Central Bedfordshire Council

COUNCIL **28 September 2017**

Treasury Management Outturn Report 2016/17

Report of Cllr Richard Wenham, Deputy Leader and Executive Member for Corporate Resources (richard.wenham@centralbedfordshire.gov.uk)

Advising Officer: Charles Warboys, Director of Resources and Section 151 Officer
(charles.warboys@centralbedfordshire.gov.uk)

Contact Officer: Denis Galvin, Assistant Director of Finance
(denis.galvin@centralbedfordshire.gov.uk)

This report relates to a non-Key Decision

The purpose of this report

1. to provide a review of Treasury Management activities for the year ended 31 March 2017 in compliance with relevant codes of practice adopted by Central Bedfordshire Council.

2. The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2011 Edition)*, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

3. The Code also requires that all Members are informed of Treasury Management activities at least twice a year. This annual report on Treasury Management activities after the close of the financial year, together with the mid-year report to Council in November, therefore ensures that Central Bedfordshire Council has adopted best practice in accordance with CIPFA's recommendations.

RECOMMENDATIONS

The Council is asked to:

1. **note the report on Treasury Management and the Prudential Indicators performance for the year ended 31 March 2017.**

Overview and Scrutiny Comments/Recommendations

4. 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. This activity is scheduled for the Committee's meeting on 25 January 2018.

Background

5. 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."

Summary of Borrowing and Investment Strategies

6. The Council's strategy over the period can be summarised as:

   i) The Council used internal resources in lieu of borrowing to the full extent as this has continued to be the most cost effective means of funding capital expenditure.

   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.

7. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach. Investments continued to be dominated by low counterparty risk considerations resulting in relatively low returns, although these were more than offset by low short term borrowing rates from other local authorities and other public sector bodies such as Police and Crime Commissioners. This meant that the Council was not adversely impacted in financial terms.

8. In this scenario the treasury strategy becomes a balance between postponing long term borrowing by utilising our cash balances to fund capital expenditure and avoiding the cost of holding higher levels of cash investments which generate only low returns. This strategy also reduces counterparty risk. The alternative strategy of taking out loans to 'lock-in' long term borrowing at historically low rates mitigates the risk of delaying and borrowing at higher rates in due course. However, the current interest rate outlook (lower for longer) makes the former better value than the latter.

9. The repercussions on economic growth of the Brexit referendum outcome were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August 2016 and embark on further gilt and bond purchases to £435BN (Quantitative Easing) to maintain the supply of credit to the economy (previously £375BN). This policy change was significant given that the Bank Rate had been maintained at 0.5% over an extended period of eight years since 2009.

10. The Council maintained its approach of borrowing from other local authorities on a short term rolling basis in order to achieve significant revenue cost savings over the more traditional route of borrowing long term from the PWLB.

11. Aside from maintaining minimal cash levels for operational purposes, the Council also mitigates its investment risk by spreading its cash balance across a diversified range of investment counterparties.

12. An economic summary of 2016/17 is at Appendix A.

Credit Risk

13. The Council continued to follow external treasury advice from Arlingclose Ltd when placing investments and sought to minimise risk in line with its Treasury Strategy. This involved continuing to diversify investments in 2016/17 by using a wider range of AAA-rated Money Market Funds for Council investments.
14. None of the institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

15. A counterparty update is at Appendix A.

Treasury Activities

16. Security of capital remains the Council's most important investment objective. The Council's investment income for the year was £0.3M (£0.3M in 2015/16) and the average cash balance was £22.4M (£22.1M in 2015/16). Details of investment activity in 2016/17 are set out in Appendix B.

17. In line with the approved treasury strategy, the Council used internal resources in lieu of borrowing to the full extent as this has continued to be the most cost effective means of funding capital expenditure. Maturing debt of £281.0M was replaced with new loans on a short-term fixed rate basis from other local authorities, together with net additional short term borrowing of £9.8M. This short term borrowing was secured at rates preferential to the traditional route of borrowing from the Public Works Loan Board.

18. As anticipated, no opportunities for debt rescheduling materialised during 2016/17.

19. Details of borrowing and investment activities are set out in Appendix B.

Prudential Indicators

20. 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.

21. Prudential Indicators for 2016/17 were approved at the Council meeting of 25 February 2016. 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 2016/17 approved Prudential Indicators are set out in Appendix C.

Council Priorities

22. The effective management of the combined activities of debt and investments and the associated risks contribute to the Council's financial resources and is a cornerstone to the delivery of the Council's priorities.

Corporate Implications

Legal Implications

23. 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).

24. 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.

Financial Implications

25. 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.

26. The outturn for Interest Payable in 2016/17 was £5.3M, lower than the 2016/17 budget of £5.8M by £0.5M. This was due to a combination of the Bank of England Base Rate cut to 0.25% in August 2016, whereas the budget had been based on an average Base Rate of 0.6% in 2016/17, a lower level of borrowing than assumed in the 2016/17 budget due to Capital Programme slippage, and new borrowing being taken on a short-term fixed rate basis from other local authorities at minimal cost.

27. The 2016/17 budget for Interest Receivable was £0.3M, compared with the outturn of £0.3M, giving a nil variance.

Equalities Implications

28. There are no equalities implications arising from this report.

Conclusion and next Steps

29. Overall responsibility for treasury management remains with the Council.

30. This report provides Members with a summary of the treasury management activity during 2016/17.

31. The Council can confirm a prudent approach has been taken in relation to its borrowing activities, which were based on market interest rate forecasts, and its investment activities with priority being given to security and liquidity over yield.

32. The Council has duly applied its Treasury Management Strategy for 2016/17 and there were no breaches in its Prudential Indicators.

Appendices

Appendix A – Economic Summary and Counterparty Update
Appendix B – Borrowing and Investment Activities
Appendix C – Prudential Indicators

Background Papers

The following background paper is available on the Council's website:

'Treasury Management Strategy and Treasury Policy for 2016/17'

(Agenda item 12 of Executive meeting of 9 February 2016)