Agenda Item No.9

TREASURY MANAGEMENT QUARTER ONE REPORT

To:	**General Purposes Committee**
Meeting Date:	**15th September 2015**
From:	**Chief Finance Officer**
Electoral division(s):	**All**
Forward Plan ref:	**Not applicable** *Key decision:* **No**
Purpose:	**To provide the first quarterly update on the Treasury Management Strategy 2015-16, approved by Council in February 2015.**
Recommendation:	**The General Purposes Committee is recommended to note the Treasury Management Quarter One Report 2015-16.**

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1. BACKGROUND

1.1 Treasury Management is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

1.2 The Code was adopted via the Treasury Management Strategy Statement (TMSS), which was approved by Council in February 2015. It requires the Council to produce an annual treasury report and a half yearly report. Alongside these, General Purposes Committee are also provided with quarterly updates on progress against the Strategy.

1.3 This report has been developed in consultation with the Council's external investment manager and treasury adviser, Capita Asset Services (CAS) and provides an update for the first quarter to 30th June 2015.

2. SUMMARY OF KEY HEADLINES

2.1 The main highlights for the quarter are:

- Investment returns received on cash balances compares favourably to the benchmarks. A return of 0.54% was achieved compared to the 3 month London Interbank Bid Rate (LIBID) benchmark of 0.44% (see section 6).
- An underspend of £1.320m is currently reported for the debt charges budget (see section 9).
- A balance sheet review as at 31st March 2015 has been carried out following completion of the draft accounts. This showed the current strategy of internal borrowing remained sustainable last year. However it is likely that borrowing will be required this year (see section 8).

3. THE ECONOMIC ENVIRONMENT

3.1 A detailed economic commentary is provided in **Appendix 1**. This information has been provided by Capita Asset Services – Treasury Solutions (CAS Treasury Solutions), the Council's treasury management advisors.

3.2 During the quarter ended 30th June 2015, the significant UK headlines of this analysis were:

- The economic recovery slowed in the first quarter;
- Survey measures pointed to renewed vigour in Q2;
- Wage growth picked up as the labour market tightens;
- Deflation lasted only one month, but the outlook remain subdued;
- Another split vote on the Monetary Policy Committee (MPC) drew nearer, but a rate hike this year remained unlikely;
- The general election confirmed that the fiscal squeeze will re-intensify next year;
- The possibility of a "Grexit" became greater.

4. SUMMARY PORTFOLIO POSITION

4.1 A snapshot of the Council's debt and investment position is shown in the table below:

	TMSS Forecast February 2015 (as agreed by Council)		Actual as at 31 March 2015		Actual as at 30 June 2015		Revised Forecast to March 2016	
	£m	Rate %	£m	Rate %	£m	Rate %	£m	Rate %
Long term borrowing								
PWLB	384.0		301.6		301.6	4.4	372.5	
Market	79.5		79.5		79.5	3.6	79.5	
Total long term	**463.5**	**4.2**	**381.1**	**4.1**	**381.1**	**4.1**	**452.0**	**4.1**
Short term borrowing	-	-	-	-	-	-	-	-
Total borrowing	**463.5**	**4.2**	**381.1**	**4.1**	**381.1**	**4.1**	**452.0**	**4.2**
Investments	**10.6**	**0.7**	**35.6**	**0.5**	**91.6**	**0.6**	**18.4**	**0.7**
Total Net Debt / Borrowing	**452.9**	**-**	**345.5**	**-**	**289.5**	**-**	**433.6**	

4.2 The revised forecast reflects the current prudential borrowing projections in the capital programme, which is likely to fluctuate through the course of the year.

4.3 Further analysis of borrowing and investments is covered in the following two sections.

5. BORROWING

5.1 The Council can take out loans in order to fund spending for its Capital Programme. The amount of new borrowing required is determined by capital expenditure plans and projections of the Capital Financing Requirement, forecast reserves and current and projected economic conditions.

New loans and repayment of loans:

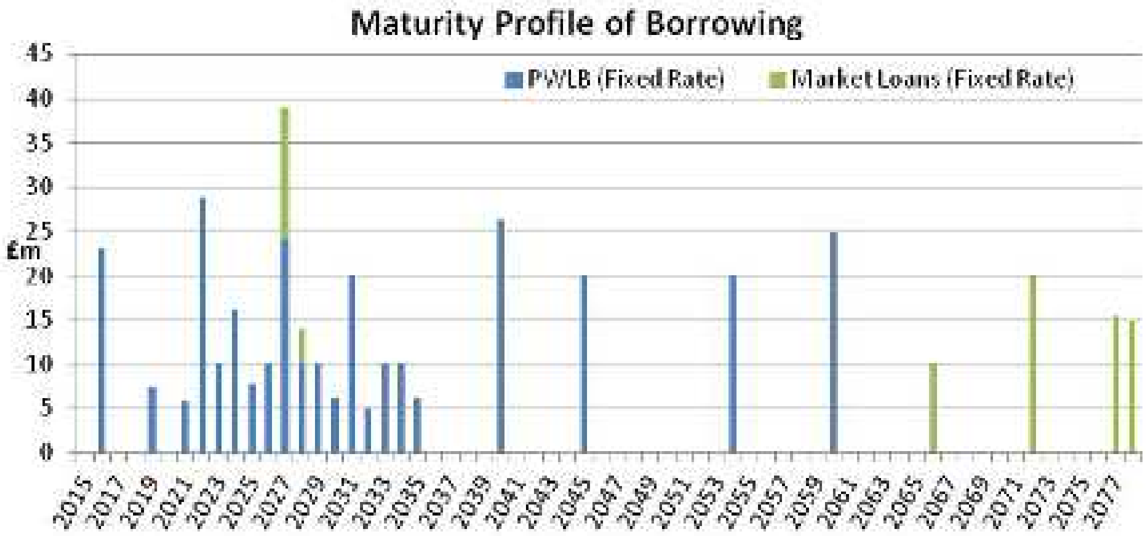
5.2 The table below shows the details new loans raised and loans repaid during the period. No loans were repaid or raised during quarter.

Lender	Raised / Repaid	Start Date	Maturity Date	£m	Interest Rate %	Duration (yrs)
None	-	-	-	-	-	-

Maturity profile of borrowing:

5.3 The following graph shows the maturity profile of the Council's loans. The majority of loans have a fixed interest rate and are long term which limits the Council's exposure to interest rate fluctuations. The weighted average years to maturity of the portfolio is 23.5 years.

5.4 The presentation below differs from that in **Appendix 2** paragraph 4, in that Lender Option Borrowing Option (LOBO) loans are included at their final maturity rather than their next call date. In the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low.



5.5 Two loans maturing in 2015-16 totalling £23m are expected to be replaced on similar terms.

Loan restructuring:

5.6 When market conditions are favourable long term loans can be restructured to:
- to generate cash savings
- to reduce the average interest rate
- to enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

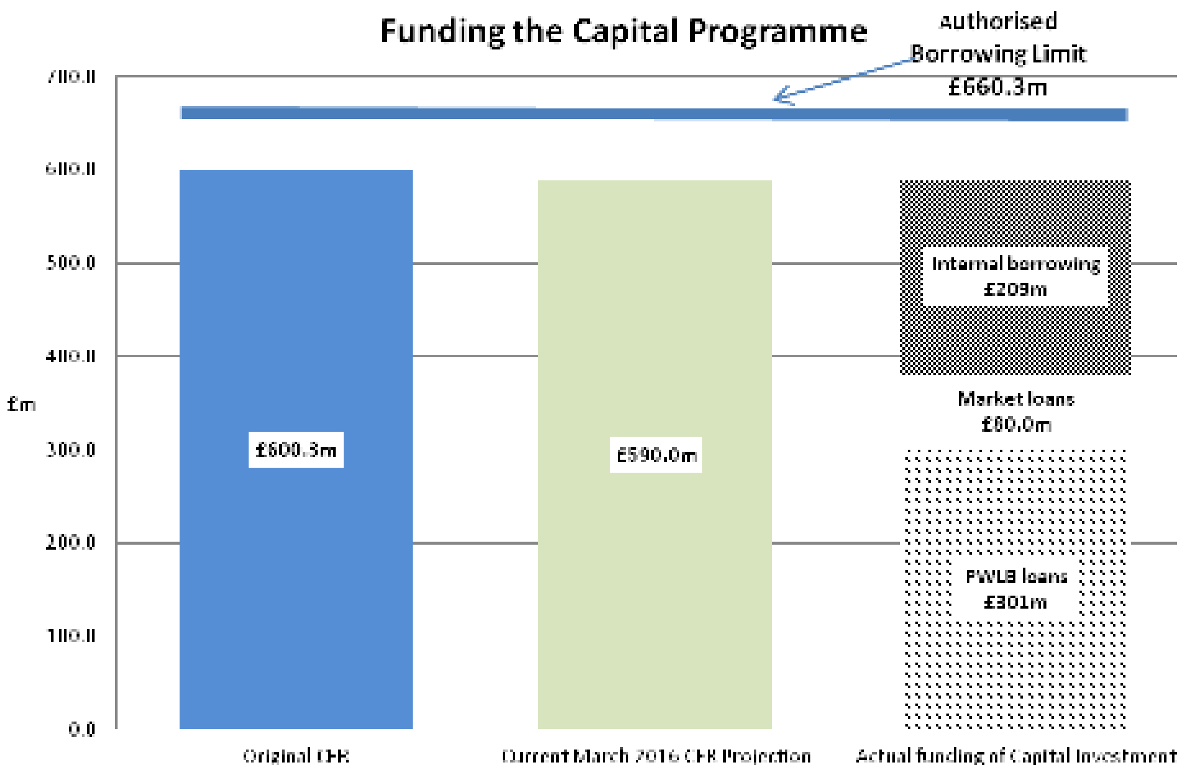
During the quarter there were no opportunities for the Council to restructure its borrowing due to the position of the Council's borrowing portfolio compared to market conditions. Debt rescheduling will be considered subject to conditions being favourable but it is unlikely that opportunities will present themselves during this year. The position will be kept under review, and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

Funding the Capital Programme:

5.7 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the authority expects to be in terms of borrowing and investment levels. When the 2015-16

TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme, would be £600.3m. This figure is naturally subject to change as a result of changes to the approved capital programme.

5.8 The graph below compares the maximum the Council could borrow in 2015-16 with the forecast CFR at 31st March 2016 and the actual position of how this is being financed at 30th June 2015.



5.9 The graph shows the projection for the Capital Financing Requirement (CFR) is significantly below significantly below the statutory Authorised Borrowing Limit set for the Council at the start of the year.

5.10 In addition, the graph shows how the Council is currently funding its borrowing requirement. As at 30th June internal borrowing is forecast to be £209m at the end of the year. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally. The strategy of internally borrowing, by careful management of Councils balance sheet, is currently the most appropriate strategy which enables savings to be generated and reduces the level of cash invested and credit risk associated with investing. However the projected level of internal borrowing is not sustainable so loans from the Public Works Loan Board (PWLB) and other sources are currently being considered.

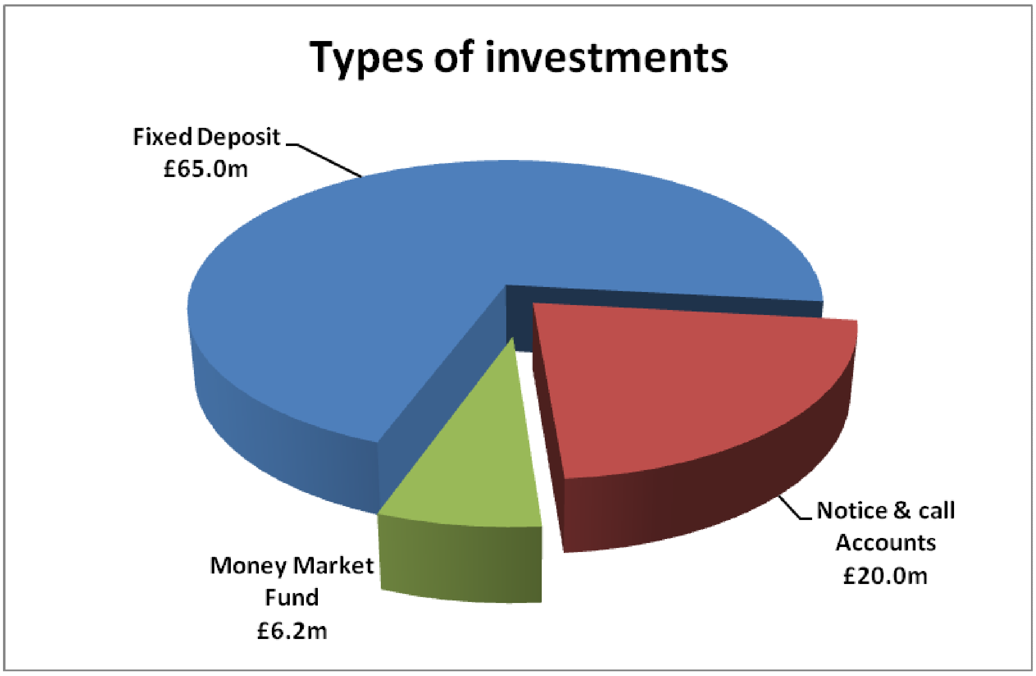
6. INVESTMENTS

6.1 Investment activity is carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2015-16. This ensures that the principle of considering security, liquidity and yield, in that order (SLY), is consistently applied. The Council will therefore aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to Cabinet and Council.

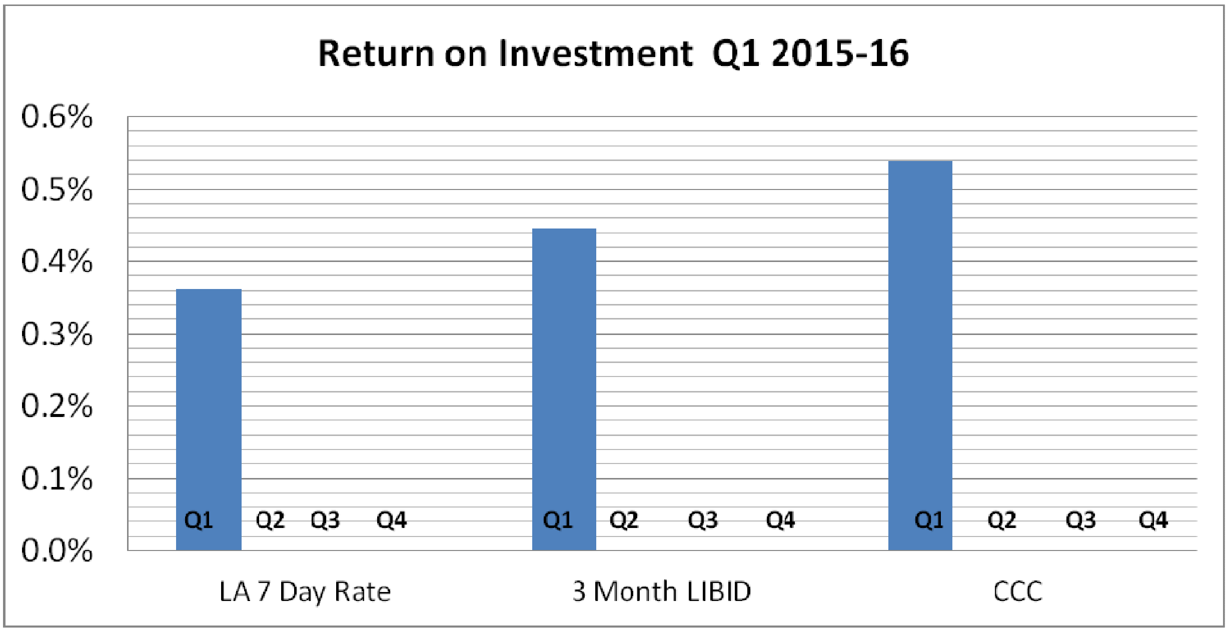
6.2 As described in paragraph 5.9, the strategy currently employed by the Council of internal borrowing also has the affect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

6.3 As at 30th June the level of investment totalled £91.6m. The level of cash available for investment is as a result of reserves, balances and working capital the Council holds. These funds can be invested in money market deposits, placed in funds or used to reduce external borrowings.

6.4 A breakdown of investments by type are shown in the graph below, with detail at **Appendix 3**. The majority of investments are in notice and call accounts and money market funds to meet the liquidity demands for the Council. Investments are made within the boundaries of the Investment Strategy and credit worthiness criteria.



6.5 The graph below compares the returns on investments with the relevant benchmarks for each quarter this year



6.6 It can be seen from the graph that investments returned 0.54% during the quarter significantly more than the both the 7 day (0.36%), 3 month London Interbank Bid Rate LIBID (0.44%) benchmarks.

6.7 Where appropriate, investments can be locked out for periods of up to one year with nationalised banks (UK Government backed) at higher rates of interest. The policy does allow for longer durations should the value make it worthwhile. In a rising interest rate environment it is generally appropriate to keep investments fairly short in duration to take advantage of interest rate rises as soon as they occur. The weighted average time to maturity of investments at 30th June is 85 days.

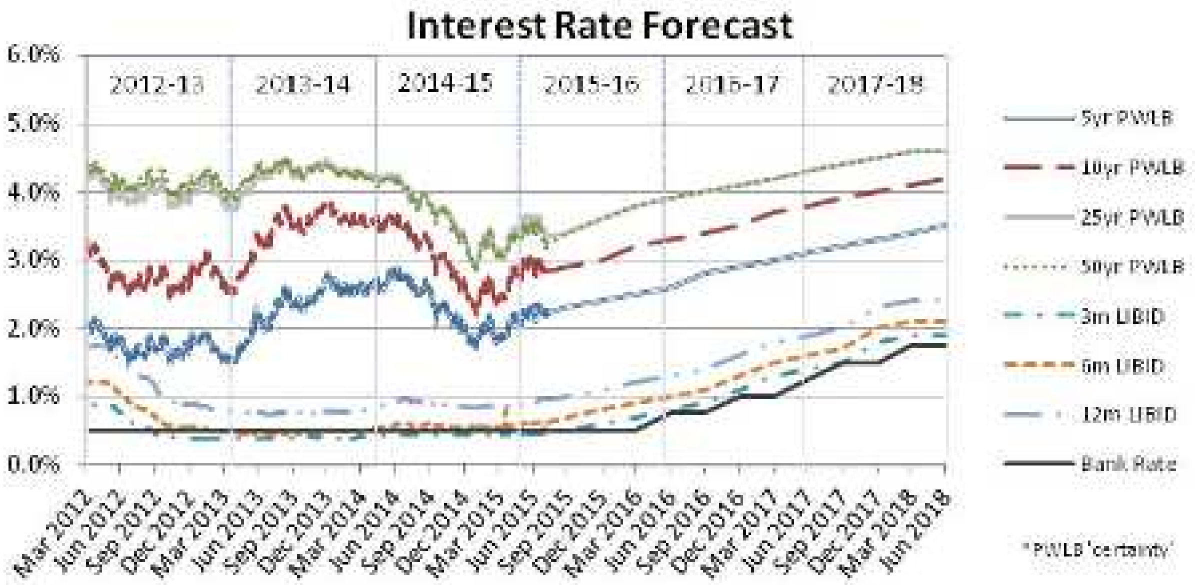
6.8 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment introduces liquidity risk; the risk that funds can't be accessed when required, and interest rate risk; the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the LGSS Treasury team together with the Council's Treasury Advisors (CAS). Using credit ratings, the investment portfolio's historic risk of default stands at 0.018%. This simply provides a calculation of the possibility of average default against the historical default rates.

6.9 The Council is also a member of a benchmarking group run by CAS which shows that, for the value of risk undertaken, the returns generated are in line with the Model Band (the average range of returns across for all CAS's clients).

7. OUTLOOK

7.1 The current interest rate forecast is shown in the graph below. The forecast for the first increase in Bank Rate remains in quarter 2 of 2016. However there are risks to this central forecast as the economic recovery in the UK is currently finely balanced.

7.2 Recent demands for the safe haven of gilts have depressed gilts yields and PWLB rates recently. Geopolitical events make forecasting PWLB rates highly unpredictable in the shorter term. It is assumed that these fears will subside and that safe haven flows into UK Gilts will unwind and rates will rise back again over the coming quarters.



7.3 The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

From a strategic perspective, the Council is continually reviewing options as to the timing of any potential borrowing and also the alternative approaches around further utilising cash balances and undertaking shorter term borrowing which could potentially generate savings subject to an assessment of the interest rate risks involved. Cash flows in the last couple of years have been sufficiently robust for the Council to use its balance sheet strength and avoid taking on new borrowing, however projections now show that new borrowing will be required this year unless there is substantial slippage in the capital programme.

8. BALANCE SHEET REVIEW 31ST MARCH 2015

8.1 A balance sheet review has been carried out following completion of the draft accounts. This shows:

- The CFR or underlying borrowing requirement rose by £9m to was £507m, and this was funded by external loans of £381m, resulting in internal borrowing of £125m.

- Reserves and balances in the balance sheet amounted to £93m (up £1m y/y), compared to cash investment of £39m, resulting in difference of £55m representing internal investments.

- A net working capital surplus of £71m, which when added to internal investments equals £126m (internal borrowing).

- The above shows that cash balance remained strong during the year and were able to sufficiently support the internal borrowing strategy adopted. Given the underlying borrowing required is forecast to rise over the coming years borrowing options this year are actively being considered. See **Appendix 4** for further information.

9. DEBT FINANCING BUDGET

9.1 An under spend of £1.320m is forecast for Debt Charges. This is largely as a result of favourable variances for MRP (Minimum Revenue Provision) and Interest Payable. The initial estimate for MRP has been revised down following year end, however there may be some additional small movement once the charge has been finalised. A favourable variance for Interest payable has been included on the assumption that the Council will experience significant slippage in the capital programme, as it has done in recent years, so that borrowing is deferred until next year. There is also a small positive variance for interest that is recharged internally.

9.2 A discrete piece of work has started to review the MRP in its entirety which should be concluded over the summer. The outcome of this piece of work will be reported in the next Treasury Update report to GPC and may provide an opportunity for the Council to consider reprofiling of debt repayments. Whilst over the long term this has no impact of the total debt repayment, it could give rise to a significant short term revenue benefit.

	Budget	**Estimated Outturn**	**Variance**
	£m	**£m**	**£m**
Interest payable	17.349	16.811	-0.538
Interest receivable	-0.422	-0.420	0.002
Other	0.527	0.384	-0.143
Technical	-0.085	-0.085	0.000
MRP	18.091	17.450	-0.641
Total	**35.460**	**34.140**	**-1.320**

9.3 Although there is link between the capital programme, net borrowing and the revenue budget, the Debt Charges budget is impacted by the timing of long term borrowing decisions. These decisions are made in the context of other factors including, interest rate forecasts, forecast levels of cash reserves and the borrowing requirement for the Council over the life of the Business Plan and beyond.

10. MUNICIPAL BONDS AGENCY

10.1 The Council has investment of £400k share capital to support the launch of the Agency. The Municipal Bonds Agency is scheduled to launch their first bond on behalf of Local Authorities in autumn of 2015 and to issue a second bond later in the year.

10.2 Loan documentation has been drafted by the Agency and is currently being reviewed independently by a small group of Local Authorities and a major firm of solicitors. This includes the Joint and Several Guarantee which is seen as critical in obtaining lower rates than that offered from the PWLB. Counsel opinion is also being sort on behalf of all local authorities on Joint and Several Gurantee and details of this will be covered in a separate Cabinet report later in the year.

10.3 It is currently envisaged that the Council will use the Agency to raise a small amount of borrowing during 2015-16.

11. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

11.1 With effect from 1st April 2004 The Prudential Code became statute as part of the Local Government Act 2003 and was revised in 2011.

11.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

11.3 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 2.

12. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING

12.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

12.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

12.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

13. SIGNIFICANT IMPLICATIONS

13.1 Resource Implications

This report provides information on performance against the Treasury Management Strategy. Section 8 shows the impact of treasury decisions which are driven by capital spend on the Council's revenue budget.

13.2 Statutory, Risk and Legal Implications

The Council continues to operate within the statutory requirements for borrowing and investments. Further details can be found within the Prudential Indicators in Appendix 2.

13.3 Equality and Diversity Implications

There are no significant implications for any of the prompt questions within this prompt category.

13.4 Engagement and Consultation Implications

There are no significant implications for any of the prompt questions within this prompt category.

13.5 Localism and Local Member Involvement

There are no significant implications for any of the prompt questions within this prompt category.

13.6 Public Health Implications

There are no significant implications for any of the prompt questions within this prompt category.

List of Appendices

Appendix 1: Economic Update (provided by Capita Asset Services Treasury Solutions)

Appendix 2: Capital and Treasury Prudential Indicators

Appendix 3: Investment Portfolio

Appendix 4: Balance Sheet Review 31st March 2015

Source Documents	**Location**
None	Box No: RES1211 Room No:301 Shire Hall Castle Hill Cambridge CB3 0AP

Appendix 1

Economic Update (provided by CAS Treasury Solutions)

Quarter ending 30th June 2015

1. The latest economic data showed that the recovery slowed in the first quarter. However, the latest National Accounts painted the recovery in a better light than previously thought. Indeed, Q1's quarterly GDP growth estimate was nudged up from 0.3% to 0.4% on the back of some stronger construction data. What's more, given the strength of the business surveys, we wouldn't be surprised if Q1's growth figure was revised even higher in time.
2. In any case, the surveys suggest that the recovery got swiftly back on track in Q2. On the basis of past form, the average level of the Markit/CIPS composite PMI is consistent with quarterly GDP growth of around 0.8%. And the Bank of England's Agents' scores point to a similarly-strong pick-up. Granted, only limited official data has been published so far for Q2, but April's industrial production and trade figures paint an encouraging picture for the economic recovery at the start of the quarter.
3. Early indicators suggest that the recovery in household spending has maintained plenty of momentum in Q2. Although retail sales volumes rose by just 0.2% on the previous month in May, this followed a 0.9% rise in April. Accordingly, even if sales volumes were unchanged in June, they would still have risen by 0.9% over Q2 as a whole, matching Q1's rise. What's more, spending off the high street looks to have remained robust as well. The Bank of England's Agents' Score of turnover in the services sector points to a further acceleration in nominal spending on services in the near term. In addition, the latest consumer confidence figures suggest that households still think now is a good time to undertake major purchases.
4. Household spending should continue to be supported by developments in the labour market. The ILO unemployment rate has now fallen to 5.5%, not far above pre-crisis levels. And the employment rate is the highest since records began. The significant tightening in the labour market over the past eighteen months or so has begun to feed through into pay, with annual growth in headline average weekly earnings (excluding bonuses) picking up to 2.7% in April, its strongest since February 2009. We expect nominal wage growth to strengthen a bit further over the coming months as the unemployment rate continues to nudge down. The subdued outlook for inflation should underpin real wage growth.
5. The latest consumer prices figures showed that deflation lasted just one month. CPI inflation rose from -0.1% in April to +0.1% in May, reflecting the slower pace of falls in food prices and a rebound in petrol prices. We had stressed for a long while that deflation was likely to be fleeting, as it primarily reflected temporary external factors such as the fall in energy prices and food prices, as well as an appreciation in sterling, rather than weakness in domestic demand. Meanwhile, there have not

been any signs that very low inflation has had any adverse second round effects on inflation expectations or spending decisions. Nonetheless, inflation looks set to hover just above zero for the next six months, and it wouldn't take much during that period, perhaps a renewed 10% fall in the oil price, for the UK to be tipped back into deflation.

6. Unsurprisingly, then, the Monetary Policy Committee do not appear to be in any rush to raise interest rates. Granted, the minutes of June's MPC meeting showed that for two members, the decision to leave rates on hold was "finely balanced". And a recent interview with the Financial Times, resident MPC hawk Martin Weale suggested that he is not too far off restoring his vote to raise rates again. But with inflation close to zero, the first budget of the next parliament due to be published in July, and the situation in Greece becoming increasingly troubling, it looks that they will wait at least another few months before turning against the grain again. And with the rest of the committee likely to stand pat for even longer, it looks unlikely that there will be an increase in interest rates this year. Indeed, we still think that the first hike in Bank Rate will occur in Q2 next year, broadly in line with market expectations.

7. Meanwhile, with the Conservatives winning an outright majority in May's general election, the fiscal squeeze is set to re-intensify next year. We will know more detail about the Chancellor's plans at the Budget on the 8th July, but we already know that in order to meet their manifesto pledge, the Conservatives will have to implement a fiscal consolidation worth around 5% of GDP over the next four years. And given that they have pledged to not increase VAT, income tax or national insurance in the next parliament, more of the planned squeeze will have to come through cuts to spending than in the last parliament. Admittedly, these plans may be watered down, but it is clear that fiscal policy will be a hindrance, not a help, to the economic recovery over the next few years, and underlines that monetary policy will have to remain extremely accommodative. Meanwhile, the general election brought with it another cloud to the economic recovery – namely a referendum on the UK's membership of the European Union which could happen during 2016, though a May date now appears unlikely.

8. Internationally, the major development over the past quarter has been the deterioration of the situation in Greece. At the time of writing, the country is still a member of the euro-zone, but its future as part of the single currency has become increasingly uncertain. Greece urgently needs financial assistance in order to meet its debt repayments, but is unwilling to accept the reforms which creditors demand in exchange for funds. The situation is so severe that emergency capital controls have been imposed in order to stop the Greek banking system from collapsing. It is still possible that Greece and its creditors are able to strike a last-minute deal, but it is clear that this is likely to only offer a short-term solution, and Greece will need to undertake substantial debt restructuring or outright default if it is to return its public finances to a sustainable position in the long run. Whilst the UK's direct economic

and financial exposures to Greece are small, there could be an adverse impact on the UK's economy from a wider fallout and period of general financial market instability that would be likely to prevail if a "Grexit" were to occur.

9. Finally, UK equity prices have significantly underperformed their US counterparts since the beginning of Q2, with the FTSE 100 falling by 2.3%, whilst the S&P 500 has fallen by only 0.5%. That said, UK equity prices have performed better than those in Europe, which have been hit by renewed fears of a Grexit. Meanwhile, sterling has remained strong against the euro, due to these fears as well as the ECB's ongoing programme of Quantitative Easing. UK 10-year government bond yields have also increased by about 50 basis points since the beginning of Q2. This probably reflects a confluence of factors, such as easing fears of a prolonged bout of deflation, and growing concerns about the impact of a deterioration in the situation in the euro-zone. In any case, gilt yields had looked too low early this year given the fundamental strength of the economic recovery.

Appendix 2

Prudential and Treasury Indicators at 30th June 2015

Monitoring of Prudential and Treasury Indicators: approved by Council in February 2015.

1. **Has the Council adopted CIPFA Code of Practice for Treasury Management in the Public Services?**

   The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. This is a key element of the Treasury Strategy 2015-16 which was approved by Council in February 2015.

2. **Limits for exposure to fixed and variable rate net borrowing (Borrowing less investments)**

	Limits	Actual
Fixed rate	150%	121%
Variable rate	65%	-21%
Total		100%

The Interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or negative depending upon the component parts of the formula. The formula is shown below:

$$\frac{\textit{Total Fixed (or Variable) rate exposure}}{\textit{Total borrowing – total investments}}$$

Fixed Rate calculation:

$$\frac{\textit{(Fixed rate borrowing £350.6m* - Fixed rate investments £m*)}}{\textit{Total borrowing £381.1m - Total investments £91.2m}} = 120.94\%$$

*Defined as greater than 1 year to run

Variable Rate calculation:

$$\frac{\textit{(Variable rate borrowing £30.5m** - Variable rate investments £91.2m**)}}{\textit{Total borrowing £381.1m - Total investments £91.2 m}} = -20.94\%$$

** Defined as less than 1 year to run or in the case of LOBO borrowing the call date falling within the next 12 months.

3. **Total principal sums invested for periods longer than 364 days**

	2015-16 Limit £m	Actual £m
Investment longer than 364 days to run	34.0	0.0

Notes: This indicator is calculated by adding together all investments that have greater than 364 days to run to maturity at this point in time.

4. **Limits for maturity structure of borrowing**

	Upper Limit	**Actual**
under 12 months	80%	14%
12 months and within 24 months	50%	4%
24 months and within 5 years	50%	3%
5 years and within 10 years	50%	26%
10 years and above	100%	53%

Note: The guidance for this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

Affordability

5. **Ratio of financing costs to net revenue stream**

2015-16 Original Estimate %	**2015-16 Revised Estimate %**	**Difference %**
10.23	9.58	-0.65

6. **Estimated incremental impact of capital investment decisions on band D council tax**

2015-16 Original Estimate £	**2015-16 Revised Estimate £**	**Difference £**
+13.21	+2.34	-10.87

This indicator has falled significantly as a result of the underspend currently reported.

Prudence

7. **Gross borrowing and the Capital Financing Requirement (estimated borrowing liability excluding PFI)**

Original 2015-16 Capital Financing Requirement (CFR) £m	2015-16 CFR (based on latest capital information) £m	Actual Gross Borrowing £m	Difference between actual borrowing and original CFR £m	Difference between actual borrowing and latest CFR £m
600.3	590.0	381.1	219.2	208.9

Capital Expenditure

8. **Estimates of capital expenditure**

For details of capital expenditure and funding please refer to the monthly capital report.

External Debt

9. **Authorised limit for external debt**

2015-16 Authorised Limit £m	Actual Borrowing £m	Headroom £m
660.3	381.1	279.2

The Authorised limit is the statutory limit on the Council's level of debt and must not be breached. This is the absolute maximum amount of debt the Council may have in the year.

10. **Operational boundary for external debt**

2015-16 Operational Boundary £m	Actual Borrowing £m	Headroom £m
630.3	381.1	249.2

The operational boundary is set as a warning signal that debt has reached a level nearing the Authorised limit and must be monitored carefully.

Appendix 3

Investment Portfolio as at 30th June 2015

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	Fixed	CCC/ST/64	15/04/15	17/08/15	Bank of Scotland plc	Maturity	0.6100%	5,000,000.00
Deposit	Fixed	CCC/ST/65	15/04/15	30/09/15	Bank of Scotland plc	Maturity	0.6500%	10,000,000.00
Deposit	Fixed	CCC/ST/66	15/04/15	15/10/15	Bank of Scotland plc	Maturity	0.7000%	5,000,000.00
Deposit	Fixed	CCC/ST/70	21/04/15	21/10/15	Standard Chartered Bank	Maturity	0.6900%	10,000,000.00
Deposit	Fixed	CCC/ST/71	21/04/15	21/12/15	Standard Chartered Bank	Maturity	0.7400%	5,000,000.00
Deposit	Fixed	CCC/ST/72	21/04/15	23/11/15	Standard Chartered Bank	Maturity	0.7200%	5,000,000.00
Deposit	Fixed	CCC/ST/73	21/04/15	31/07/15	Credit Suisse AG	Maturity	0.5400%	10,000,000.00
Deposit	Fixed	CCC/ST/77	09/06/15	29/01/16	Royal Bank of Scotland plc	Maturity	0.6700%	5,000,000.00
Deposit	Fixed	CCC/ST/78	09/06/15	09/03/16	Royal Bank of Scotland plc	Maturity	0.7500%	5,000,000.00
Deposit	Fixed	CCC/ST/79	18/06/15	18/09/15	Credit Suisse AG	Maturity	0.5500%	5,000,000.00
Fixed Total								**65,000,000.00**
Deposit	Call	CCC/CE/6	01/12/14	-	Barclays Bank plc	Maturity	0.5000%	20,000,000.00
Call Total								**20,000,000.00**
Share holding		CCC/59	25/09/14	-	Municipal Bonds Agency	-	-	400,000.00
Share holding Total								**400,000.00**
Deposit	MMF	CCC/ST/3	31/03/14	-	SLI Sterling Liquidity/Cl 2	Maturity	0.4766%	6,228,000.00
MMF Total								**6,228,000.00**
Deposit Total								**91,628,000.00**

Appendix 4

Balance Sheet Review – 31st March 2015

A balance sheet review has been carried out following completion of the draft accounts. This analysis provides useful information on how we are resourcing the Capital Financing Requirement (i.e. through internal and external borrowing). The analysis also explains how cash backed reserves and working capital surplus supports the cash that is invested.

	31st March 2015 £m		**31st March 2014 £m**	
Capital Financing Requirement (CFR)	621		602	
PFI & Finance Lease Liabilities	114		104	
Underlying borrowing requirement	**507**		**498**	
	£m	**%**	**£m**	**%**
External loans				
PWLB	302	60	302	61
LOBO	80	16	80	16
Local Authorities	0	0	0	0
Internal resources		=£125m		=£116m
Internal investments	55	11	48	10
Working capital surplus	70	13	68	13
Total	**507**	**100**	**498**	**100**

Key Points:

- The underlying borrowing requirement has increased by £9m from £498m to £507m
- External borrowing remains unchanged during the year at £382m.
- Internal borrowing has increased from £116m to £125m. This is resourced from two areas;
    1) internal investments of £55m at 31st March 2015 (£93m cash backed reserves and balances compared to £38m investments)
    2) working capital surplus of £70m
- The Council has maintained a robust use of its balance sheet but we need to ensure that we don't become a forced borrower over the next year or two. The impact of the funding of future capital schemes will also need to be carefully monitored to ensure that the internal investment position is prudent in light of the potential for interest rates to rise over the next two or three years.
- A line by line analysis is shown in the schedule produced by the Councils Treasury Management advisors on the next page.

CAPITA

CAMBRIDGESHIRE COUNTY COUNCIL

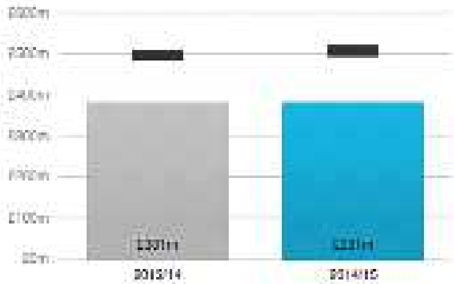
2014/15 Desktop Balance Sheet Review

Asset Services
Treasury solutions

CAPITAL FINANCING AND BORROWING (£'000)

	2013/14	2014/15
Capital Financing Requirement	£601,686	£620,648
Underlying Borrowing Requirement	£497,771	£507,060
External Borrowing	£381,143	£381,143
Under Borrowing	£116,628	£125,917
Net Borrowing (exc TFH debt)	£336,587	£342,521

External Borrowing vs Underlying Borrowing Requirement

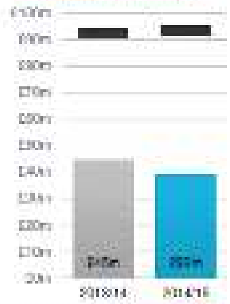


2013/14 (£'000)		2014/15 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
1,734,618	Property, Plant & Equipment	1,517,173	
1,100	Assets Held for Sale	1,098	
(355,890)	Revaluation Reserve	(465,031)	
(779,642)	Capital Adjustment Account	(431,382)	
601,686	**CFR (as per Prudential Code)**	**620,648**	**18,962**
(103,812)	PFI Liability	(113,492)	
(103)	Finance Lease Liability	(95)	
497,771	**Underlying Borrowing Requirement**	**507,060**	**9,289**
	External Borrowing		
	Short Term	(23,043)	
(381,143)	Long Term	(358,100)	
(381,143)	**TOTAL External Borrowing (Principal)**	**(381,143)**	-
116,628	**Under Borrowing**	**125,917**	**9,289**

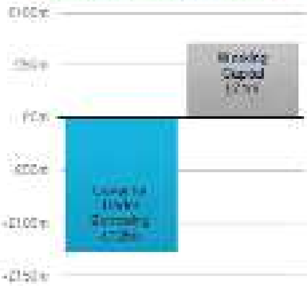
RESERVES / BALANCES AND INVESTMENTS (£'000)

	2013/14	2014/15
Balances Available for Investment	£92,334	£93,261
External Investments	£44,556	£38,622
(Internal Investments)	£47,778	£54,639

Investments vs Balances



Analysis of (Internal Investments)

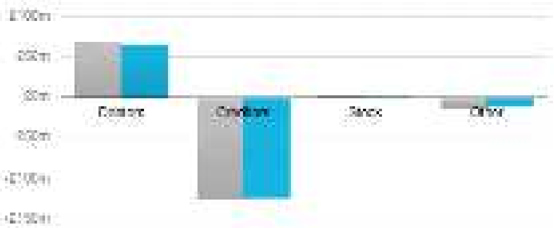


2013/14 (£'000)		2014/15 (£'000)	Change (£'000)
	Reserves / Balances		
(12,898)	General Fund Balance	(15,001)	
(451)	Collection Fund Adjustment Account	60	
(54,058)	Earmarked reserves / other balances	(60,247)	
(1,480)	Capital Receipts Reserve	(1,483)	
(9,208)	Provisions (exc. any accumulating absences)	(9,784)	
(14,802)	Capital Grants Unapplied	(15,905)	
(92,334)	**Amount Available for Investment**	**(93,261)**	**(927)**
	Investments		
	Short Term	50	
44,556	Cash & Cash Equivalents	38,572	
44,556	**TOTAL Investments**	**38,622**	**(5,934)**
(47,778)	**(Internal Investments)**	**(54,639)**	**6,861**

WORKING CAPITAL (£'000)

	2013/14	2014/15
TOTAL Working Capital (Surplus)	-£68,850	-£71,278

Analysis of Working Capital



2013/14 (£'000)		2014/15 (£'000)	Change (£'000)
	Working Capital		
68,085	Debtors	65,395	(2,690)
(125,999)	Creditors	(125,960)	39
(16,895)	Capital Grants Receipts in Advance	(12,975)	
(1,881)	Cash Overdrawn	(4,063)	
798	Stock / WIP	670	
(75,094)	**NET Working Capital (Surplus)**	**(77,133)**	**(2,039)**
	Other		
3,099	Balance LT Debtors	3,199	
(790)	Balance of LT Liabilities	(325)	
3,406	FMA - Premiums, (Discounts) etc	3,241	
6,244	**Other Long Term Working Capital**	**5,855**	**(389)**
(68,850)	**TOTAL Working Capital (Surplus)**	**(71,278)**	**(2,428)**