ITEM **16**

POLICY AND RESOURCES COMMITTEE

15 SEPTEMBER 1999

TREASURY MANAGEMENT - OPERATIONAL REPORT FOR 1998/99

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1. Purpose

1.1 To inform the Committee of the Council's performance in relation to its borrowing and investment strategy for 1998/99.

2. Summary

2.1 The Treasury Management function received both a favourable Internal Audit report and Sector health check during 1998/99.

2.2 As always, interest rates were closely monitored during the course of the year and advantage was taken of the fall in long term rates to take the Council's borrowing requirement at competitive rates. This has had the effect of reducing the Council's average interest rate, and will provide certainty of debt repayments in future years.

2.3 The flexibility of the lending operation was further improved during 1998/99 with the opening of two business reserve accounts. These helped ensure successful cash flow management during the year.

3. Recommendations

3.1 The Committee is recommended to:

(a) note the performance in 1998/99; and

(b) approve the amendment to the Council's Treasury Management Policy Document, as attached at **Annex A**.

4. Background

4.1 As part of the Treasury Management Policy the Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) "Code of Practice on Treasury Management". The Code recommends that a report covering the relevant activities of the proceeding financial year be submitted annually to the Council. This report is designed to fulfil that requirement.

5. Issues and Choices

5.1 Organisation and Management

(a) Sector, the Council's Treasury Management Advisors undertook a 'health-check' of the Council's treasury function during the course of the year. In terms of both performance and strategy the report was largely very favourable. Recommendations have been taken on board and proposed amendments to the Council's Treasury Policy Document are attached at **Annex A** for approval.

(b) CIPFA's Treasury Management Panel issued guidance on debt management performance measures in October 1998. Due to the difficulty of bench marking the treasury function, the focus of the document is very largely on compliance with both internal and external controls i.e. the Council's Strategy and Policy Documents and CIPFA guidelines.

The substance of this report demonstrates compliance with those controls. In addition, various comparative data is referred to in an attempt to further demonstrate performance.

(c) As required by the Council's Treasury Management and Guidelines Policy Document, the Council's Treasury Team have recently undertaken a review of the three Money Market Brokers used by the Council. The review concludes that three is the optimum number of brokers for the Council to deal with, and that those currently used have both a sound knowledge of the local authority market, and provide a good all round service.

5.2 Long Term Funding

(a) **Annex B** details the Council's long term debt as at the 31 March 1999. Of the total debt outstanding (£126.8 million) £108.6 million is in the form of PWLB fixed rate loans, £17m of which represents new loans taken within the year.

(b) Under Section 45 of the Local Government and Housing Act 1989 the Council is required annually to set certain limits in relation to its borrowing. The Resources Committee did this at it's meeting on 10 February 1998. Compliance is demonstrated on the next page:

	Limit Set	Maximum Commitment in year
Overall Borrowing	£155,800,000	£130,574,009
Short Term Borrowing Limit	£14,200,000	£52,489
Proportion of interest at variable rates	10%	0%

(c) **Annex C** illustrates the Council's debt maturity profile, which, as a consequence of new loans having been taken for periods in excess of 25 years: the most favourable period for long term rates, has been further pushed out over a longer time period.

(d) The preferential rates at which new loans were taken during the year have served to reduce the Council's total external interest rate from 8.32% in 1997/98 to 7.8%. Based on the latest available data, **Annex D** shows that the Council's average rate compares favourably with the majority of other unitary authorities.

(e) **Annex E** details the costs of financing and managing the portfolio. Included within the figures is the cost of the debt inherited from Buckinghamshire County Council (BCC) (£5,943,969).

(f) In accordance with the Regulations governing Local Government Reorganisation BCC manage the Council's inherited debt (value at 31.3.99 £45.1m). Milton Keynes Council (MKC) has no control over the interest rate charged (8.65% in 1998/99). Following representations made via the Local Government Association (LGA) the DETR have agreed to draft revised regulations which would potentially facilitate the transfer of this Council's share of both BCC's credit ceiling and external debt.

5.3 Cash Flow Management

(a) **Annex F** identifies the average cash balances, together with the maximum credit and overdrawn balances during the year, thereby illustrating the effectiveness of the Council's cash management activity. The level of activity, is demonstrated primarily by the number of temporary investments placed during the year (289). The reduction on the 1997/98 figure (403) is a consequence of the introduction of new software during the latter part of 1997/98 and the way in which it consolidates the Council's accounts.

All investments are placed with reference to the Council's treasury management advisor's (Sector's) approved lending list which is updated monthly.

(b) **Annex G** attempts to further measure performance by plotting the Council's average monthly investment rate against the Bank Base Rate (a benchmark the Council's Treasury Team set itself). As can be seen, on nine out of twelve months the benchmark was either exceeded or at least met.

(c) It is not always possible to invest small amounts on the market particularly at competitive rates. The decline in rates during the year has made this even more difficult. Consequently, in an attempt to protect interest income the Council opened two Abbey National Business Reserve Accounts during the year. Their advantage, is that provided a minimum balance is maintained, (£500,000 per account) they enable subsequent small sums to be invested at competitive rates and withdrawals to be made without prior notice.

6. Implications

6.1 Environmental

None.

6.2 Equalities

None.

6.3 Financial

The report focuses on the Councils overall Treasury position. There are no direct implications.

6.4 Legal

None.

6.5 Staff and Accommodation

None.

7. Conclusions

7.1 As illustrated above, 1998/99 has been another year of significant activity for the Treasury function and one in which it has been subject to significant: and largely favourable internal and external scrutiny. This is a consequence of the proactive approach adopted by the Treasury Management Team.

Background Papers: Officers working papers