
Meeting: Customer & Central Services Overview & Scrutiny Committee
Date: 15 November 2010
Subject: Treasury Management Quarter Two Report
Report of: Cllr Maurice Jones, Portfolio Holder for People, Finance & Governance
Summary: The report provides an update on treasury management activity for the quarter two of the financial year 2010/11.

Advising Officer: Richard Ellis, Director of Customer & Shared Services
Contact Officer: Matt Bowmer, Assistant Director Financial Services
Public/Exempt: Public
Wards Affected: All
Function of: Executive/Council
Key Decision No
**Reason for urgency/
exemption from call-in
(if appropriate)** Not applicable

CORPORATE IMPLICATIONS

Council Priorities:

(How do the recommendations contribute to achieving CBC's policy aims and

Financial:

None arising from the report.

Legal:

None

Risk Management:

Activities during the quarter have been undertaken in line with the Council's Treasury Management Strategy. This Strategy takes a risk based approach the manner in which borrowing and investments are managed.

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

RECOMMENDATION(S):

- 1. That the Customer & Central Services Shared Services Overview & Scrutiny Committee considers the report and submits comments to the Executive if considered necessary.**

Reason for Recommendation(s): *Monitoring of the treasury management performance is in line with the requirements of Central Bedfordshire's Treasury Management Strategy.*

Introduction

1. Central Bedfordshire Council approved its second Treasury Management Policy and Strategy in February 2010.
2. Attached at Appendix A is a report on performance for the second quarter of 2010/11 covering investments, borrowing and cashflow management.

Key activity and outcomes

3. The detailed commentary is contained in the Appendix but the following issues are of note.

Borrowing

4. Typically, local authorities have entered into fixed rate borrowing. The portfolio inherited by Central Bedfordshire on 1 April 2009 was 100% fixed rate. The equivalent borrowing figure as at the 31st March 2010 was £161.259m, of which 78% was fixed and 22% variable following restructuring undertaken during the previous financial year. This was reported to Corporate and Customer Services Overview and Scrutiny and has generated revenue savings of £721k (£671k after Premium write off) in the current financial year to the end of September.

5. The authority continues to evaluate possibilities of further debt restructuring but is constrained by the requirements of the Treasury Management Strategy that limits variable rate Borrowing to 35%. The use of internal resources in lieu of borrowing has been the most cost effective means of financing of capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council expects it will need to borrow to support its capital commitments that are due to be agreed in November when Executive considers the Capital Programme Review. For context, the Council's Capital Financing Requirement (CFR) was estimated at £192.5M as at 31 March 2011 as per the authority's Treasury Management Strategy. This is subject to revision dependent on the outcome of the Capital Programme Review.

Investments

6. The investment portfolio continues to change with the UK Bank Rate being maintained at 0.5% since March 2009. As a consequence, short-term money market rates have remained at very low levels. New deposits for periods of up to one year have been made between 0.96% - 2.1%. For internally managed funds the council has been able to obtain a rate of return over its set benchmark of 3 month LIBID (currently 0.63%), the Council's average rate of return being 1.55%

Cashflow

7. Cashflow management has stabilised within the first half of the 2010/11 financial year following the repayment of County Council cash balances held on behalf of Bedford Borough Council. The cash flow model is being developed with our external advisers Arlingclose and will enable greater understanding of the cash management situation.

Prudential Indicators

8. The authority has remained within its prudential indicators within the second quarter. Full details can be found in Appendix A to the report

Appendices:

Appendix A – Treasury Management Report to 30 September 2010

Background Papers: (open to public inspection)

None