

# CHESHIRE EAST COUNCIL

## REPORT TO: AUDIT AND GOVERNANCE COMMITTEE

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**Date of Meeting:** 27<sup>th</sup> September 2013  
**Report of:** Interim Chief Operating Officer  
**Subject/Title:** Treasury Management Update  
**Portfolio Holder:** Councillor Peter Raynes

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### **1.0 Report Summary**

1.1 The Treasury Management Policy requires regular reporting on the performance of the Council's treasury management operation.

1.2 This report contains:

- An update on treasury management activity for the period April – July 2013.
- The Annual Report for 2011/12 which was considered by Cabinet on 19<sup>th</sup> August 2013 (Appendix A).

### **2.0 Decision Requested**

2.1 To note the treasury management activity for the period covered in the report.

### **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 including – Carbon Reduction - Health**

6.1 None

### **7.0 Financial Implications**

7.1 Contained within the report.

## **8.0 Legal Implications (Authorised by the Borough Solicitor)**

8.1 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 under rule C52.

## **9.0 Risk Management**

9.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management function will be measured.

## **10.0 Background and Options**

### Borrowing Strategy for 2013-14

10.1 The Council will continue to minimise borrowing by making use of internal balances. Any new borrowing will be undertaken in consultation with the Council's treasury management advisors, Arlingclose. They advise that delaying the raising of loans until such time as they are needed is the correct approach. Arlingclose are of the view that the cost of holding the cash received when long term loans are raised ahead of their actually being needed far outweighs any benefits that may be gained as result of such loans being raised ahead of a possible increase in long term interest rates.

10.2 The long term loans portfolio comprises of:-

- £116 million of fixed rate loans from the Public Works Loans Board (PWLB)
- £18 million of Lender's Option Borrower's Option (LOBO) Loans from commercial banks.

The average interest rate for long term debt is 4%.

10.3 In order to take advantage of current lower rates and reduce the interest rate risk inherent in forced borrowing in the future when rates may be higher, maturing loans will be replaced with PWLB 10 year Equal Instalments of Principal (EIP) loans. Current EIP loans are maturing at a rate of £6m per year. There are also 3 maturity loans of £2.543m each at rates in excess of 9% that are due to mature, two in 2014/2015 and one in 2015/2016. Refinancing of these loans would be at considerably lower rates.

10.4 The Council has registered with the Department of Communities and Local Government (DCLG) for the PWLB Certainty Rate; this provides a reduction of 20 basis points (0.2%) on loans from PWLB.

### Lending Strategy for 2013-14

- 10.5 The rate of interest earned on fixed term deposits with banks and building societies remain at very low levels. This can be attributed to the introduction by the Bank of England, of the Funding for Lending Scheme (FLS) and a desire by banks and building societies to be less reliant on wholesale deposits (i.e., large one-off loans from large public and private sector organisations) for their funding and more reliant on retail deposits (i.e., deposits from individuals).
- 10.6 The Monetary Policy Committee (MPC) has provided some explicit guidance regarding the future conduct of monetary policy. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until the unemployment rate has fallen to a threshold of 7%. It currently forecasts this level to emerge in Quarter 3 of 2016.
- 10.7 The Council's total average interest rate for the first quarter of 2013/14 was 0.37%. This is disappointing and lower than the London Inter-bank Bid Rate for 7 days at 0.45%. The lower return for quarter 1 is a direct result of volatility in the managed pooled funds. This returned disappointing results in May and June due to a slowing down of growth in the emerging markets such as China and sharp reactions in the bond markets to comments made in the USA about possible changes to their quantitative easing programme. The situation is being monitored and regular meetings are being held with fund managers to assess the on-going performance, future directions and suitability of these funds.

### Capital Financing Budget

- 10.8 The capital financing budget for 2013/14 is £11.9m, which accounts for 4.6% of the Council's net revenue budget. The budget is forecast to be on target for the year.

### Heritable Bank

- 10.9 During August, the Council received the 14<sup>th</sup> dividend from the Administrators of Heritable Bank of £773,000. This is more than expected and takes the total recovery up to around 94% of the original claim (expected 85-88%). This will be of benefit of around £300k to the Income & Expenditure account this year.

### Retender of the Contract for Banking Services

- 10.10 Work is on-going on the tender of the Council's banking services and Members will be updated as soon as the procurement exercise is concluded.

### Training

- 10.11 Members of the Finance Policy Development Group received a briefing from Arlingclose on 8<sup>th</sup> July 2013, which considered alternative investment

opportunities including the use of Registered Providers and Credit Unions to diversity investments.

10.12 Officers have attended a workshop on Treasury Management Practices (TMPs) provided by Arlingclose. The Council's TMPs have recently been updated in line with this guidance.

### **11.0 Access to Information**

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

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Appendix A – Treasury Management Annual Report 2012/13