
Meeting: Council
Date: 29 November 2012
Subject: Monitoring Treasury Management Outturn
Report of: Councillor Maurice Jones, Deputy Leader and Executive Member for Corporate Resources
Summary: In compliance with relevant codes of practice adopted by Central Bedfordshire Council this report provides a review of Treasury Management activities for the year ended 31 March 2012 and the six months to 30 September 2012.

Advising Officer: Charles Warboys, Chief Finance Officer and Section 151 Officer
Contact Officer: Charles Warboys, Chief Finance Officer and Section 151 Officer
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

Effective management of the Council's financial resources and the associated risks is a cornerstone to the delivery of the Council's priorities.

Financial:

1. The Council's Treasury Management Strategies 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.
2. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (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."

Legal:

3. 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, 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).
4. 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.

Risk Management:

5. The approved strategy aims to manage the risks to the Council's finances from instability in financial markets.

Staffing (including Trades Unions):

6. Not Applicable.

Equalities/Human Rights:

7. Not Applicable.

Public Health

8. Not Applicable.

Community Safety:

9. Not Applicable.

Sustainability:

10. Not Applicable.

Procurement:

11. Not Applicable.

RECOMMENDATIONS:

The Council is asked to:

1. **Adopt the following Codes that were revised in 2011:**
 - (i) the CIPFA Prudential Code and;
 - (ii) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury

Management in the Public Services.

2. Acknowledge the satisfactory performance on Treasury Management and Prudential Indicators for 2011/12 and the six months ended 30 September 2012

Background

12. The Council's Treasury Management Strategy has been underpinned by the adoption of the CIPFA Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
13. The Code also requires that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority has adopted best practice in accordance with CIPFA's recommendations. 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.
14. Overall responsibility for the approval of the treasury management policy and strategy remains with the Council.
15. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
16. This report provides Members with a summary report of the treasury management activity during 2011/12 and the six months ending 30 September 2012. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
17. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code (2011) and produce prudential indicators. The Prudential Code was revised in November 2011 when a new debt indicator was introduced for all authorities and other changes were made which are relevant to English Housing Revenue Account authorities. The Council is asked to adopt the revised Prudential Code alongside the revised CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes (2011).

Summary of Borrowing and Investment Strategies

18. The Council's strategy over both periods reported can be summarised as :
- i) No borrowing has been undertaken to finance capital expenditure or re-finance existing maturing debt. These have been met by reducing liquid resources.
 - ii) The opportunities for debt rescheduling were monitored but it was expected that such opportunities would be unlikely and none have materialised.
 - iii) Given continuing global financial turmoil, the security and liquidity of investments were safeguarded by restricting counterparties to those of high creditworthiness and also restricting time periods for investments.

Treasury Activities for the year ended 31 March 2012

19. The Localism Act passed into law in November 2011 which enabled the reform of council housing finance. The Housing Revenue Account (HRA) subsidy system has now been abolished and replaced with self-financing whereby authorities support their own housing stock from their own income. This reform required an adjustment of each authority's housing-related debt based on a valuation of its council housing stock. The Department for Communities and Local Government (CLG) issued the final Settlement Payment Determination in February 2012. Settlement date for the Self Financing transaction was Wednesday 28th March 2012.
20. As the Council's debt level generated by the housing reform model was higher than the Subsidy Capital Financing Requirement (SCFR), the Council was required to pay CLG the difference between the two, which was £165m.
21. This required the Council to fund the settlement primarily through borrowing. A preferential set of Public Works Loan Board (PWLB) rates at 13 basis points (bps) above the equivalent gilt yield were available for this transaction on 26th March only, for settlement on 28th March. Given the one-off nature of the PWLB funding window and the advantages offered in terms of rate, loan structure and administration, the Council took the decision to fund the settlement through new borrowing from the PWLB.
22. Loan structures and maturities were discussed and analysed with the Council's Treasury Advisors (Arlingclose) to fit in with the Council's HRA business plan and strategy and funding costs, as well as the Council's existing treasury management position and risk profile. Details of the loans taken out are in Appendix A. The Council will continue to work with its Treasury Advisors and Housing Consultants to manage the HRA Business Plan and accounting implications going forward.
23. The Council will henceforth adopt a two-pool approach in relation to the allocation of debt between the General Fund and HRA.
24. The changes in the Council's housing-related debt necessitated revisions to the prudential indicators for 2011/12 which had previously been approved by Council on 20th January 2011. The revised indicators were approved by Council on 19th January 2012.

25. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2012 was £374.6m. The Council did not fund any of its capital expenditure through new borrowing and maturing debt of £0.6m was not replaced with new loans. Further detail of the Council's borrowing position and activity in 2011/12 is also outlined at Appendix C.
26. The Chancellor's 2012 budget report identified several future developments likely to impact on local government borrowing strategies. A 20 basis points discount on new loans from the PWLB has been made available "for those principal local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans". The potential of an independent body to facilitate the provision of "a further reduced rate for authorities demonstrating best quality and value for money" was also mentioned. The Council is eligible for the 20 basis point reduction and further information is awaited on the further measure outlined in the budget report.
27. The Budget also contained the following announcement :

"The Government is also implementing reform of the Housing Revenue Account subsidy system to give local authorities responsibility for managing their own council housing business. The OBR currently forecasts that this reform will increase public borrowing more than originally estimated. These estimates are very uncertain but if they do not change then the Government will take action to address the increase in public debt".
28. This announcement in the Budget needs to be taken in the context of the Coalition Government's primary objective to reduce the structural deficit. Deterioration in the economic outlook and/or public finances would require a policy response and the above statement suggests that the reform of housing finance is one of a range of potential measures that could be considered.
29. Security of capital remained the Council's main investment objective. The Council's investment income for the year was £1.1m and the average cash balances were £66m. Details of investment activity in 2011/12 are set out in Appendix B.

Treasury Activities for the period 1 April 2012 to 30 September 2012

30. In line with the approved treasury strategy no new borrowing has been undertaken over the six months ended 30 September 2012. For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. Maturing debt of £5m has not been replaced with new loans. However, this position will not be sustainable over the medium term and the Council expects it will need to begin to borrow for capital purposes from the first half of 2014. No opportunities for debt rescheduling have been identified. Details of investment and borrowing activities are set out in Appendices D and E.

Revisions to Codes of Practice - 2011

31. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code (2011) and produce prudential indicators. The Prudential Code was revised in November 2011 with the key change relating to English Housing Revenue Account authorities although a new debt indicator was introduced for all authorities. For completeness and alongside the revised CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes (2011) Council is asked to adopt both codes.
32. The revised Treasury Code follows previous Codes that have been adopted by the Council. Public sector organisations are required to adopt four clauses as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances – the Council has previously adopted these clauses.
33. CIPFA recommends that the Treasury Policy Statement of the high level policies adopted by Full Council, should now add a reference to the inclusion of financial derivatives and a requirement on authorities to check the statutory powers for using such instruments. There are no proposals or plans to use new instruments / derivatives in the management of risk. The detailed Treasury Management Practices based on the 2009 Code will be revised in the current financial year.
34. The other practical changes to treasury management activity and reporting relate to a new treasury indicator, upper limits on the proportion of net debt to gross debt in the forthcoming year and following two financial years, to highlight where an authority may be borrowing in advance of its cash requirement. Additionally the changes relating to HRA debt as outlined in paragraphs 19 to 23; the two pool approach to Council debt, General Fund and HRA. The HRA should be considered when taking new long term loans / debt restructuring.

Conclusion

35. The Council can confirm that it has complied with its Prudential Indicators for 2011/12 (as approved by Council on 20 January 2011 with revisions approved on 19 January 2012 – see Appendix C) and the six months to 30 September 2012 (as approved by Council on 19 January 2012 - see Appendix F). The approach to investments emphasises security and liquidity over yield.

Appendices:

- Appendix A – Borrowing Requirement and Debt activities 2011/12
- Appendix B – Investment Activities 2011/12
- Appendix C – Prudential Indicators 2011/12
- Appendix D – Debt Management activities from 1 April 2012 to 30 September 2012
- Appendix E – Investment Activities from 1 April 2012 to 30 September 2012
- Appendix F – Prudential Indicators 1 April 2012 to 30 September 2012

Background Papers: (open to public inspection)

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).

Economic Background 2011/12 (Arlingclose Ltd).

Background Information 2011/12 – Interest rates and Credit risk.

Economic Background 1 April 2012 to 30 September 2012 (Arlingclose Ltd).

Background Information for the period from 1 April 2012 to 30 September 2012 Interest rates and Credit risk.