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**Meeting:** Council  
**Date:** 28 November 2013  
**Subject:** **Monitoring Treasury Management six months to 30 September 2013**  
**Report of:** **Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**  
**Summary:** In compliance with relevant codes of practice adopted by the authority this report provides a review of the implementation of the treasury strategy approved by Council for six months to 30 September 2013. The report explains how the strategy was implemented, the state of the financial markets, what action has been taken to address the challenges and the results of that action.

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**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 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.

### **Legal:**

2. 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).
3. CIPFA revised the Code of Practice in November 2011 following developments in financial markets and the introduction of the Localism Act for English local authorities. The revised Code was adopted by Council on 29<sup>th</sup> November 2012.

**Risk Management:**

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

**Staffing (including Trades Unions):**

5. Not Applicable

**Equalities/Human Rights:**

6. Not Applicable.

**Public Health**

7. Not Applicable.

**Community Safety:**

8. Not Applicable.

**Sustainability:**

9. Not Applicable.

**Procurement:**

10. Not applicable.

**RECOMMENDATIONS:**

**The Council is asked to:**

1. **Acknowledge the satisfactory performance on Treasury Management and Prudential Indicators for the six months ended 30 September 2013**

## **Background**

20. 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.”
21. The Council’s Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
22. The Code also recommends that all 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 Overview and Scrutiny Committee to receive, on a quarterly basis, treasury management performance reports and every year to scrutinise the proposed revised strategy.
23. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council’s treasury management objectives.
24. This report provides members with a summary of the treasury management activity during the six months ending 30 September 2013. 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.

## **Treasury Activities for the period 1 April 2013 to 30 September 2013**

### **Borrowing**

25. The Council’s underlying need to borrow as measured by the Capital Financing Requirement (CFR) was £399.4m. At 30 September 2013 £316.2m had been externally borrowed, with the remainder borrowed internally from the Council’s own cash balances. The Council will continue to utilise cash balances to fund capital expenditure in lieu of borrowing externally, but expects that external borrowing will be required from 2014/15.
26. The Council has £165m of borrowing relating to the Housing Revenue Account (HRA) which was arranged as part of HRA Self Financing, introduced by Central Government in the 2011/12 financial year.

27. Most of the Council's borrowing (94%) is from the Public Works Loan Board (PWLB), a borrowing facility provided to Local Authorities by Central Government. The rate at which Councils can borrow from this facility is determined by the rate the Government obtains on UK Gilts, directly tied to current economic conditions. An economic summary for the period 1 April – 30 September 2013 is included in Appendix A.
28. No new borrowing has been undertaken to finance capital expenditure in the current financial year. However the Council has borrowed short term to support daily cash flow management. As at 30 September 2013 the Council had borrowed £5m for this purpose, to be repaid on 10 October 2013. Debt management activities for the period are outlined in Appendix B.

### **Investments**

29. The Council only places funds with counterparties with the highest creditworthiness and restricts time periods for investments. Priority is given to security and liquidity over yield.
30. At 30 September 2013 the Council held £61.3m in investments. Forecasted investment income is £0.7m for the current financial year, with short term money market rates very low and forecasted to remain low over the medium term.
31. Counterparties the Council can invest with are approved annually by Council as part of the Treasury Management Strategy. Investment Activities for the period are detailed in Appendix C.

### **Prudential Indicators**

32. The CIPFA Prudential Code for Capital Finance in Local Authorities requires performance against specified key indicators to be measured and reported. The purposes of these indicators are to demonstrate prudence, affordability and sustainability.
33. The Council has complied with its prudential indicators for the period 1 April 2013 to 30 September 2013. Explanations of the prudential indicators and performance against these is included in Appendix D. Key points include:
  - The Council has remained within its authorised and operational borrowing limits
  - Borrowing is less than the capital financing requirement, demonstrating that all long term borrowing has been undertaken for capital purposes in line with the Prudential Code
  - The Council is within its limits regarding the maturity profile of its fixed rate borrowing, ensuring that too much debt does not all mature in the same year.
  - The Council is within its limits regarding its exposure to variable interest rates and thus its exposure to interest rate fluctuations.

## **Conclusion**

34. Whilst UK economic activity is displaying some positive signs of growth, the outlook is for official interest rates to remain low for an extended period, meaning the Council will continue to earn minimal returns on its investments. On the other hand rates of borrowing from the Public Works Loan Board (PWLB) have increased from 1 April – 30 September 2013.
35. The Council continues to prioritise the security and liquidity of its investments and has continued to internally borrow from its balances to fund capital expenditure in lieu of additional external borrowing.
36. The Council can confirm that it has complied with its prudential indicators for the 1 April – 30 September 2013 period.

## **Appendices:**

Appendix A – Economic Background 1 April 2013 – 30 September 2013 (Arlingclose Ltd)

Appendix B – Debt activities 1 April 2013 – 30 September 2013

Appendix C – Investment Activities 1 April 2013 – 30 September 2013

Appendix D – Prudential Indicators 1 April 2013 – 30 September 2013

## **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)