Wiltshire Council

Council

14 July 2015

Subject:	**Annual Report on Treasury Management 2014-15**
Cabinet member:	**Councillor Richard Tonge** **Finance, Performance, Risk, Procurement and Welfare Reform**
Key Decision:	**No**

Executive Summary

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) (the accountancy body for the public services) Prudential Code for Capital Finance in Local Authorities 2003 (The Prudential Code), the Council adopted a Treasury Management Strategy (TMS) for 2014-15, including a set of Prudential and Treasury Indicators (PrIs/TrIs) and an Annual Investment Strategy (AIS) at its meeting on 25 February 2014. The Strategy report can be found in the Cabinet meeting on 11 February 2014 agenda in the reports pack at the following link[1], Item 9, Pages 201 to 283. This report shows how the Council has performed against the strategy.

The treasury strategy was adhered to in 2014-15; the average long term borrowing rate was 3.823%; and the return on short term investments was 0.60%. In November 2014 the Council sold its remaining claim in Landsbanki. The sale means that Wiltshire Council recovered 96% of the amount that was originally deposited. It has recovered £8.5 million (94%) of deposits with Heritable Bank, and we continue to review this position, with any need for write off already having been provided for.

Proposals

Following consideration by Cabinet at its meeting on 16 June 2015, the Council is asked to consider and note:

a) Prudential Indicators, Treasury Indicators and other treasury management strategies set for 2014-15 against actual positions resulting from actions within the year as detailed in Appendix A; and

c) investments during the year in the context of the Annual Investment Strategy as detailed in Appendix B.

Reasons for Proposals

To give members an opportunity to consider the performance of the Council against the parameters set out in the approved Treasury Management Strategy for 2014-15.

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[1] http://cms.wiltshire.gov.uk/ieListDocuments.aspx?CId=141&MId=7217&Ver=4

This report is required by the Prudential Code for Capital Finance in Local Authorities and the CIPFA Code of Practice for Treasury Management in the Public Services.
Michael Hudson – Associate Director, Finance

Wiltshire Council

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1. Background & Purpose of Report

1.1 In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) (the accountancy body for the public services) Prudential Code for Capital Finance in Local Authorities 2003 (The Prudential Code), the Council adopted a Treasury Management Strategy (TMS) for 2014-15, including a set of Prudential and Treasury Indicators (PrIs/TrIs) and an Annual Investment Strategy (AIS) at its meeting on 25 February 2014. The Strategy report in the Cabinet 11 February 2014 agenda reports pack can be found at the following link[2], Item 9, Pages 201 to 283.

1.2 A quarterly report for the period from 1 April to 31 December 2014 was submitted to Cabinet on 17 March 2015. This report covers the whole financial year ended 31 March 2015.

2. Main Considerations for the Council

2.1 This report reviews:

a) PrIs, TrIs and other treasury management strategies set for 2014-15 against actual positions resulting from actions within the year (see Appendix A); and

b) investments during the year in the context of the Annual Investment Strategy (see Appendix B).

2.2 There were no opportunities to restructure Public Works Loan Board (PWLB) loans in 2014-15, mainly because of the continuing high level of premiums payable for early repayment, together with the availability of favourable interest rates at the appropriate maturity levels.

[2] http://cms.wiltshire.gov.uk/ieListDocuments.aspx?CId=141&MId=7217&Ver=4

Review of Prudential and Treasury Indicators and Treasury Management Strategy for 2014-15

2.3 The detail of the review is given in Appendix A. The Council is asked to note that:

a) all action has been within the approved PrIs and TrIs;

b) as members are aware, the Council has sold its remaining claim in one of the Icelandic banks (Landsbanki), for which sale proceeds of £1.210 million were received. No further repayments have been received during the financial year. Total recoveries since the banks failed in 2008 now stand at approximately £11.4 million.

c) the average interest rate for long term debt has increased slightly (from 3.787%) to 3.823%, the very minor increase being due to the maturity of two PWLB loans during the year. The amount of loans outstanding has reduced by £12 million between 1 April 2014 and 31 March 2015 as a result of the maturities and the loans have not (currently) been refinanced;

d) short term cash deficits and surpluses were managed through temporary loans and deposits with a return on short term investments of 0.60% (an increase from 0.50% in 2013-14, reflecting slight increases in the market during the year). This compares with the average market rate, based on the Average 3 Month LIBID Rate for 2014-15 (London Interbank Bid Rate, i.e. the rate at which banks are prepared to borrow from other banks) of 0.43% (0.39% for 2013-14); and

e) mid/longer term "special tranche rate" investments were placed with Lloyds Banking Group (in May 2014 for nine months, at 0.80% and in November 2014 for 12 months, at 1.00%), taking advantage of favourable (although reduced slightly from previous rates available in 2013-14) rates, whilst ensuring security and liquidity.

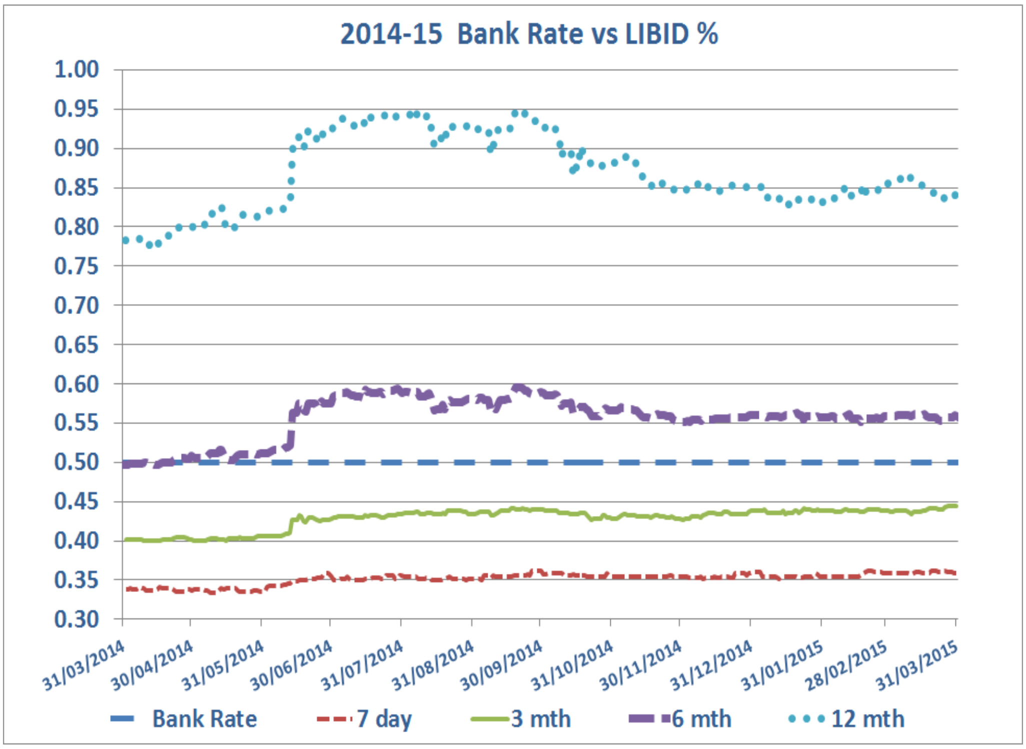
Review of Investment Strategy

2.4 This review is detailed in Appendix B. The Council is asked to note that:

a) the financial year 2014-15 continued the challenging investment environment of previous years, namely low investment returns.

b) Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter one 2015 but then moved back to around quarter three 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

c) as can be seen from the chart below, interest (investment) rates remained relatively low/flat during the financial year, as measured by the London Interbank Bid (LIBID) rate (i.e. the bid rate that banks are willing to pay for deposits in the London interbank market).



d) during the financial year the Council was able to take the opportunity presented by longer term (four to 12 months) investment rates to invest surplus cash balances at optimum rates, whilst maintaining its approved strategy, including security and liquidity and credit rating criteria.

2.5 Change to Treasury Management Strategy 2015-16

Following changes by the rating agencies as a result of 'bail in' regulations, the Associate Director Finance has taken the delegated decision (as agreed/conferred in the Treasury Management Strategy (TMS) presented to Council on 24 February 2015 - TMS 2015/16 Para 11.1 b) of the main report) to make a minor amendment to the Council's Strategy as a result of the changes in the minimum requirements for high credit quality. The amendment will remove the minimum requirement in paragraph 28 in Appendix B of the Main Strategy relating to the support rating, retaining the other additional minimum requirements as in paragraph 28.

3. Safeguarding Implications

3.1 None have been identified as arising directly from this report.

4. Public Health Implications

4.1 None have been identified as arising directly from this report.

5. Corporate Procurement Implications

5.1 None have been identified as arising directly from this report.

6. Equalities Impact of the Proposal

6.1 None have been identified as arising directly from this report.

7. Environmental and Climate Change Considerations

7.1 None have been identified as arising directly from this report.

8. Risks Assessment and Financial Implications

8.1 The primary treasury management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of counterparties.

8.2 Investment counterparty[3] risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy. Appendix B of this report details action taken in 2014-15.

8.3 At 31 March 2015, the Council's average interest rate in respect of long term debt was 3.823%, which remains relatively low, in comparison with other local authorities.

8.4 It is also considered important to ensure that there is an even spread of loans to avoid the prospect of a number of high value loans maturing in any one year, which may need to be re-financed at a time when interest rates are high. A summary of the present loan maturity profile is shown in Appendix C (i).

8.5 Returns on short term investments have not moved significantly, mainly as a result of the volatility of the market following the 'credit crunch' starting in October 2008 and are likely to continue at near current levels for some time. The costs of borrowing for this Council have remained at similar levels because the loan profile is almost entirely at fixed maturity rates (despite the unexpected change of policy on PWLB lending arrangements in October 2010, when new borrowing rates increased by 0.75% to 0.85%, without an associated increase in early redemption rates). The investment rate of return for the year was 0.60%, against the average borrowing rate of 3.823%.

8.6 The original market expectation at the beginning of 2014-15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%.

8.7 Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the European Central Bank (ECB) was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. By the end of 2014, it was clear that inflation in the UK was going to

[3] A Counterparty is a term most commonly used in the financial services industry to describe a legal entity, unincorporated entity or collection of entities (e.g. lender/borrower) to which an exposure to financial risk might exist.

head towards zero in 2015 and possibly even turn negative. This made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

8.8 PWLB rates have fallen during the year, however, they are expected to rise steadily over the next three years as the Bank Rate rises and the UK economy continues to improve.

9. Legal Implications

9.1 None have been identified as arising directly from this report.

10. Options Considered

10.1 The availability of any longer term investment opportunities, such as those offered by "special tranche rates", is continually monitored.

10.2 Also any options available to provide savings from rescheduling long term borrowing are continually assessed in liaison with our treasury advisers.

11. Conclusion

11.1 Council is asked to note the report.

Michael Hudson
Associate Director, Finance

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Background Papers

The following unpublished documents have been relied on in the preparation of this Report: NONE

Appendices

Appendix A Review of Prudential and Treasury Indicators for 2014-15
Appendix B Review of Investment Strategy for 2014-15
Appendix C Summary of Long Term Loans, Temporary Loans and Deposits for 2014-15

APPENDIX A

REVIEW OF PRUDENTIAL AND TREASURY INDICATORS FOR 2014-15

1. Where appropriate the figures shown in this report are consistent with the PrI and TrI estimates in the Strategy for the next three years, as reviewed and reported as part of the 2014-15 budget process.

Prudential Indicators

PrI 1 - Capital Expenditure

2. The table below shows the original and revised estimate of capital expenditure against the actual for the year 2014-15:

	2014-15 Original Estimate £ million	2014-15 Revised Estimate £ million	2014-15 Actual Outturn £ million
General Fund	132.1	120.0	89.8
Housing Revenue Account	10.2	16.0	8.8

3. The actual capital spends have increased from those reported in the December quarterly report because of additional capital expenditure incurred between the end of December 2014 and the end of March 2015.

4. The Capital Programme has been actively managed throughout the year and the revised capital budget (capital outturn position for 2014-15) is £128.0 million. Further breakdown of these figures was presented in the capital outturn report, which was taken to the Cabinet Capital Assets Committee meeting on 16 June 2015.

PrI 2 – Ratio of Financing Costs to Net Revenue Stream

5. PrI 2 expresses the net costs of financing as a percentage of the funding receivable from the Government and council tax payers (General Fund) and rents receivable (HRA). The net cost of financing includes interest and principal repayments for long and short term borrowing, as well as other credit-like arrangements, netted off by interest receivable from cash investments.

	2014-15 Original Estimate	2014-15 Revised Estimate	2014-15 Actual
General Fund	7.1%	6.5%	6.3%
Housing Revenue Account	14.7%	14.9%	14.8%

6. In terms of the General Fund slight differences between budgeted and actual costs led to a minor decrease in actual ratio when compared with the revised estimate. The actual ratio is also slightly lower than the revised estimate and the figure reported in the December 2014 quarterly report, reflecting a higher level of investment income than anticipated.

PrI 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

7. This indicator is only relevant during budget setting, as it reflects the impact on the Band D Council Tax, or average weekly housing rents in respect of the HRA, caused by any agreed changes in the capital budget.

PrI 4 – Gross Borrowing and the Capital Financing Requirement

8. PrI 4 measures the so called "Golden Rule" which ensures that borrowing is only for capital purposes. The table below shows the original and revised estimate for 2014-15 compared with the actual position at the year end.

	2014-15 Original Estimate £ million	**2014-15 Revised Estimate £ million**	**2014-15 Actual £ million**
CFR – General Fund	438.7	384.0	369.1
CFR – HRA	122.6	122.6	122.6
Gross Borrowing – Gen Fund	305.1	243.1	233.1
Gross Borrowing – HRA	118.8	118.8	118.8
CFR not funded by gross borrowing – Gen Fund	**133.6**	**140.9**	**136.0**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**3.8**

9. The Capital Financing Requirement (CFR) increases whenever capital expenditure is incurred. If resourced immediately (from capital receipts, direct revenue contributions or capital grant/contributions) the CFR will reduce at the same time that the capital expenditure is incurred, with no net increase in CFR.

10. Where capital expenditure is not resourced immediately, there is a net increase in CFR, represented by an underlying need to borrow for capital purposes, whether or not external borrowing actually occurs. The CFR may then reduce over time by future applications of capital receipts, capital grants/contributions or further charges to revenue.

11. This PrI is necessary, because under an integrated treasury management strategy (in accordance with best practice under the CIPFA Code of Practice on Treasury Management in the Public Services), borrowing is not associated with particular items or types of expenditure, whether revenue or capital

12. The difference between actual external (gross) borrowing (£233.1 million) and the CFR (CFR not funded by gross borrowing above) is capital expenditure met by internal borrowing, i.e. funded from the Council's own funds, such as reserves and balances and working capital (an accounting term for the difference, at a point in time, between what the Council owes and what is owed to it).

13. Internal borrowing is cheaper than external borrowing (see paragraph 8.5 of the main report), however, the ability to borrow internally will depend upon the sufficiency of reserves, balances and working capital. The sufficiency needs to be monitored and projections carried out to indicate where any adverse movements are expected, that could jeopardise the Council's cash flow position, making it necessary to replace internal with external borrowing.

PrI 5 – Compliance with CIPFA Code of Practice for Treasury Management in the Public Services ("The Code")

In the past year the Council was, and is expected to continue to be, fully compliant with the CIPFA Code of Practice for Treasury Management in the Public Services.

14. This Code of Practice has been complied with during 2014-15.

Treasury Management Indicators within the Prudential Code

TrI 1 – Authorised Limit for External Debt

Authorised Limit	**2014-15 £ million**	**2015-16 £ million**	**2016-17 £ million**	**2017-18 £ million**
Borrowing – General Fund	471.2	448.2	488.7	492.5
Borrowing – HRA	123.2	123.2	123.2	123.2
Total Borrowing	**594.4**	**571.4**	**611.9**	**615.7**
Other Long Term Liabilities	0.2	0.2	0.2	0.2
TOTAL	**594.6**	**571.6**	**612.1**	**615.9**

15. This Authorised Limit was not exceeded at any time during the year, as maximum borrowing was below the (lower) Operational Boundary.

TrI 2 – Operational Boundary for External Debt

Operational Boundary	**2014-15 £ million**	**2015-16 £ million**	**2016-17 £ million**	**2017-18 £ million**
Borrowing – General Fund	459.7	437.2	476.7	480.5
Borrowing – HRA	123.2	123.2	123.2	123.2
Total Borrowing	**582.9**	**560.4**	**599.9**	**603.7**
Other Long Term Liabilities	0.2	0.2	0.2	0.2
TOTAL	**583.1**	**560.6**	**600.1**	**603.9**

16. This TrI is for gross borrowing and was set at a limit that would allow the Council to take its entire financing requirement as loans if this was the most cost effective alternative. The limit on HRA borrowing is capped in 2014-15 at £123.2 million. The limits, which have not been exceeded during the period covered by this report, are set to anticipate expected expenditure. The maximum gross borrowing during the year being £364.0 million (£245.2 million on General Fund and £118.8 on HRA) at the beginning of the financial year up to 31 May 2014. Between 1 June 2014 and 31 March 2015 two fixed rate PWLB loans (totalling £12 million) have matured and not been refinanced.

TrI 3 – External debt

	31/3/14 Actual £ million	31/3/15 Expected £ million	31/3/15 Actual £ million
Borrowing – General Fund	245.2	246.1	233.1
Borrowing – HRA	118.8	118.8	118.8
Total Borrowing	**364.0**	**364.9**	**351.9**
Other Long Term Liabilities	£0.2	0.2	£0.2
TOTAL	**364.2**	**365.1**	**352.1**

17. This TrI shows the gross External Debt outstanding at year end. The actual borrowing figure is outstanding long term borrowing as shown in Appendix C (i). Actual borrowing was less than expected at the end of 2014-15, mainly due to the decision not to refinance maturing loans at this time.

18. There were no additional long term loans taken during the year.

Treasury Management Indicators within the Treasury Management Code

TrI 4a and 4b – Upper Limit on Fixed Interest Rate Exposures and Interest Rate Exposures, respectively

The Council's upper limit for fixed interest rate exposure for the period 2014-15 to 2017-18 is 100% of net outstanding principal sums.

The Council's upper limit for variable interest rate exposure is 47% for 2014-15, 50% for 2015-16, 52% for 2016-17 and 54% for 2017-18 of net outstanding principal sums.

19. All loans and investments are at fixed rates of interest.

TrI 5 – Maturity Structure of Borrowing

Limits on the Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actuals 31/3/15 Next Call Date	Actuals 31/3/15 Contracted Maturity
Maturing Period:				
- under 12 months	15%	0%	20.7%	3.4%
- 12 months and within 24 months	15%	0%	3.4%	3.4%
- 2 years and within 5 years	45%	0%	6.5%	6.5%
- 5 years and within 10 years	75%	0%	11.9%	11.9%
- 10 years and above	100%	0%	57.5%	74.8%

20. In addition to the main maturity indicators it is considered prudent that no more than 15% of long term loans should fall due for repayment within any one financial year. Using CIPFAs guidance notes, it is recommended that treasury

reports show LOBOs at the next call date, however, the Code states that LOBOs should be shown in the accounts disclosure notes when “the counterparty could first require payment”. This would ordinarily be the maturity date (further details are shown in Appendix C(i)).

21. Applying the CIPFA recommendation, for the treasury report, the actual maximum percentage falling due for repayment in any one year is currently 20.7% (£73 million) in 2015-16. This takes it, temporarily, over the 15% and in excess of the upper limit on the maturity structure of borrowing. However, this is not the case if the alternative (contracted maturity date) is applied. Nearly 85% of the £73 million shown as maturing in 2015-16, by the recommended method, relates to LOBO loans. Through call options, the lender has the right to change the interest rate at various points, in which case the Council will repay the loans and consider whether it needs to refinance them. In the current interest rate climate (where interest rates are expected to remain low for some time – Bank Rate is not anticipated to rise until at least quarter 1 2016 and the Bank of England has stated that it expects to raise rates slowly) they are extremely unlikely to be called. The average interest rate on present long-term debt is 3.823%, which continues to be relatively low when compared with other local authority borrowing rates.

<u>TrI 6 – Total Principal Sums invested for periods longer than 364 days</u>

22. This TrI is covered by the Annual Investment Strategy, which is detailed in Appendix B.

<u>Other Treasury Management issues</u>

Short Term Cash Deficits and Surpluses

23. It was agreed, as per the approved Strategy, that temporary loans and deposits would be used to cover short term cash surpluses and deficits that arise during the year. Such borrowing or investments would be made to specific dates at fixed rates, with reference to cash flow requirements. Investments have also been placed in Money Market Funds during the year.

24. Any outstanding temporary loans and/or deposits are summarised in Appendix C (ii).

Icelandic Bank Deposits

25. During 2014-15 the Council received no further repayments from the administrators of Heritable Bank.

26. In terms of Heritable Bank, the Council is in the same position as it was at the end of the previous financial year, a total recovery of around £8.5 million, 94% (of the original investment of £9 million) from the administrators. This may be the last payment, although the final position still remains unconfirmed (by the administrators). Further repayments from the administrators of Heritable Bank are dependent on the outcome of ongoing legal proceedings. At this time the quantum and timing of any repayments are unknown. Further progress reports from the administrators are awaited.

27. In November 2014 the Council sold its remaining claim in Landsbanki. The sale means that Wiltshire Council has recovered 96% of the amount that was originally deposited with LBI in 2008. Wiltshire Council is now no longer a creditor of LBI.

28. The only deposit now treated as outstanding with Icelandic banks is the element remaining in Iceland in an escrow account, pending review of Icelandic capital controls and is shown in Appendix C (ii).

29. The initial investments in Icelandic banks amounted to a total of £12 million and total recoveries since the banks failed in 2008 now stand at approximately £11.4 million. Depending on the outcome in respect of Heritable, as above, this could be the final recoverable amount.

Longer Term Cash Balances

30. The tight monetary conditions have continued through 2014-15 without much upward movement in the deposit rates for all types of investments (short/medium and long term). As a result opportunities for an increased return by longer term investment of the more permanent cash surpluses, such as reserves and balances have been limited.

31. However, there have been continuing opportunities for investment, within the Councils approved Treasury Management Strategy, in (UK 'Government backed') banks which have offered "special tranche rates" for twelve months.

32. Further "special tranche rate" investments were placed with Lloyds Bank for nine months at 0.80% (in May 2014) and 12 months (in November 2014) at 1.00% during the year, further details of the 12 month deposit are shown in Appendix C(ii).

APPENDIX B

REVIEW OF INVESTMENT STRATEGY FOR 2013-14

1. All investments of surplus cash balances were placed to ensure:

   a) the security of capital, deposits only being placed with financial institutions which met the **high credit ratings** laid down in the approved Strategy;

   b) the liquidity of investments, all deposits being placed for fixed periods at fixed rates of interest; and

   c) all such investments were in sterling and in "Specified Investments", as prescribed in the DCLG Guidance on Local Government Investments (the "Guidance").

2. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

3. Details of the deposits outstanding at the end of the year, totalling £42.870 million, are shown in Appendix C (ii). These deposits represent the Council's reserves both long term, such as the PFI and Insurance funds, and short term such as creditors or payments in advance and include the small deposit that remains in Iceland, which is currently held subject to the, awaited, relaxation of currency controls.

4. The opportunity was taken to place a proportion of these deposits in longer term investments for nine and 12 months during the year, taking advantage of higher interest rates available for the longer maturity period. These are shown within general deposits in Appendix C (ii).

5. The Council contracts with a treasury adviser, regularly reviewing credit ratings of potential organisations and their respective country's ratings, together with other 'tools' used to assess the credit quality of institutions such as credit default swaps. The Council uses this information to assess institutions with which it may place deposits or from which it may borrow, including interest rate forecasts for both borrowing and investment, together with setting a 'benchmark' borrowing rate. The Council's investment policy is 'aimed' at the prudent investment of surplus cash balances to optimise returns whilst ensuring the security of capital and liquidity of investments. However, the Council, like any other organisation, can be exposed to financial risk, which is negated as far as possible by the foregoing measures.

Appendix C(i)

SUMMARY OF LONG TERM BORROWING 1 APRIL - 31 MARCH 2015

Loans Raised During the Period

Date Raised	Lender	Amount (£m)	Type	Interest rate (%)	Maturity date	No. of years
No Loans were raised during the period						
	Total	0.000				

Average period to maturity (years) **0.00**

Average interest rate (%) **0.00**

* Loans taken to restucture ** Loans taken for purchases instead of leasing

Maturity Profile at 31 March 2015

	Amount (£m)					% age		Average rate (%)	
		Market Loans (LOBO)		Total					
Year	PWLB	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity
	(A)	(B)	(C)	(A)+(B)	(A)+(C)				
1 to 5 years	46.825	61.000	-	107.825	46.825	30.6	13.3	3.860	3.192
6 to 15 years	91.123	-	-	91.123	91.123	25.9	25.9	3.139	3.139
16 to 25 years	78.500	-	-	78.500	78.500	22.3	22.3	3.928	3.928
26 to 50 years	74.500	-	45.000	74.500	119.500	21.2	34.0	4.497	4.460
Over 50 years	-	-	16.000	-	16.000	-	4.5	-	4.298
Totals	290.948	61.000	61.000	351.948	351.948	100.0	100.0	3.823	3.823

Average period to maturity (years) **15.13** **22.28**

CIPFAs Guidance Notes on Treasury Management in the Public Services recommends that the Treasury Management Strategy Reports include LOBO (Lender Option Borrower Option) loans at the earliest date on which the lender can require payment, deemed to be the next 'call date'. At that date the lender may choose to increase the interest rate and the borrower (the Council) may accept the new rate or repay the loan (under the current approved Treasury Management Strategy, the Council would repay the loan). Whether or not the lender chooses to exercise their right to alter the interest rate will depend on market conditions (interest rates). Current market conditions, where interest rates are predicted to remain low for some time, indicate that it is highly unlikely that lenders will call the loans in the immediate furture.

The alternative method of determining the maturity profile of LOBO loans, based on contracted maturity dates, is used in the 2014-15 year end outturn.

The table above includes the maturity profiles using both the earliest date on which the lender can require payment and the contracted maturity dates.

SUMMARY OF DEPOSITS 1 APRIL - 31 MARCH 2015

Deposits Outstanding at 31 March 2015

Borrower	Amount £m	Terms		Interest Rate	Sector Credit Rating at 31/03/2015
DBS Bank Ltd.	8.000	Fixed to	05-May-15	0.65	Orange - 12 Months
Lloyds TSB Bank	5.000	Fixed to	11-Nov-15	1.00	Blue - 12 Months
Nationwide Building Society	7.000	Fixed to	01-Oct-15	0.66	Red - 6 Months
Svenska Handelsbanken AB	0.017	No fixed maturity date		0.45	Orange - 12 Months
BlackRock Money Market Fund	0.021	No fixed maturity date		0.42	AAA
J P Morgan Money Market Fund	0.001	No fixed maturity date		0.42	AAA
Prime Rate Money Market Fund	7.866	No fixed maturity date		0.46	AAA
Goldman Sachs	0.005	No fixed maturity date		0.43	AAA
Ignis Money Market Fund	14.937	No fixed maturity date		0.48	AAA
Landsbanki (Escrow Account)	0.023	Est Recoverable Amount		4.17	N/A
Total	**42.870**				

Following the sale, in November 2014, of the Council's remaining claim in the winding-up of Landsbanki and the receipt of the last repayment from the administrators of Heritable Bank, the only remaining Icelandic investment now shown as outstanding is the amount (last entry) held in an escrow account in Iceland. The estimated recoverable amounts relating to the Heritable Bank investments are treated as nil, on the basis of current indications, that there may not be any further repayments, a recovery level of 94% having been attained. The last entry reflects the amount paid out in ISK (Icelandic Krona) which is being held in an interest bearing escrow account in Iceland, pending repayment once Icelandic capital controls are eased/come to an end and, as recommended by CIPFA, accounted for as a 'new' investment.

Investments held have decreased by £48.671 million between the end of December 2014 as reported in the previous quarterly report, and the end of March 2015. This is because of changes in cash flows/reversal of timing differences (e.g. decreased receipts/increased payments, particularly those associated with the funding arrangements for Business Rates Retention) and the reduction in cash associated with the £12 million loan maturities (£10 million of which has matured since the previous quarterly report), resulting in a reduction in cash available for investment. The cash position is constantly reviewed to ensure that the Council maintains an appropriate level for cash flow purposes. The timing difference reduced (as expected) as the financial year progressed as shown in the table below.

	Year Ended 31/03/2014 £m	Quarter Ended 30/06/2014 £m	Change £m	Quarter Ended 30/09/2014 £m	Change £m	Quarter Ended 31/12/2014 £m	Change £m	Quarter Ended 31/03/2015 £m	Change £m
Total Deposits Outstanding	**76.327**	**137.719**	**61.392**	**105.602**	**-32.117**	**91.541**	**-14.061**	**42.870**	**-48.671**