CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting:	29th September 2015
Report of:	Chief Operating Officer
Subject/Title:	Treasury Management Annual Report 2014/15
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

1.1 The Treasury Management Policy requires an annual report on the performance of the Council's treasury management operation. This report contains details of the activities in 2014/15 for Cheshire East Borough Council.

2.0 Decision Requested

2.1 To receive the Treasury Management Annual Report for 2014/15 as detailed in Appendix A.

3.0 Reasons for Recommendations

3.1 To meet the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

4.0 Wards Affected

4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications

6.1 None

7.0 Implications for Rural Communities

7.1 None

8.0 Financial Implications (Authorised by the Chief Operating Officer)

8.1 Contained within the report.

9.0 Legal Implications (Authorised by the Head of Legal Services)

9.1 As noted in paragraph C47 of the Finance and Contract Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. C47 to C52 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report is presented to Cabinet under rule C52.

10.0 Risk Management

10.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

10.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.

10.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.

10.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

11.0 Background and Options

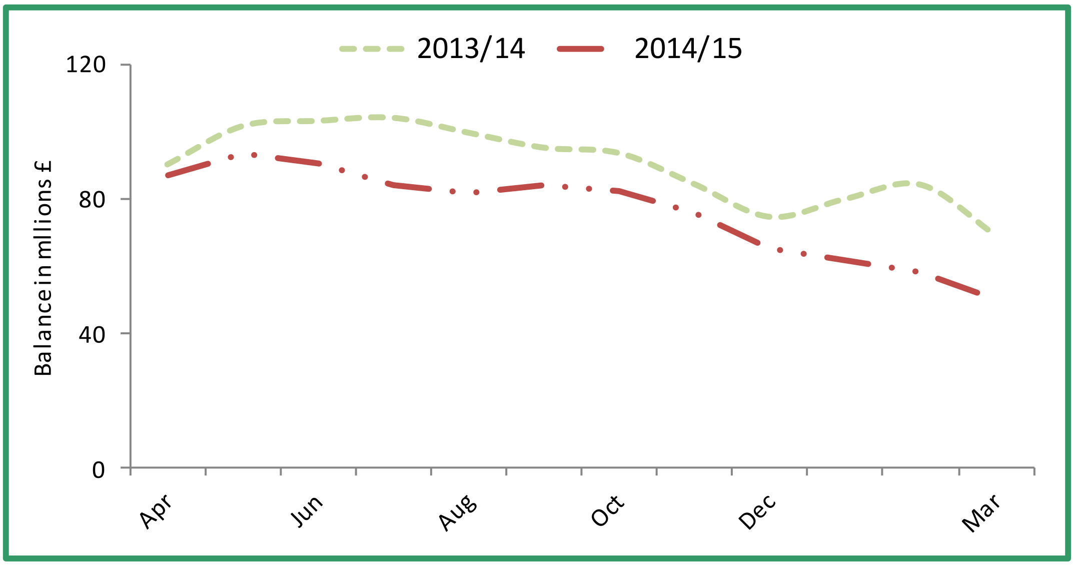
11.1 The Treasury Management Strategy for 2014/15 was approved by Council on 27th February 2014. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial and Performance Update Reports.

11.2 The Council complied with its legislative and regulatory requirements and remained within all of its Prudential Indicators during the year, further details are provided in Annex 1.

11.3 With current interest rates offering low investment returns relative to the cost of raising new long term loans the Council has maintained its overall strategy of using existing cash balances to fund the 2014/15 capital programme.

11.4 Cash balances remained stable throughout the year. The average lend position (the 'cash balance') for 2014/15 was £76.3m, (£89.6m in 2013/14).

Chart 1 – Average monthly cash balances available for investment



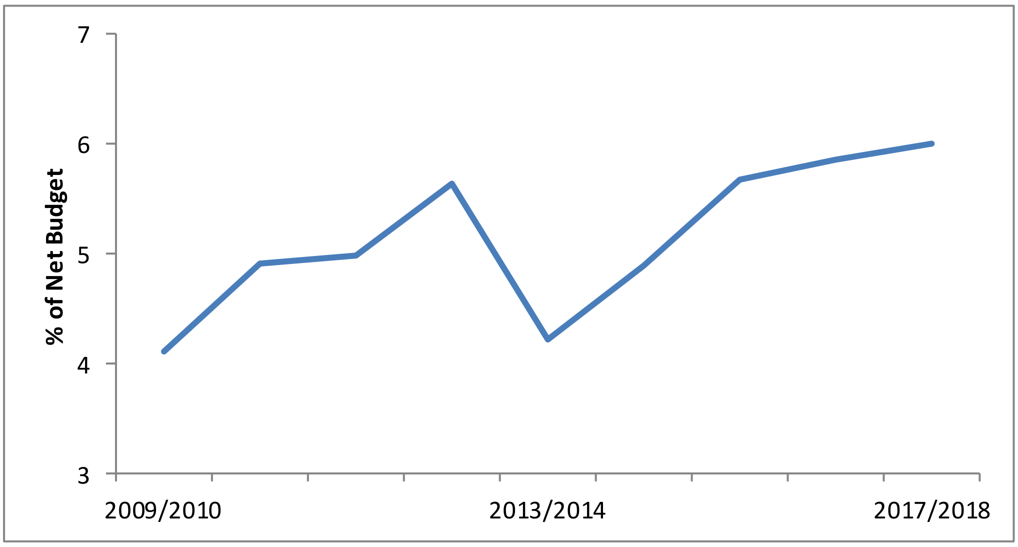
Source: Cheshire East Finance

11.5 Actual capital expenditure totalled £101.5m compared to the revised in-year budget of £132.7m. Some of the planned spending for 2014/15 has been re-profiled into 2015/16 and future years to ensure the Council maximises external investment and capital receipts opportunities; thereby reducing the level of the borrowing requirement in the future and the impact on the revenue budget.

11.6 The capital programme for 2015/18 is intentionally aspirational, reflecting the Council's priority to put Residents First and to promote local growth. To support this ambition the Council will pursue additional external funding, private sector investment and capital receipts. This approach allows flexibility, so that schemes can be phased, reviewed and if necessary put on hold until the resources required are identified and secured, or alternatively, brought on stream to take advantage of funding and market opportunities as they arise. Cheshire East resources will be utilised accordingly to allow flexibility within the programme.

11.7 The Council has set itself a limit of c£14m in relation to capital financing charges. This relates to the revenue charges associated with the amount of borrowing taken out. For example, for every additional £10m of borrowing the authority enters into, the capital financing charges increase by £0.800m. The forecast for capital financing costs as a % of the net revenue budget is demonstrated in the chart below.

Chart 2: The cost of borrowing as a percentage of net budget



Source: Cheshire East Finance

11.8 The Council continues to reduce its overall level of external debt as no new external borrowing was undertaken and PWLB loans of £8.5m were repaid in year.

11.9 Other key points to note for 2014/15 are:

- The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at consistently low levels.
- Following a period of disappointing returns, the £20m investments in the managed pooled funds were withdrawn in October 2014. This was replaced with an initial investment of £5m in the CCLA property fund and a further £5m invested in Covered Bonds
- Started in January and continuing throughout 2015, a series of regulatory changes are being applied to banks to reduce the likelihood of them getting into financial difficulties. However, the same legislation means that if they do have a problem then the impact on Local Authority investments (chance of loss) will be worse. This is known as ‘Bail-in’ risk and to mitigate this the Council has made use of alternative investments, particularly covered bonds which are backed up by collateral
- During 2014 there was some uncertainty as to how the banking regulatory changes would affect the credit worthiness of banks. This meant that the maximum maturity period for new investments was kept shorter, in many cases reduced from 1 year to 6 months.
- Following a retendering exercise, the Council’s merchant card services are in the process of being switched to Lloyds Bank.

11.10 This annual treasury report, detailed in Appendix A covers the:

- Council’s capital expenditure and financing during the year;

- Impact of this activity on the Council's underlying Capital Financing Requirement (CFR);
- Treasury position at 31st March 2015 identifying how the Council has borrowed in relation to the CFR and the impact on investment balances;
- Economic factors;
- Detailed investment and debt activity;
- Reporting of the required prudential and treasury indicators.

12.0 *Access to Information*

The background papers relating to this report can be inspected by contacting the report writer:

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