

## Treasury Management Mid-Year Report 2017/18

Report of Cllr Richard Wenham, Deputy Leader and Executive Member for Corporate Resources

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### This report relates to a non-Key Decision

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**The purpose of this report is to provide a review of the performance of the Treasury Management activities for the six month period ending 30 September 2017 in compliance with relevant codes of practice adopted by Central Bedfordshire Council.**

1. The Council's treasury management activities are 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 the Council to receive two treasury and prudential indicator performance reports in respect of each financial year, addressing the first six months and the outturn position. This mid-year report explains performance for the six months to 30 September 2017 and ensures that the Council has adopted best practice in accordance with CIPFA's recommendations.

#### **RECOMMENDATIONS**

The Council is asked to:

1. Acknowledge the satisfactory performance on treasury management and prudential indicators for the 6-month period ending 30 September 2017.

## **Overview and Scrutiny Comments/Recommendations**

1. Local arrangements require the Corporate Resources Overview and Scrutiny Committee to receive, on a quarterly basis, treasury management performance reports as part of the ongoing budget monitoring process and every year to scrutinise the revised strategy. This activity is scheduled for the Committee's meeting on 25 January 2018.

## **Background**

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."
3. The Council's Treasury Management Strategy has been underpinned by the adoption of the CIPFA Code of Practice on Treasury Management (2011 Edition), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming year.
4. 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 Corporate Resources Overview & Scrutiny Committee to receive, on a quarterly basis, treasury management performance reports and every year to scrutinise the proposed revised strategy.
5. 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.
6. This report provides Members with a summary of the treasury management activity during the six months ending 30 September 2017. The Council has complied with its prudential indicators 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 2017 to 30 September 2017

### Borrowing

7. The Council's underlying need to borrow as measured by its Capital Financing Requirement (CFR) was £524.4M at 31 March 2017. Given external borrowing of £365.0M (inclusive of a £17.2M PFI outstanding liability), deferred borrowing was £159.4M at 31 March 2017 using internal resources of £102.7M usable reserves and £56.7M working capital to fund the capital programme. 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. The CFR is expected to increase to £541.3M at 31 March 2018, comprising estimated external debt of £423.6M and deferred borrowing of an estimated £117.7M which is made up of £92.7M estimated usable reserves and an assumed £25M working capital – see Appendix D table c) Gross Debt and the Capital Financing Requirement.
8. At 30 September 2017, the Council had £47M of short term borrowing from other local authorities obtained at an average “all in” fixed rate (inclusive of brokerage fees) of 0.3%. This source of finance is preferential to the traditional route of borrowing from the Public Works Loan Board (PWLB), where the lowest rate available to the Council is currently around 1.2% in respect of a 1-year fixed interest rate.
9. The amount of borrowing required will be dependent on the actual cash flows experienced and it is currently estimated that around £103M of short term borrowing will be required as at 31 March 2018.
10. 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.
11. Most of the Council's long term borrowing (94%) is from the PWLB, a borrowing facility provided to local authorities by Central Government. This borrowing was taken out by predecessor authorities. The rate at which local authorities can borrow from this facility is determined by the market rate of interest on UK Gilts. An economic summary for the period 1 April – 30 September 2017, along with regulatory updates on MiFID II and CIPFA's consultation on the Prudential and Treasury Management Codes are included in Appendix A.

12. Over the next two quarters the Council plans to maintain minimal cash levels for operational purposes to minimise investment counterparty risk and source its borrowing needs from other local authorities on a short term rolling basis. This strategy is expected to achieve significant revenue cost savings over the more traditional route of long term fixed rate borrowing from the PWLB. This borrowing strategy assumes that interest rates will continue to remain low for longer than previously envisaged, in line with advice from the Council's treasury advisers, Arlingclose Ltd. However, the Council will continue to monitor long term rates with a view to fixing a portion of its borrowing if rates are favourable.
13. As anticipated, no opportunities for debt rescheduling (early repayment of existing debts) materialised during the six-month period ending 30 September 2017 given that present discount rates make the costs involved unattractive.
14. Debt management activities for the period are outlined in Appendix B.

### **Investments**

15. The Council only places funds with counterparties of high creditworthiness and restricts time periods for investments. Priority is given to security and liquidity over yield.
16. At 30 September 2017, the Council held £24.5M in investments. Forecast investment income is £0.3M for the current financial year which is in line with budget, with short term money market rates very low and forecast to remain low over the medium term.
17. Criteria to determine suitable investment counterparties for the Council are approved annually by Council as part of the Treasury Management Strategy. Investment activities for the period are detailed in Appendix C.

### **Prudential Indicators**

18. The CIPFA Prudential Code for Capital Finance in Local Authorities requires performance against specified key indicators to be measured and reported. The purpose of these indicators is to demonstrate prudence, affordability and sustainability.

19. The Council has complied with its prudential indicators for the period 1 April 2017 to 30 September 2017. 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 (CFR), 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 debt maturities are spread over many years in order to control the Council's exposure to refinancing risk;
  - The Council is within its limits regarding its exposure to variable interest rates and thus its exposure to interest rate fluctuations.
20. In the six months to 30 September 2017, there were no breaches in the Council's prudential indicators.

### **Council Priorities**

21. 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**

22. 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 Chartered Institute of Public Finance and Accountancy's (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).
23. 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**

24. 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.
25. The interest payable in the year is forecast to be £0.2M less than the budget of £5.5M. This budget underspend is due to a combination of:
  - new borrowing being taken from local authorities and other public sector bodies such as Police and Crime Commissioners on a short-term temporary basis at lower than budgeted rates; and
  - Capital Programme slippage which has been higher than originally assumed in the interest payable budget, leading to a lower level of overall borrowing being required than assumed in the 2017/18 budget.

### **Equalities Implications**

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

## **Conclusion and next Steps**

27. Overall responsibility for treasury management remains with the Council.
28. This report provides Members with a summary of the treasury management performance for the six months to 30 September 2017.
29. 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.
30. The Council has applied its Treasury Management Strategy for 2017/18 and there were no breaches in its prudential indicators.

## **Appendices**

- Appendix A – Economic Background
- Appendix B – Debt Management Activities
- Appendix C – Investment Activities
- Appendix D – Compliance with Prudential Indicators

## **Background Papers**

The following background paper is available on the Council's website:  
'Treasury Management Strategy and Treasury Policy for 2017/18'  
(Agenda item 12 of Executive meeting of 7 February 2017)