

---

**Meeting:** Council  
**Date:** 11 September 2014  
**Subject:** Treasury Management Outturn Report  
**Report of:** Cllr 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 2014.

---

**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.
2. 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."

### **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, the department for 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.

**RECOMMENDATION(S):**

**The Council is asked to:**

<b>1. Note the report on Treasury Management and the Prudential Indicators performance for the year ended 31 March 2014.</b>
--

## **Background**

- 12 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.
- 13 The Code also requires 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 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 treasury management 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 of the treasury management activity during 2013/14. The Council can confirm a prudent approach has been taken in relation to its investment activities with priority being given to security and liquidity over yield.

## **Summary of Borrowing and Investment Strategies**

17. The Council's strategy over the period can be summarised as :
- i) No external borrowing has been undertaken to finance capital expenditure or re-finance existing maturing debt. These costs have been met by reducing liquid resources.
  - ii) The opportunities for debt rescheduling are regularly monitored but, as anticipated, no opportunities materialised.
  - iii) Given continuing economic uncertainty, the security and liquidity of investments were safeguarded by restricting counterparties to those of high creditworthiness and also restricting time periods for investments.
  - iv) The credit rating of the Council's banking services provider, Natwest, was downgraded in March 2014 by Moodys to a level below the Council's minimum credit criteria for investments. As per the Council's approved Treasury Management Strategy, the Council continued to utilise Natwest for operational and liquidity purposes whilst maintaining a minimal level of overnight balances.

### **Credit Risk**

18. The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December 2013, introducing mandatory bail-in provisions to wind up or restructure failing financial institutions in the UK. The result is that, in the event of failure of an institution such as a bank, Local Authority funds are unsecured creditors and their funds held with that institution would be at risk.
19. Central Bedfordshire Council's minimum criteria for investments is an A3/A-/A-rating based on the assessment of the credit rating agencies Moodys, Standard and Poor's and Fitch. In March 2014 the Council's banker, Natwest, was downgraded by Moodys to Baa1, below the Authority's minimum credit criteria. Following advice from Arlingclose Ltd, and in line with its approved Treasury Strategy, the Council has continued to utilise Natwest for operational and liquidity purposes.
20. Facing an environment of greater credit risk, the Council continues to follow external treasury advice from Arlingclose Ltd when placing investments and seeks to minimise risk in line with its Treasury Strategy. This will involve continuing to diversify investments in 2014/15 utilising banks that are within the approved Treasury Strategy but with which have not been used either previously or in recent years for deposits or fixed term investments , including HSBC and Santander UK. This will also involve utilising a wider range of Money Markey Funds for Council investments.
21. A report of credit risk changes in the wider economy during 2013/14 is at Appendix A.

### **Treasury Activities**

22. Security of capital remains the Council's most important investment objective. The Council's investment income for the year was £0.7m (£0.9m in 2012/13) and the average cash balances were £58.2m (£69.7m in 2012/13). Details of investment activity in 2013/14 are set out in Appendix B
23. Average cash balances were lower in 2013/14 than 2012/13 due to internal borrowing of existing cash in lieu of any new external borrowing to fund the capital programme or replacement of maturing debt.
24. In line with the approved treasury strategy no new borrowing was undertaken in 2013/14. The Council used internal resources in lieu of borrowing and this has continued to be the most cost effective means of funding capital expenditure. Maturing debt of £7.6m was not replaced with new loans. No opportunities for debt rescheduling were identified. Details of investment and borrowing activities are set out in Appendix B

### **Prudential Indicators**

25. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators to support decision making. The Prudential Code was revised in November 2011 and has been adopted by this Council.
26. Prudential indicators for 2013/14 were approved at the 24/1/13 Council meeting. The Council's borrowing has not exceeded the various limits determined within the Treasury Management Strategy and any Prudential Indicators relevant to debt. The full details of the performance in respect of all of the 2013/14 approved Prudential indicators are set out in Appendix C.

### **Appendices:**

Appendix A – Economic Summary and Credit Risk 2013/14

Appendix B – Borrowing and Investment Activities 2013/14

Appendix C – Prudential Indicators 2013/14

Appendix D – Investment and Borrowing Rates 2013/14

### **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).