
Meeting: Customer & Central Services Overview & Scrutiny Committee
Date: 14 June 2011
Subject: Treasury Management Annual Report
Report of: Cllr Maurice Jones, Executive Member for Corporate Resources
Summary: The report provides an update on treasury management activity for financial year 2010/11.

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 to optimise return and reduce associated borrowing cost, with the objective of security and liquidity of funds.

Financial:

None arising from the report.

Legal:

None

Risk Management:

Activities during 2010/11 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 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 annual Treasury Management Policy and Strategy in February 2010. This determined the treasury activity for the 2010/11 financial year. The authority approved a new Treasury Management Policy and Strategy in February 2011 for the 2011/12 financial year. This report provides details of the performance within the last financial year.
2. Attached at Appendix A is the Treasury Management Performance Dashboard that sets out the key Treasury Management data for 2010/11.
3. Attached at Appendix B is the Annual Treasury report on performance for 2010/11 covering investments, borrowing and cashflow management and the wider economic context.
4. This is the first time that treasury data has been set out in a dashboard format. Members are invited to comment on the format and contents of the dashboard, as well as the overall report. In addition, it is expected that future treasury management reports will include a review of performance in the given quarter and a treasury context for the future outlook.

Key activity and outcomes

5. The authority has participated in a CIPFA benchmark survey and has therefore been able to evaluate its treasury management activities against 69 other local authorities to gain additional understanding of its treasury management performance in a wider context. The key benchmarked information is included within the dashboard and the report.

The data set out the dashboard is summarised as follows:

Section A	Borrowing
A1	Analysis of Debt by Lender
A2	Benchmark of Average Interest Rate Paid Compared Against Other Authorities
A3	Analysis to Show Interest Rates of Long Term Debt
A4	Maturity Profile of Long Term Debt
Section B	Investments
B1	Analysis of Investments as at 31 March 2011
B2	Average Interest Rate Received on Investments
B3	Average Balance Invested in £m
B4	Maturity Profile of Internal Investments
Section C	Cash Flow
C1	Analysis of Daily Net Cash Movement
C2	Monthly Cash Flow Analysis
C3	Analysis of Amounts Held in Call and Cash Accounts
Section D	Additional Treasury Management Information

Borrowing

6. The total borrowing of the authority as at 31st March 2011 was £156m. Of this amount, £145.7m was with the Public Works Loan Board (PWLB) and £13.5m was Market Debt. The profile of debt was 68% Fixed PWLB debt, 23%, Variable PWLB debt and 9% Fixed Market debt, as shown in A1 on the Treasury Management Performance Dashboard (Appendix A).
7. The Council's total average cost of borrowing in 2010/11 was 3.4% compared to benchmark authority's average of 4.9% as shown in A2 on the Treasury Management Performance Dashboard (Appendix A). This compares favourably with other benchmarked authorities.
8. No new long term borrowing was taken out by the Council in 2010/11. Internal resources, in lieu of borrowing, were utilised during the year as to fund capital commitments. The Council only borrowed for short periods of time for cash flow purposes using temporary borrowing from the market at an average cost of 0.36%, compared to benchmark authorities' average of 0.65%.

9. As a result of the UK Base rate continuing at 0.5% the Authority has continued to benefit from the conversion of long term debt from fixed to variable rate that was originally undertaken during 2009/10. This consisted of the Council repaying £35.6m of its fixed PWLB debt averaging 4.72% and replacing it with variable rated debt which averaged 0.7%. This generated revenue savings of £1.3m (£1.2m after Premium write off) in 2010/11.
10. The Council in conjunction with its external advisers continues to look into further opportunities for debt restructuring in accordance with its Treasury Management Strategy (TMS). The TMS authorises the authority to borrow up to 35% variable debt. The Comprehensive Spending Review in October increased the cost of variable debt on new borrowing by 0.90% This has restricted the opportunities regarding the restructuring of debt.
11. The authority's TMS states that no more than 20% of the authority's debt should mature in any one financial year. *A4 on the Treasury Management Performance Dashboard (Appendix A)* shows the maturity profile of the Council's debt. This demonstrates that the highest percentage of debt maturing is 10.5% in 2015.

Investments

12. The decision to use internal resources in lieu of borrowing to fund capital expenditure had a detrimental impact on investment income, The subsequent reduction in cash availability and the UK Bank Rate being maintained at 0.5%, (which meant short-term money market rates remained at very low levels), led to an achievement of £1.4m in investment income. This compares against the budget of £1.5m. The amount of investments held at 31 March 2011 was £50.1m.
13. The Council's investment portfolio stabilised in 2010/11 with new deposits being placed between 0.8% to 2.2%. The Council was able to obtain an average rate of return of 1.7% compared to benchmark authorities' average of 1.3%, as shown in *B2 on the Treasury Management Performance Dashboard (Appendix A)*.

Cash Management

14. The range of daily cash movements in 2010/11, ranged between net payments of £17M and income of £15M. The volatility of the cash movement is set out in *C1 on the Treasury Management Performance Dashboard (Appendix A)*.
15. The gross cash movement of the Council has equated 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. The range of cash outflows and inflows is set out in *C2 on the Treasury Management Performance Dashboard (Appendix A)*.

Prudential Indicators

16. The authority has remained within its prudential indicators within the 2010/11. Full details can be found in Section 8 of Appendix B to the report. These include the authorities compliance with the authorised and operational Boundaries.

Appendices:

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Appendix A – Treasury Management Performance Dashboard
Appendix B – Annual Treasury Management Report

Background Papers: (open to public inspection)
Treasury Management Strategy – 2010/11