County Council

Treasury Management Mid-year Report 2015/16

19 November 2015

Report from the Cabinet Member for Resources

Summary

1 The Council is required to report to members on the current year's treasury management. It was agreed that a mid-year report on treasury management would be reported to Regulatory and Audit Committee prior to reporting to County Council as required by the CIPFA Code of Practice on treasury management in the public sector.

Recommendation

The Council is asked to NOTE the treasury and investment borrowing performance and the monitoring against the Prudential Indicators.

Supporting information

2 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management revised 2011 and the Council's Financial Regulations (A3.2), this Council is required to provide Regulatory and Audit Committee with a mid-year report on the treasury management activity for the first six months of the financial year.

3 The Code of Practice defines Treasury Management as:

The management of the organisation'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.

Treasury Management Strategy

4 The Council approved the 2015/16 treasury management strategy at its meeting on 12 February 2015. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The effective management and control of risk are prime objectives of the Council's treasury management activities.

5 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions. There were no investments placed which resulted in a breach of the investment strategy.

Debt Management Strategy

6 The Council's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
- To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
- To maintain a view on current and possible future interest rate movements and borrow accordingly.
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.

Economic Review

7 The Bank of England's November Quarterly Inflation Report noted that CPI inflation has remained close to zero and GDP growth has slowed over the past year to around its past average rate. A weaker global backdrop together with falls in the prices of risky assets are weighing on the outlook for UK growth, but they are counterbalanced by support from falls in commodity prices and market interest rates. Assuming a very gently rising path for Bank Rate, the Monetary Policy Committee judges that four-quarter growth is likely to remain around current rates and the slack remaining in the economy is likely to be absorbed. Recent falls in oil and other commodity prices mean that inflation is likely to remain lower than previously expected until late 2017 but the MPC's best collective judgement is that CPI inflation will return to the 2% target in around two years and rise above it thereafter.

Outlook for Interest Rates

8 At its meeting ending on 4th November 2015, the MPC voted by a majority of 8-1 to maintain Bank Rate at 0.5%. The general tone of the minutes presented a more cautious outlook for global growth which had weakened since the last Inflation Report in August, predominantly led by falls in many emerging market economies. The emphasis on this slowdown was more pronounced and led the Bank to revise down its market forecast for interest rates in all periods prior to Q4 2017. What this also implies is that the Bank now has the first rise in Bank Rate occurring in Q1 of 2017 but because it also expects inflation to exceed the 2% target at some stage between 2 and 3 years from now, the Bank also expects rates to have risen by then to tackle any risk of any overshoot in inflation. Financial markets responded to the Inflation Report and accompanying press conference by pushing out the first expected increase in Bank Rate to November 2016 from August 2016.

Interim Performance Report

9 During the first six months of 2015/16 Buckinghamshire County Council invested cash balances not required on a day to day basis for periods of up to 218 days. These investments were invested at interest rates between 0.25% and 0.75%. The average rate of return to date is 0.83% which exceeds the weighted average LIBID benchmark rate of 0.52% by 0.31%, this includes some investment placed at higher rates before 1 April 2015. The projected revenue of £1.74m for investment income is expected to exceed the budget of £1.65m by £80,000. This is due to average cash balances being higher than anticipated due to receipt of grant income at the beginning of the financial year. The Council is expecting to pay a single bullet payment of £180m in 2016/17 in respect of the Energy from Waste Plant. As reported to members previously this will be financed by a combination of borrowing, earmarked reserves and current cash investments. In

order to ensure that the Council has cash balances available to fund the payment, current investments are being placed so that they mature prior to the date that the payment is due in May 2016.

10 Loans outstanding totalled £175.7m at 30 September 2015; £92.2m was from the Public Works Loan Board (PWLB), £82m from the money markets and £1.5m accrued interest. The forecast outturn for interest payments on external debt is on target compared to the budget of £10m. During the six months to 30 September £866,000 was repaid to the PWLB, a further debt principal repayment of £866,000 was made on 1 October 2015 and a further payment of £10m is due to be paid on 14 February 2016, reducing the total outstanding loans to £164.0m. There has been no new long term borrowing during the six months to 30 September 2015. The Council continues to actively monitor debt restructuring options.

11 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable, the indicators 2015/16 to 2017/18 were agreed by County Council at its meeting on 12 February 2015. Revisions to 2.1 Estimates of Capital Expenditure and 2.2 Capital Financing Requirement were approved by County Council on 16 July 2015. Appendix 1 shows the approved Prudential Indicators for 2015/16 to 2017/18 along with the Prudential Indicator forecast for 2015/16.

Resource implications

12 There are no additional costs associated with the recommendation.

Legal implications

13 The publication of a mid-year treasury report conforms to best practice as required by the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.

Other implications/issues

14 Not applicable.

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

15 Not applicable

Background Papers

Treasury Management Strategy Report to County Council 12 February 2015
https://democracy.buckscc.gov.uk/documents/g6360/Public%20reports%20pack%2012th-Feb-2015%2009.30%20County%20Council.pdf?T=10

Treasury Management Annual Summary Report to County Council 16 July 2015
https://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=107&MId=6363&Ver=4
