Midlothian Council
Tuesday 23 June 2015
Item No 25

Annual Treasury Management Report 2014/15

Report by Head of Finance & Integrated Service Support

1. Purpose of Report

The purpose of the report is to inform members of the Treasury Management activity undertaken in 2014/15 and the year end position.

2. Background

The Council has adopted the Code of Practice for Treasury Management in Local Authorities published by the Chartered Institute of Public Finance and Accountancy and complies with its requirements which include an annual Treasury Management report on the previous financial year to be presented by 30 September in each year.

A detailed report "*Annual Treasury Management Review 2014/15*" on the activity during 2014/15 is attached as Appendix 1.

The main points arising from treasury activity in 2014/15 were:

- Total new long term borrowing taken in the year amounted to £10 million, sourced 100% from PWLB and thereby taking advantage of historically low PWLB rates;

- The average rate of interest paid on external debt was 3.59% in 2014/15, down from 3.68% in 2013/14;

- The average rate of return on investments was 0.85% in 2014/15, which outperforms the Capita Local Authority benchmarks for the year (see Appendix 2);

- The internal loans fund rate decreased from 3.46% in 2013/14 to 3.23% in 2014/15, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;

- Were the internal loans fund rate to have equated to the Scottish average of 4.52%, this would have generated loan charges in 2014/15 of £18.3m. The Council's actual 2014/15 loan charges for General Services and HRA were £15.0m, representing a cash saving (compared to the Scotland average) of £3.3m in 2014/15;

- No debt rescheduling was undertaken during 2014/15.

3. Report Implications

3.1. Resources

Although benefits from Treasury Management activity continue to accrue there are no direct financial implications or other resource issues arising from this report.

The loan charges associated with Capital Expenditure and Treasury Management activity during 2014/15 are reported in the Financial Monitoring 2014/15 – General Fund Revenue report elsewhere on today's agenda.

3.2. Risk

As the Council follows the requirements of CIPFA Code of Practice and the Prudential Code there are few risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved.

3.3. Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

3.4 Impact on Performance and Outcomes

The strategies adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

3.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

3.6 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Sector, the Council's appointed Treasury Consultants.

3.7 Ensuring Equalities

There are no equality issues arising from this report.

3.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

3.9 IT Issues

There are no IT issues arising from this report.

4. Summary

Treasury Management activity during the year has been effective in minimising the cost of borrowing and maximising investment income within the parameters set by the strategy for the year.

5. Recommendations

It is recommended that the Council:-

a) Note the Treasury Management Annual Report for 2014/15.

Date 03 June 2015

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Background Papers
Appendix 1: Annual Treasury Management Review 2014/15
Appendix 2: Midlothian Council Investment Portfolio Returns
Appendix 3: Loans Fund Rate: Scottish Local Authority Comparison 2013/14

Appendix 1

Annual Treasury Management Review 2014/15

Midlothian Council
June 2015

Contents

Annual Treasury Management Review 2014/15

Purpose

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 04/02/2014)
- a mid year (minimum) treasury update report (Council 16/12/2014)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

Executive Summary

During 2014/15, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2013/14 Actual £000	2014/15 Budget £000	2014/15 Actual £000
Capital expenditure:-			
General Fund	15,208	11,401	11,401
HRA	15,962	11,888	11,888
Total	**31,170**	**23,289**	**23,289**
Borrowing Required			
General Fund	4,307	254	254
HRA	14,115	7,554	7,554
Total	**18,422**	**7,808**	**7,808**
Capital Financing Requirement:-			
General Fund	107,615	125,043	103,675
HRA	145,548	145,757	150,234
Total	**253,163**	**270,800**	**253,909**
Gross Borrowing	**225,993**	**225,567**	**234,705**
Investments:-			
Under 1 year	39,127	5,000	55,891
Longer than 1 year	-	-	-
Total	**39,127**	**5,000**	**55,891**

The financial year 2014/15 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

With that in mind, the general strategy for any new borrowings required was to balance savings from the utilisation of short-term market money from other UK public sector bodies at rates often available at less than base rate (0.5%), with borrowing from PWLB at historically low rates, particularly at the short-medium end of the curve. This allowed longer-term borrowing to be undertaken in the latter half of the financial year when rates were low, whilst continued use of shorter-term borrowing within the overall portfolio continued to add value.

The Council continues to maintain a nominal under-borrowed position, reflecting a strategy to cash-back the majority of the Council's balance sheet reserves. The Council has sought to source new long-term borrowing from PWLB, taking advantage of the historically low rates on offer and the current 0.20% discount, whilst maintaining an element of shorter-dated temporary borrowing on offer at less than base rate (<0.50%). Prudential and treasury indicators are to be found in the main body of this report. The Head of Finance & Integrated Service Support also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached.

Introduction and Background

This report summarises the following:

- **Section 1**: Capital activity during the year;
- **Section 2**: Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- **Section 3**: Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- **Section 4**: Treasury Management Strategy during 2014/15;
- **Section 5**: Summary of interest rate movements during 2014/15;
- **Sections 6/7**: Detailed debt activity during 2014/15;
- **Sections 8/9**: Detailed investment activity during 2014/15; and
- **Section 10**: Performance Measurement.

1. The Council's Capital Expenditure and Financing 2014/15

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Table 1: Capital Expenditure + Financing

	2013/14 Actual £000	2014/15 Budget £000	2014/15 Actual £000
General Fund			
Capital Expenditure	17,342	15,208	11,401
Available Funding	8,543	10,901	11,147
Borrowing Required	**8,799**	**4,307**	**254**
HRA			
Capital Expenditure	16,104	15,962	11,888
Available Funding	2,668	1,847	4,334
Borrowing Required	**13,436**	**14,115**	**7,554**
General Fund and HRA			
Capital Expenditure	33,446	31,170	23,289
Available Funding	11,211	12,748	15,481
Borrowing Required	**22,235**	**18,422**	**7,808**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2014/15 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Scheduled Debt Amortisation (or loans repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the minimum loan repayment each year through an additional revenue charge.

The Council's CFR for borrowing for the year is shown below, and represents a key prudential indicator.

Table 2: Council's Capital Financing Requirement

CFR:	31-Mar-13 Actual £000	2014/15 Budget £000	31-Mar-15 Actual £000
Opening balance	**£ 237,695**	**£ 262,781**	**£ 253,163**
Add Borrowing Required	£ 22,235	£ 18,422	£ 7,808
Less scheduled debt amortisation	£ (6,767)	£ (7,348)	£ (7,062)
Closing balance	**£ 253,163**	**£ 273,855**	**£ 253,909**

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2013/14) plus the estimates of any additional capital financing requirement for the current (2014/15) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2014/15. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 3: Council's Gross Borrowing Position			
	31-Mar-13	2014/15	31-Mar-14
	Actual	Budget	Actual
	£000	£000	£000
Gross Borrowing	£ 225,993	£ 225,567	£ 234,705
CFR	£ 253,163	£ 273,855	£ 253,909

The authorised limit – this Council has kept within its authorised external borrowing limit as shown by the table below. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Table 4: Gross Borrowing against Authorised Limit / Operational Boundary	
	2014/15
Authorised limit - borrowing	£ 336,676
Operational boundary - borrowing	£ 273,915
Maximum gross borrowing position	£ 245,224
Average gross borrowing position	£ 224,726

3. Treasury Position as at 31 March 2015

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2014/15 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position

	31 March 2014 Principal	Rate/ Return	Average Life (Yrs)	31 March 2015 Principal	Rate/ Return	Average Life (Yrs)
Debt						
Fixed Rate Debt						
PWLB	£ 187,993	3.88%	20.71	£ 177,969	4.01%	23.18
Market	£ 23,000	1.19%	13.94	£ 41,736	0.82%	7.61
Total Fixed Rate Debt	**£ 210,993**	**3.59%**	**19.97**	**£ 219,705**	**3.41%**	**20.24**
Variable Rate Debt						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	36.71	£ 15,000	4.63%	35.71
Total Variable Rate Debt	**£ 15,000**	**4.63%**	**36.71**	**£ 15,000**	**4.63%**	**35.71**
Total debt/gross borrowing	**£ 225,993**	**3.65%**	**18.74**	**£ 234,705**	**3.48%**	**21.22**
CFR	**£ 253,775**			**£ 253,909**		
Over/ (under) borrowing	**£ (27,781)**			**£ (19,203)**		
Investments						
Fixed Rate Investments						
In House	£ -	n/a	n/a	£ 50,000	0.93%	0.56
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Fixed Rate Investments	**£ -**	**n/a**	**n/a**	**£ 50,000**	**0.93%**	**0.56**
Variable Rate Investments						
In House	£ 39,127	0.88%	0.06	£ 5,891	0.47%	0
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Variable Rate Investments	**£ 39,127**	**0.88%**	**0.06**	**£ 5,891**	**0.47%**	**0**
Total Investments	**£ 39,127**	**0.88%**	**0.06**	**£ 55,891**	**0.88%**	**0.50**
Net Borrowing	**£ 186,867**			**£ 178,815**		

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio					
	31-Mar-14		2014/15	31-Mar-15	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Under 12 months	£ 38,024	17%	0% to 50%	£ 41,526	18%
12 months to 2 years	£ 5,026	2%	0% to 50%	£ 2,029	1%
2 years to 5 years	£ 22,094	10%	0% to 50%	£ 28,502	12%
5 years to 10 years	£ 18,318	8%	0% to 50%	£ 10,801	5%
10 years to 20 years	£ 42,897	19%	0% to 50%	£ 52,214	22%
20 years to 30 years	£ 14,100	6%	0% to 50%	£ 4,100	2%
30 years to 40 years	£ 50,700	22%	0% to 50%	£ 60,700	26%
40 years to 50 years	£ 29,834	13%	0% to 50%	£ 29,834	13%
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	2%
Total	**£ 225,993**	**100%**		**£ 234,706**	**100%**

The maturity structure of the investment portfolio was as follows:

Table 7: Maturity Structure of Investment Portfolio		
	31-Mar-14	31-Mar-15
	£000	£000
Investments		
Under 1 Year	£ 39,127	£ 55,891
Over 1 Year	£ -	£ -
Total	**£ 39,127**	**£ 55,891**

The exposure to fixed and variable interest rates on debt was as follows:-

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio					
	31-Mar-14		2014/15	31-Mar-15	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Fixed Interest Rate Exposure	£ 210,993	93%	0% to 100%	£ 219,706	94%
Variable Interest Rate Exposure	£ 15,000	7%	0% to 30%	£ 15,000	6%
Total	**£ 225,993**	**100%**		**£ 234,706**	**100%**

4. The Strategy for 2014/15

The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

With that in mind, the general strategy for any new borrowings required was to balance savings from the utilisation of short-term market money from other UK public sector bodies at rates often available at less than base rate (0.5%), with borrowing from PWLB at historically low rates, particularly at the short-medium end of the curve. This allowed longer-term borrowing to be undertaken in the latter half of the financial year when rates were low, whilst continued use of shorter-term borrowing within the overall portfolio continued to add value.

5. The Economy and Interest Rates

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%. 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 ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, 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.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

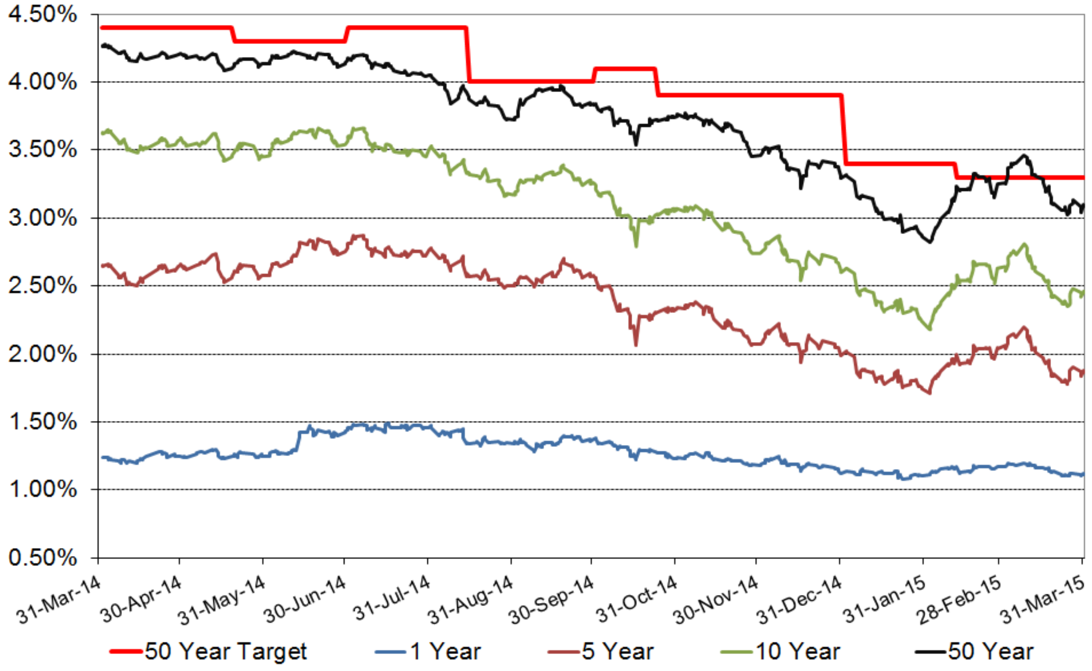
The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

6. Borrowing Rates in 2014/15

PWLB certainty maturity borrowing rates - the graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.



Short-dated market money:- sourced from other UK public bodies, rates fluctuated throughout the year from 0.26%-0.60% for 1 to 12 month maturities.

7. Borrowing Outturn for 2014/15

New Treasury Borrowing:-

New loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:-

Table 9: New Loans Taken in Financial Year 2014/15						
Lender	**Date Taken**	**Principal £000's**	**Interest Rate**	**Fixed/ Variable**	**Maturity Date**	**Term (Yrs)**
PWLB	15 Dec 2014	£ 5,000	3.38%	Fixed	14 Apr 2054	39.50
PWLB	15 Dec 2014	£ 5,000	3.37%	Fixed	14 Dec 2057	43.00
Salix	02 Oct 2014	£ 255	0.00%	Fixed	02 Oct 2021	7.00
Market	Various	£173,500	0.28-0.51%	Variable interest rate	Various	0.06-0.50
Total		**£183,755**				

Market loans of £173.5 million reflect an average carrying value of £26.0m at an average interest rate of 0.37%, drawn on average every 1.8 months. This compares against a budget assumption of new short-term market borrowing of (an average carrying value of) £20.0m at 0.65%.

Medium-long term borrowing taken in the year, amounting to £10.3 million at an average interest rate of 3.38%, compares with a budget assumption of new borrowing of £20.0 million at an average interest rate of 4.09%.

Maturing Debt:-

The following table gives details of treasury debt maturing during the year:-

Table 10: Maturing Debt in Financial Year 2014/15						
Lender	**Date Repaid**	**Principal £000's**	**Interest Rate**	**Fixed/ Variable**	**Date Originally Taken**	**Original Term (Yrs)**
PWLB	Various (Annuities)	£ 24	9.12%	Fixed	Various	57.14
PWLB	15 May 2014	£ 10,000	2.69%	Fixed	17 Nov 2009	3.50
PWLB	17 Nov 2014	£ 10,000	2.18%	Fixed	28 May 2010	4.50
Market	Various	£155,000	0.30%-0.40%	Variable interest rate	Various	0.08-0.75
Total		**£175,024**				

Rescheduling:-

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

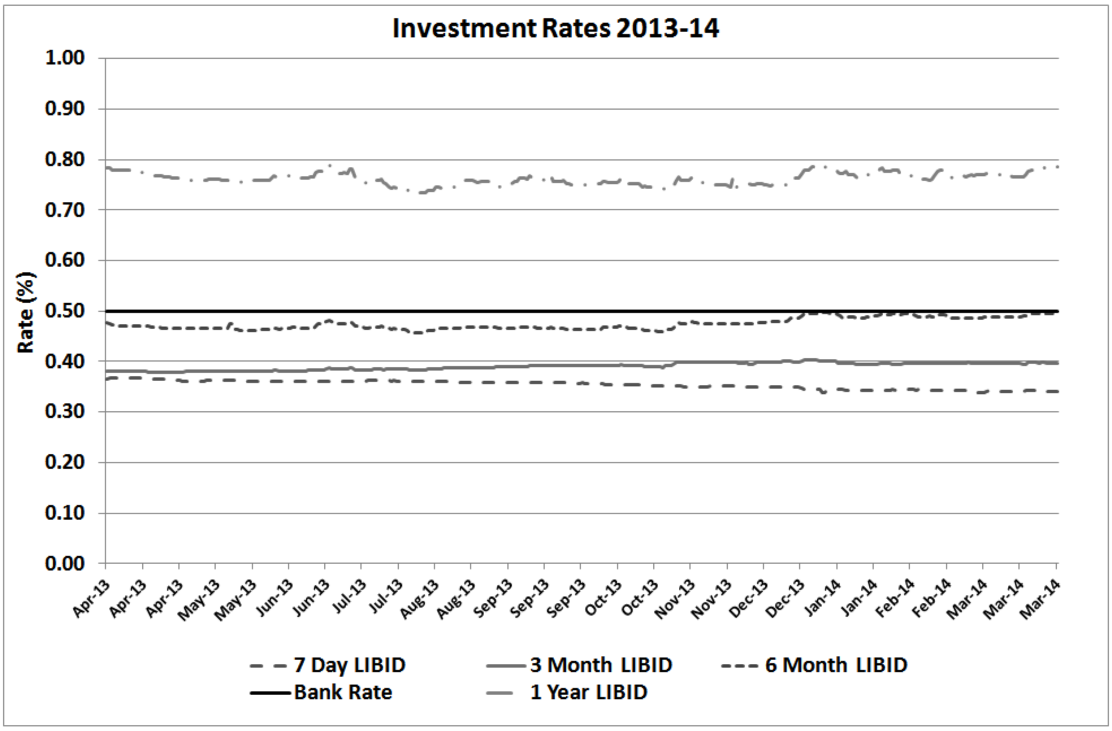
Summary of debt transactions:-

The average interest rate payable on external debt decreased from 3.68% to 3.58%, as a result of a switch towards less expensive, shorter-dated market loans.

The average interest rate on external debt of 3.58% was 0.27% under the budgeted rate of 3.85%.

8. Investment Rates in 2014/15

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 1 2015 but then moved back to around quarter 3 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.



Money market fund rates started the year between 0.35%-0.45% and remained broadly unchanged, symptomatic of the challenging investment environment.

Call account rates remained broadly steady at 0.40%-0.50%.

9. Investment Outturn for 2014/15

Investment Policy:-

The Council's investment policy is governed by Scottish Government Investment Regulations, which were implemented in the annual investment strategy approved by the Council on 0517/02/2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Investments held by the Council:-

The Council maintained an average balance of £46.5 million of internally managed funds. The internally managed funds earned an average rate of return of 0.85%.

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities.

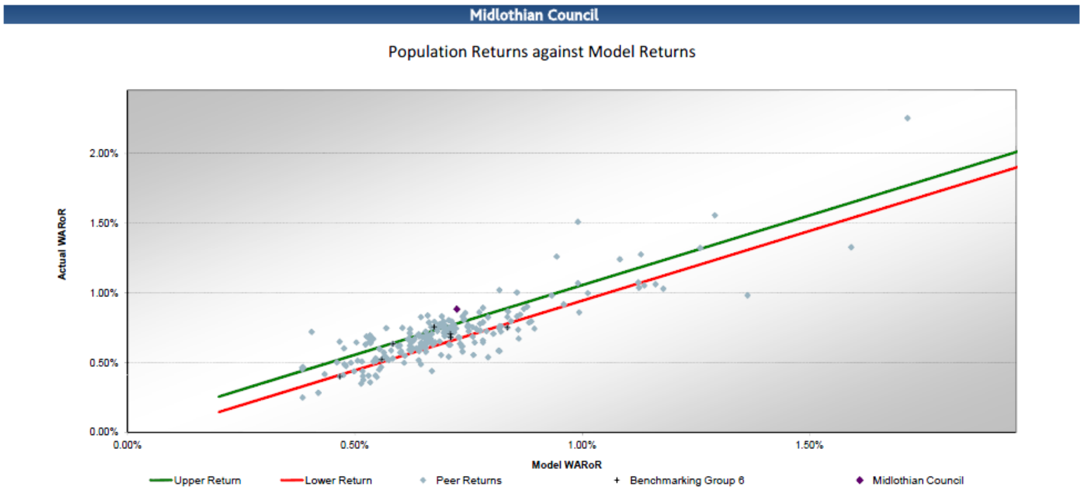
Loans Fund Rate

Combining the interest paid (earned) on external debt (investments) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian's result of 3.46% for 2013/14 was one of the lowest Loans Fund Rate amongst all mainland authorities in Scotland (see Appendix 1).

The comparative Loans Fund Rate for 2014/15, of 3.23%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

Investment Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Sector. This service provided by Sector provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council's investments as at 31 March 2015, the Weighted Average Rate of Return (WARoR) on investments of 0.88% against other authorities is shown in the graph below:-



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.88%	0.72%	0.16%	0.67%	0.78%	Above

** Models for 30 June 2014 and 30 September 2014 are attached as Appendix 2.*

As can be seen from the above graph, Midlothian is performing above the Sector model benchmarks (red to green lines), and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Debt Performance

Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. In this respect, the relevant figures for Midlothian are incorporated in the table in Section 3.

11. Conclusion

The Council's overall cost of borrowing continues to benefit from proactive Treasury Management activity.

The cost of long term borrowing has been maintained by taking up opportunities to borrow from the PWLB at low interest rates whilst advantage has also been taken of the low rates available for temporary borrowing.

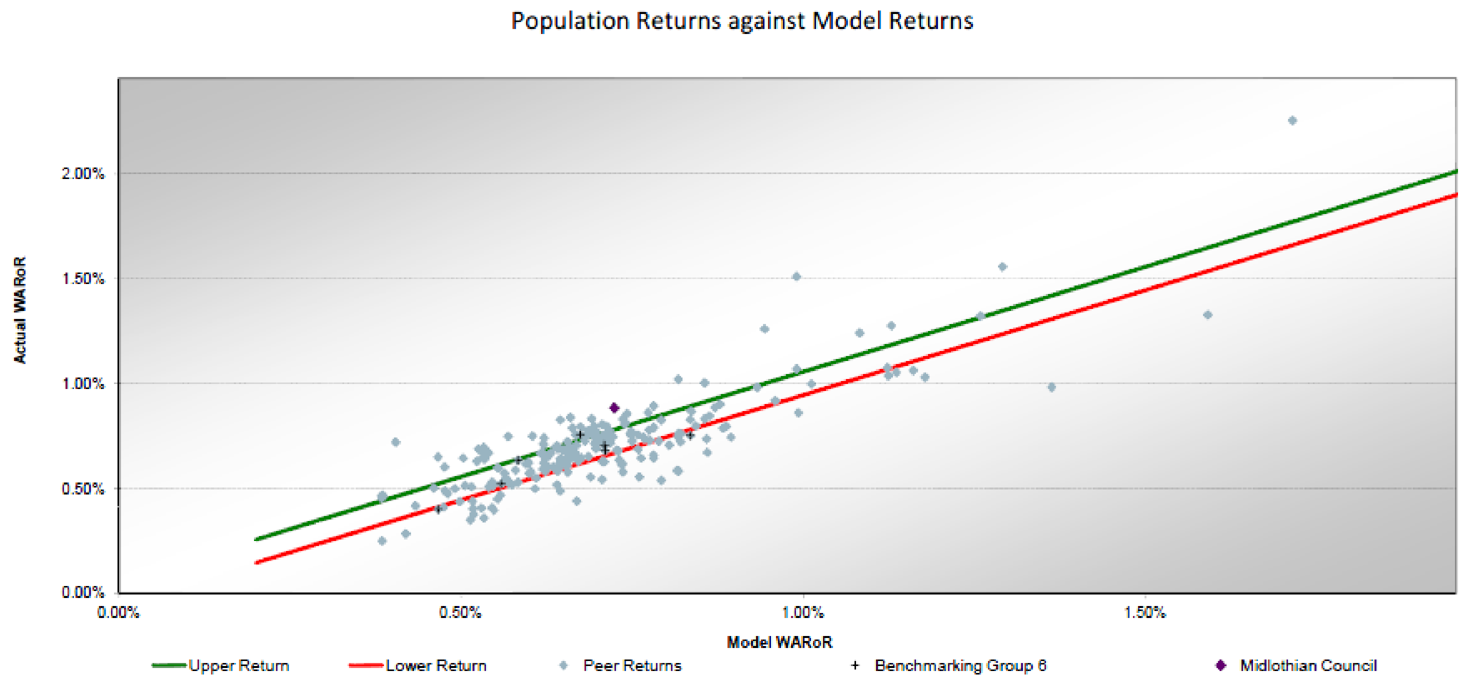
A better than average return on investments has been achieved for the tenth consecutive year and Midlothian continues to perform above the Sector model benchmarks and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Overall Midlothian's Loans Fund Rate for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.

Appendix 2

Midlothian Council Investment Portfolio return as at 31 March 2015

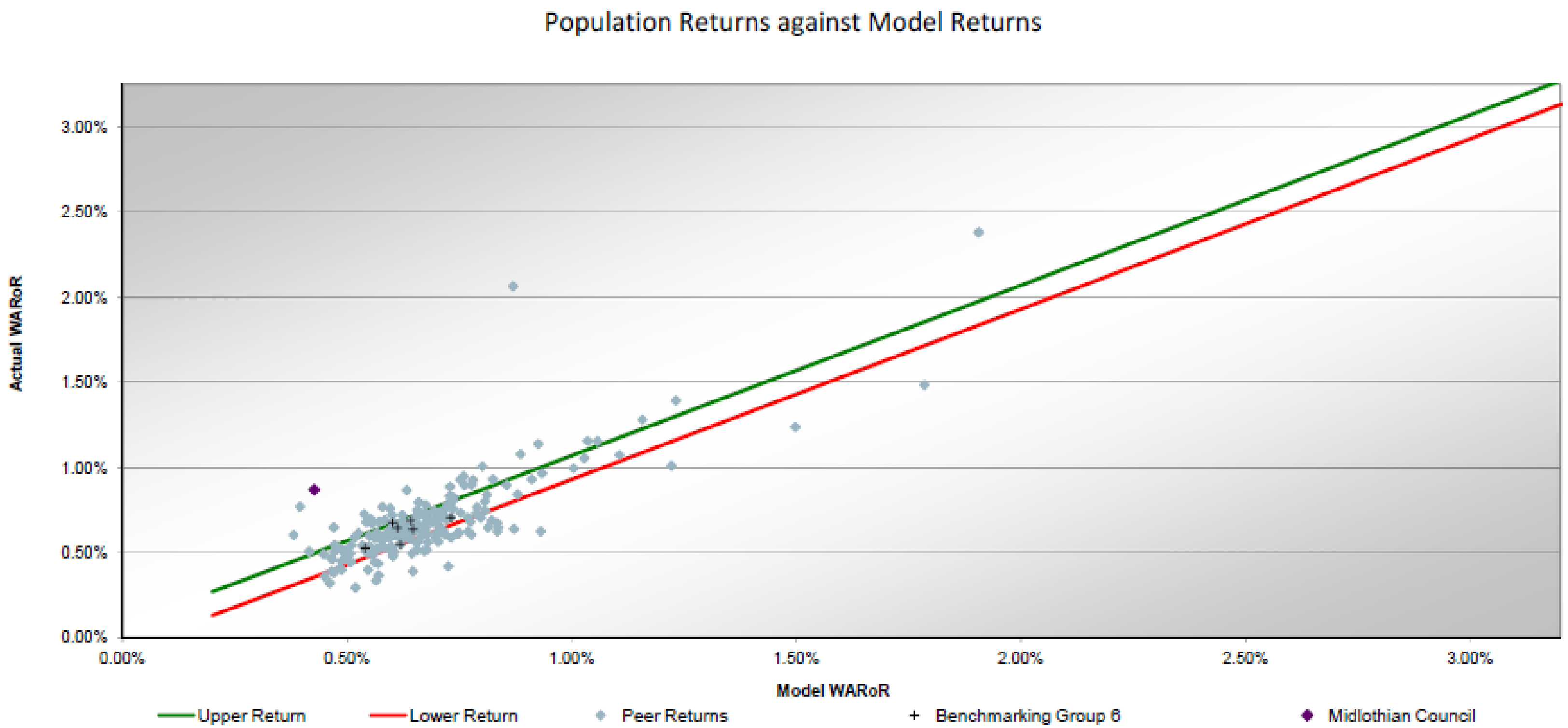
Midlothian Council



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.88%	0.72%	0.16%	0.67%	0.78%	Above

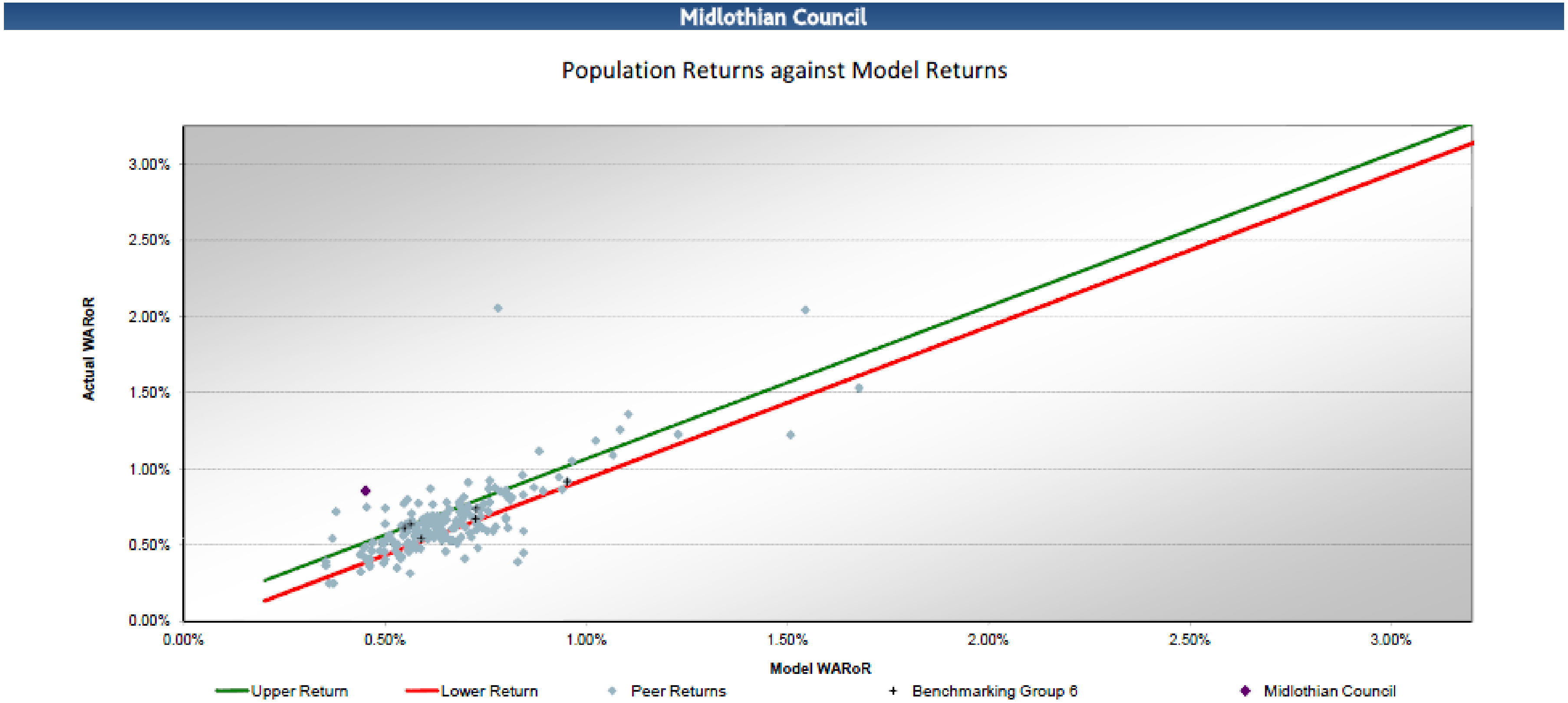
Midlothian Council Investment Portfolio return as at 30 September 2014

Midlothian Council



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.87%	0.43%	0.44%	0.36%	0.50%	Above

Midlothian Council Investment Portfolio return as at 30 June 2014



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.86%	0.45%	0.41%	0.38%	0.52%	Above

Appendix 3

Loans Fund Rate Comparison 2013/14

Scottish Local Authority	Loans Fund Rate Comparison		
	Interest Rate	Expenses Rate	Loans Fund Rate
Dumfries & Galloway	3.18%	0.04%	3.23%
Perth & Kinross	3.18%	0.08%	3.26%
Midlothian	**3.43%**	**0.03%**	**3.46%**
Orkney	3.40%	0.10%	3.50%
Falkirk	3.41%	0.10%	3.51%
East Lothian	3.59%	0.03%	3.62%
Inverclyde	3.83%	0.07%	3.90%
Fife	3.92%	0.07%	3.98%
South Lanarkshire	4.15%	0.04%	4.19%
Aberdeen City	4.20%	0.02%	4.22%
West Lothian	4.20%	0.06%	4.26%
Dundee City	4.27%	0.04%	4.31%
North Lanarkshire	4.34%	0.03%	4.37%
Scottish Borders	4.35%	0.04%	4.39%
Aberdeenshire	4.46%	0.03%	4.50%
East Ayrshire	4.46%	0.08%	4.54%
East Renfrewshire	4.40%	0.21%	4.61%
Renfrewshire	4.66%	0.06%	4.73%
Clackmannanshire	4.60%	0.13%	4.73%
Moray	4.54%	0.23%	4.77%
Angus	4.73%	0.07%	4.80%
Highland	4.77%	0.03%	4.80%
Glasgow City	4.79%	0.03%	4.82%
Stirling	4.79%	0.09%	4.89%
East Dunbartonshire	4.84%	0.07%	4.92%
West Dunbartonshire	4.86%	0.06%	4.92%
Argyll & Bute	4.98%	0.06%	5.04%
Edinburgh City	5.08%	0.02%	5.11%
North Ayrshire	5.12%	0.10%	5.22%
South Ayrshire	5.45%	0.09%	5.55%
Shetland	5.75%	0.10%	5.85%
Comhairle Nan Eilean Siar	6.05%	0.06%	6.11%
Summary			
maximum	6.05%	0.23%	6.11%
minimum	3.18%	0.02%	3.23%
average	4.47%	0.05%	4.52%
median	4.46%	0.06%	4.53%

The Loans Fund Rate combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges such as internal interest allowed, premiums written off and treasury-related expenses to arrive at a weighted average "loans fund rate" figure for each authority, as noted in the final column above.