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**Meeting:** Corporate & Customer Services Overview & Scrutiny Committee  
**Date:** 21 March 2011  
**Subject:** Treasury Management Quarter Three Report  
**Report of:** Cllr Maurice Jones, Portfolio Holder for Finance, Governance and People  
**Summary:** The report provides an update on treasury management activity for Quarter three of the financial year 2010/11.

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**Advising Officer:** Richard Ellis, Director of Customer & Shared Services  
**Contact Officer:** John Unsworth, Interim 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:**

The effective management of the treasury management activities allowing the maximisation of its investment income and reduction in associated borrowing cost.

**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 Corporate & Customer Services Shared Services Overview & Scrutiny Committee considers the report and submits comments to the Executive and Council 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 Third Treasury Management Policy and Strategy in February 2011.
2. Attached at Appendix A is a report on performance for the Third Quarter of 2010/11 covering investments, borrowing and cashflow management.
3. Matters that Overview & Scrutiny Committee may wish to consider:
  - 1) The Council's approach to the Treasury Management Strategy.
  - 2) The level of investments required to allow for cash volatility and the opportunities for refinancing
  - 3) Compliance with prudential indicators and the margin of comfort at current activity.
  - 4) The format and contents of future reports.

**Key activity and outcomes**

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

*Borrowing*

5. Table 1 sets out the movement in Central Bedfordshire's borrowing between 1<sup>st</sup> April 2010 and 31<sup>st</sup> December 2010. The detailed borrowing Portfolio is shown at Appendix B to the report.

Table 1 Central Bedfordshire Borrowing 2010/11

	<b>Balance on 01/04/2010 £000s</b>	<b>Debt Repaid £000s</b>	<b>New Borrowing £000s</b>	<b>Balance on 31/12/2010 £000s</b>	<b>Increase/ (Decrease) in Borrowing</b>
Short Term Borrowing	5,006	25,500	20,500	6	(5,000)
Long Term Borrowing	156,253	0	0	156,253	0
<b>TOTAL BORROWING</b>	161,259	25,500	20,500	156,259	(5,000)

6. Typically, local authorities have entered into fixed rate borrowing. The portfolio inherited by Central Bedfordshire on 1 April 2009 amounted to £156.266m and was 100% fixed rate. The equivalent borrowing figure as at the 31<sup>st</sup> 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 £1.083m (£1.007m after Premium write off) in the current financial year to the end of December.
7. The authority continues to evaluate possibilities of further debt restructuring in accordance with its Treasury Management Strategy. However, within the announcement in the Comprehensive Spending Review on 20<sup>th</sup> October 2010, the HM Treasury instructed the PWLB to increase the interest rate on all new loans by an average of 1% above UK Government Gilts. The new borrowing rates for fixed loans increased by approximately 0.87% across all maturities, and variable rates by 0.90% has made restructuring less attractive.
8. 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 Programme during 2011/12

Investments

9. Table 2 sets out the movement in investments in Central Bedfordshire between 1<sup>st</sup> April 2010 and 31<sup>st</sup> December 2010. The detail of investment is set out at Appendix C to the report.

Table 2 Central Bedfordshire Investments 2010/11

	Balance on 01/04/2010 £000s a	Investments Made £000s b	Investments Repaid £000s c	Balance on 31/12/2010 £000s (a+b-c) = d	Increase/ Decrease in Investments £000s (d-a) = e
<b>Short Term Investments</b>	59,350	424,160	416,260	67,250	7,900
<b>Long Term Investments</b>	0	0	0	0	0
<b>Investments in Pooled Funds Lime Fund</b>	4,530	0	0	4,589	59*
<b>Funds Managed - Investec</b>	5,749	0	5,749	0	(5,749)
<b>TOTAL INVESTMENTS</b>	69,629	424,160	422,009	71,839	1,415

\* Units valued at market value

10. The UK Bank Rate has been maintained at 0.5% since March 2009 and consequently short-term money market rates have remained at very low levels. Despite this new deposits for periods up to one year have been made between 0.8% to 2.2%. For internally managed funds the Council has been able to obtain a rate of return over its set benchmark of 3 month LIBID (currently 0.66%), the Council's average rate of return being 1.52%.

### Cash Management

11. The authority continues to develop its cashflow management arrangements with its external advisers, Arlingclose. A predictive cash flow model is in place that combines known income and expenditure trends against current budgeted data. Appendix D sets out the cash movement for the current financial year to the end of December 2010.
12. Graph 1 demonstrates the range of daily movements. These have ranged between net payments of £17M (demonstrated as a negative figure on the graph) and income of £15M (demonstrated as a positive on the graph).
13. Graph 2 shows that the actual cash movement of the Council will equate to anything between £50m to £70m within a calendar month. In order to facilitate these cash movements the Council will typically keep up to £30M in liquid cash, that is allowed to run down, and build up in the course of the month.

### Prudential Indicators

14. The authority has remained within its prudential indicators within the Third Quarter. Full details can be found in Annex A of Appendix A to the report.

**Appendices:**

Appendix A – Treasury Management Report – Quarter 3 2010/11

Appendix B – Debt Portfolio

Appendix C – Investment Profile

Appendix D – Cashflow Movements–Excluding Investments and Loan Principal Movements.

**Background Papers:** (open to public inspection)

Treasury Management Strategy – 2010/11