Central Bedfordshire Council

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Treasury Management Outturn Report 2014/15

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This report relates to a non-Key Decision

The purpose of this report is to provide a review of Treasury Management activities for the year ended 31 March 2015 in compliance with relevant codes of practice adopted by Central Bedfordshire Council.

1. The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2011 Edition)*, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

2. The Code also requires that all Members are informed of Treasury Management activities at least twice a year. This annual report on Treasury Management activities after the close of the financial year, together with the mid-year report to Council in November, therefore ensures that Central Bedfordshire Council has adopted best practice in accordance with CIPFA's recommendations.

RECOMMENDATIONS
The Council is asked to:

1. Note the report on Treasury Management and the Prudential Indicators performance for the year ended 31 March 2015.

Overview and Scrutiny Comments/Recommendations

1. Local arrangements require the Corporate Resources Overview and Scrutiny Committee to receive, on a quarterly basis, treasury management performance reports and every year to scrutinise the revised strategy. This activity is scheduled for the Committee's meeting on 2 February 2016.

Background

Treasury management is defined by the CIPFA Code of Practice for Treasury Management in the Public Services as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Summary of Borrowing and Investment Strategies

The Council's strategy over the period can be summarised as:

i) The Council used internal resources in lieu of borrowing to the full extent as this has continued to be the most cost effective means of funding capital expenditure.

ii) The opportunities for debt rescheduling are regularly monitored but, as anticipated, no opportunities materialised.

iii) Given continuing economic uncertainty, the security and liquidity of investments were safeguarded by restricting counterparties to those of high creditworthiness and also restricting time periods for investments.

Following the 2008 financial crisis, governments injected hundreds of billions of pounds to bail-out the banks. Bail-outs of failing banks in Greece, Portugal and Ireland were primarily financed by taxpayers. As time has passed and the cost of government bail-outs has risen, the appeal of asking private-sector investors to suffer a greater proportion of losses has increased. A bail-in forces the bank's bondholders and depositors to bear some of the burden by having part of the debt they are owed written off.

The UK has implemented the final bail-in provisions of the EU Bank Recovery and Resolution Directive over recent months, a year ahead of most other countries. This has led to credit rating downgrades for a number of UK banks and Building Societies to reflect the reduced likelihood of Central Government support. Aside from maintaining minimal cash levels for operational purposes, the Council also mitigates the higher risk arising from the introduction of the new bank bail-in provisions by spreading its cash balance across a diversified range of investment counterparties.

An economic summary of 2014/15 is at Appendix A.

Credit Risk

As noted above, a bail-in forces the bank's bondholders and depositors to bear some of the burden by having part of the debt they are owed written off. In other words, local authority funds are unsecured creditors and their funds held with a financial institution deemed to be failing, or likely to fail, by the Bank of England's Prudential Regulatory Authority (PRA) would be at risk.

Following advice from Arlingclose Ltd, the Council, at its meeting of 27 November 2014, approved a lower minimum credit rating criteria for acceptable investment counterparties from A- (or Moody's equivalent of A3) to BBB+ (or Moody's equivalent of Baa1). This change allowed the Council flexibility to continue to invest with the major UK banks and Building Societies in the event of further downgrades in credit ratings arising from the UK's implementation of the final bail-in provisions of the EU Bank Recovery and Resolution Directive which was approved on 15 April 2014.

Faced with an environment of greater credit risk, the Council continued to follow external treasury advice from Arlingclose Ltd when placing investments and sought to minimise risk in line with its Treasury Strategy. This involved continuing to diversify investments in 2014/15, utilising banks that were within the approved Treasury Strategy but which had not been used either previously or in recent years for deposits or fixed term investments, including Santander UK. It also involved using a wider range of Money Market Funds for Council investments. Furthermore, the investment counterparty limit for any single organisation (or group of organisations under the same ownership) was reduced from £15m to £7m in order to manage credit risk. The Council's approval was given to this approach at its meeting of 27 November 2014.

A counterparty update is at Appendix A.

Treasury Activities

Security of capital remains the Council's most important investment objective. The Council's investment income for the year was £0.4m (£0.7m in 2013/14) and the average cash balance was £30.1m (£58.2m in 2013/14). Details of investment activity in 2014/15 are set out in Appendix B.

The average cash balance was lower in 2014/15 than 2013/14 due to internal borrowing of existing cash in lieu of any new external borrowing to fund the Capital Programme or replacement of maturing debt.

In line with the approved treasury strategy, the Council used internal resources in lieu of borrowing to the full extent as this has continued to be the most cost effective means of funding capital expenditure. Maturing debt of £16.4m was replaced with new loans on a short-term fixed rate basis from other local authorities, together with net additional short term borrowing of £4.6m. This short term borrowing was secured at rates preferential to the traditional route of borrowing from the Public Works Loan Board.

As anticipated, no opportunities for debt rescheduling materialised during 2014/15.

Details of investment and borrowing activities are set out in Appendix B.

Prudential Indicators

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce Prudential Indicators to support decision making. The Prudential Code was revised in November 2011 and has been adopted by this Council.

Prudential Indicators for 2014/15 were approved at the Council meeting of 20 February 2014. The Council's borrowing has not exceeded the various limits determined within the Treasury Management Strategy and any Prudential Indicators relevant to debt. The full details of the performance in respect of all of the 2014/15 approved Prudential Indicators are set out in Appendix C.

Council Priorities

3. The effective management of the combined activities of debt and investments and the associated risks contribute to the Council's financial resources and is a cornerstone to the delivery of the Council's priorities.

Corporate Implications

Legal Implications

4. The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits. Under the Act, the Department for Communities and Local Government has issued Guidance on Local Government Investments (revised March 2010) to structure and regulate the Council's investment activities. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (the Code of Practice).

5. CIPFA revised the Code of Practice in November 2011 to reflect developments in financial markets and the introduction of the Localism Act for English local authorities.

Financial Implications

6. The Council's Treasury Management Strategy and Prudential Indicators underpin the Medium Term Financial Plan (MTFP). Performance against the Strategy and the Prudential Indicators is explained within the body of this report.

7. The outturn for Interest Payable in 2014/15 was £5.4m, lower than the 2014/15 budget of £5.9m by £0.5m. This was due to a combination of interest rates continuing to remain at historically low levels, a lower level of borrowing than assumed in the 2014/15 budget due to Capital Programme slippage, and new borrowing being taken on a short-term fixed rate basis from other local authorities at minimal cost.

8. The 2014/15 budget for Interest Receivable was £0.5m, compared with the outturn of £0.4m, giving a net underachievement of £0.1m. This was due to interest rates continuing to remain at historically low levels.

Equalities Implications

9. There are no equalities implications to this report.

Conclusion and next Steps

10. Overall responsibility for treasury management remains with the Council.

11. This report provides Members with a summary of the treasury management activity during 2014/15.

12. The Council can confirm a prudent approach has been taken in relation to its borrowing activities, which were based on market interest rate forecasts, and its investment activities with priority being given to security and liquidity over yield.

13. The Council has duly applied its Treasury Management Strategy for 2014/15 and there were no breaches in its Prudential Indicators.

Appendices

Appendix A – Economic Summary and Counterparty Update
Appendix B – Borrowing and Investment Activities
Appendix C – Prudential Indicators

Background Papers

The following background papers, not previously available to the public, were taken into account and are available on the Council's website:

http://intranet.centralbedfordshire.gov.uk/finance/guidance/treasury-guidance.aspx

The Chartered Institute of Public Finance & Accountancy – The Prudential Code for Capital Finance in Local Authorities (2011 Edition).

The Chartered Institute of Public Finance & Accountancy – Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance notes (2011 Edition).

The Chartered Institute of Public Finance & Accountancy – Treasury Management in the Public Services, Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 Edition).