lothian Pension Fund
- £151m The City of Edinburgh Council
- £5.5m CEC Council Companies
- £5.8m FETA
- £3.5m Other

Links

Coalition pledges

Council outcomes

Single Outcome Agreement