CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	25th September 2014
Report of:	Chief Operating Officer
Subject/Title:	Treasury Management Update
Portfolio Holder:	Councillor Peter Raynes

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:

- The Annual Report for 2013/14 which was considered by Cabinet on 16th September 2014 (Appendix A).

2.0 Recommendations

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

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

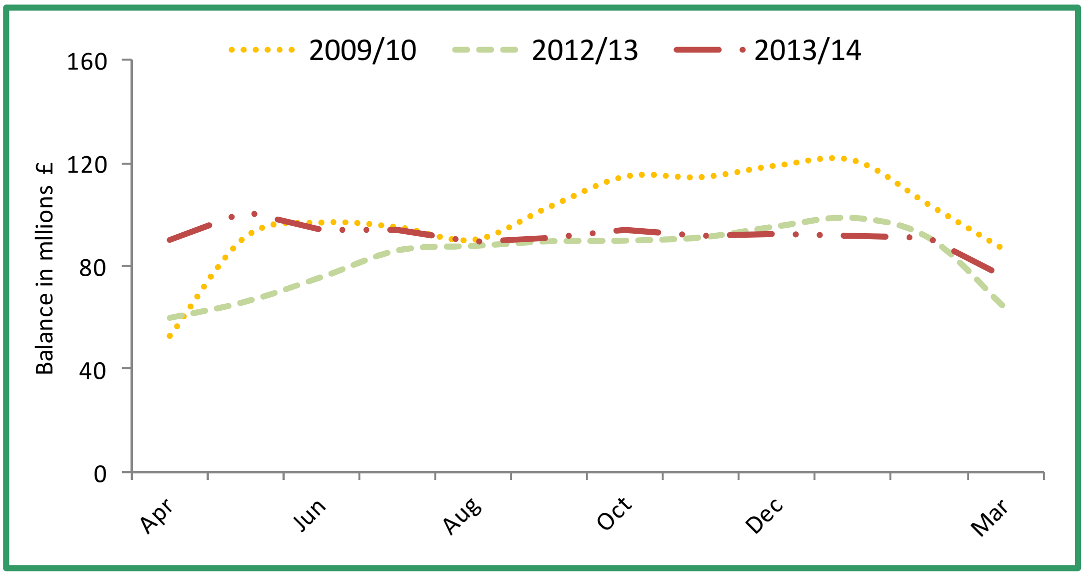
11.1 The Treasury Management Strategy for 2013/14 was approved by Council on 28th February 2013. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial and Performance Update Reports.

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 The financial year 2013/14 continued the trend of previous years with a challenging treasury management environment of low investment returns and high levels of counterparty risk.

11.4 Cash balances remained stable throughout the year. The average cash balance for 2013/14 was £89.6m, (£83.6m in 2012/13).

Chart 1: Actual Cash balances available for investment have remained consistently high since 2009.



Source: Cheshire East Finance

11.5 The working capital requirement of the Alternative Service Delivery Vehicles (ASDV's) may have an impact on the Council's cash balance position in 2014/15, this will be closely monitored and regularly reported throughout the year.

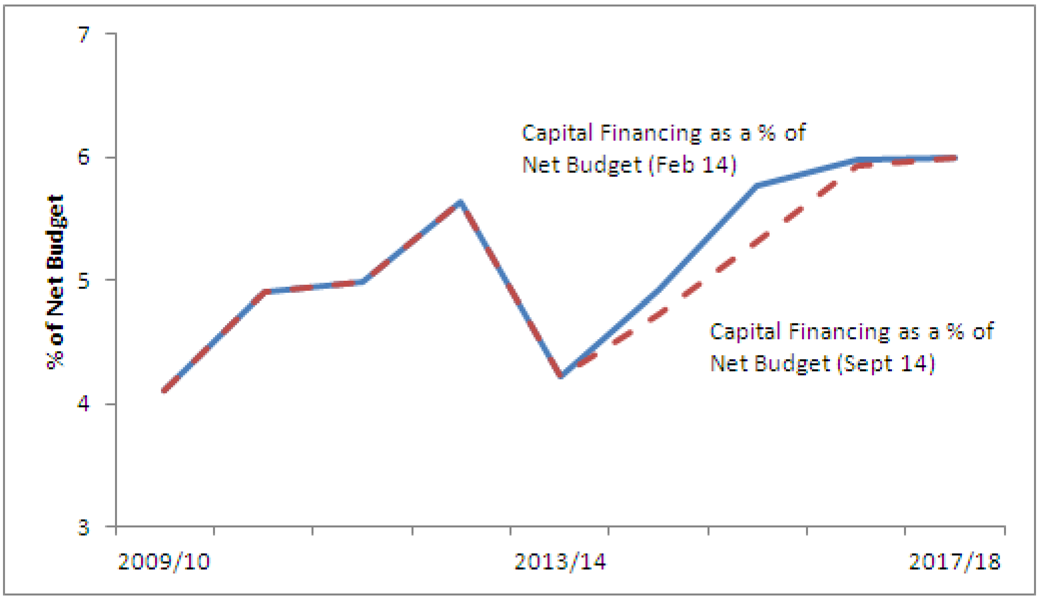
11.6 With current interest rates offering low investment returns relative to the cost of raising new long term loans the Council has maintained its overall strategy of using existing cash balances to fund the 2013/14 capital programme.

11.7 Actual capital expenditure totalled £65.6m compared to the revised budget of £78.7m. Some of the planned spending for 2013/14 has been re-profiled into 2014/15 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.

11.8 The capital programme for 2014/17 is intentionally aspirational, reflecting the Council's ambition to pursue additional external funding. The priority is to ensure expenditure plans are affordable over the medium term; the programme is designed to allow flexibility so that cash flows i.e., the timing of capital receipts and payments, can be monitored and managed to minimise the risks to the Council of forward funding capital expenditure in advance of realising grant income, developer contributions and proceeds of planned asset sales and disposals. Where temporary borrowing is required this will be funded from internal resources and repaid as soon as receipts allow.

11.9 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.

<u>Chart 2: The impact of capital financing on the revenue budget is being reduced compared to forecasts in February 2014</u>



Source: Cheshire East Finance

11.10 The Council continues to reduce its overall level of external debt as no new external borrowing was undertaken and a PWLB loan of £6m was repaid in year.

11.11 Other key points to note for 2013/14 are:

- The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels
- The Council received a repayment of £335,000 from the administrators of Heritable Bank.
- Following a retendering exercise, the Council's banking services are now provided by Barclays Bank from 1 April 2014. The banking switch-over was managed very effectively between Council staff and Barclays Bank

personnel and the working relationship has commenced on very solid ground.

11.12 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 2014 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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Appendix A – Treasury Management Annual Report 2013/14