



## Treasury Management Annual Report 2015/16

Thursday 26 May 2016

Report from Cabinet Member for Resources

### Purpose of this Report

1. The Council is required to report to Members on the previous year's treasury management activity. It was agreed at County Council that an annual treasury management report, reporting on treasury management activity in the previous financial year would be reported to Regulatory and Audit Committee followed by a report to County Council. The purpose of the report is also to approve revised Prudential Indicators for 2016/17 to 2019/20.

### Background

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

### **Borrowing 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.
  - The strategy for new borrowing in 2015/16 was to potentially borrow £15m in advance of need for the Energy from Waste (EfW) Project; the Council decided not to borrow in advance of need for the EfW project, therefore no new borrowing was arranged in 2015/16. Paragraph 14 provides more detail of the Council's borrowing activities in 2015/16.

### **Investment Performance in 2015/16**

7. Internal monitoring procedures of the Treasury Management function included:
  - A monthly management review of relative investment performance against Key Performance Indicators target to achieve the LIBID weighted average interest on treasury income, the weighted average is a composite of investment returns for 7 days, 1 month, 3 months, 6 months and 1 year maturities;
  - The Treasury Management Group which includes the Cabinet Member for Resources, the Deputy Cabinet Member for Resources, the Director of Assurance and other key officers meets periodically to review the Council's investments, agreed lending list and investment / borrowing strategies;
  - Periodic internal and external audit scrutiny, no significant findings were reported;
  - Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking to monitor performance compared to other local authorities; and
  - Proactive management – acting on Arlingclose's (the Council's treasury advisor) advice and liaising with other Council's treasury functions regarding best practice and new initiatives.
8. The average rate of return on investments was 0.68%. During the year 2015/16 Buckinghamshire County Council (BCC) invested cash balances not required on a day-to-day basis for periods up to 4 years. The total of these investments at any one time varied between £160m and £220m at interest rates between 0.25% and 1.55%. The Director of Assurance approves and monitors the institution lending list in line with a predetermined set of criteria (approved by County Council as part of the Treasury Management Strategy) and investments were made within the agreed list of lenders and associated lending limits and maturity periods.

9. The interest earned and credited to the Council's revenue account was £1.83m overachieving income by £0.17m compared to the £1.66m budget. The difference between the actual income received and the budget is due to additional interest income being achieved since average cash balances during the year were higher than expected and the CCLA property investment achieving higher than anticipated returns. The Council will pay a single bullet payment of £180m plus £36m VAT in May 2016 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, 2015/16 investments were placed so that they matured prior to May 2016 when the payment is due. During 2016/17, the Council's average investment balance is anticipated to reduce from £200m to approximately £30m. Following payment for the Energy for Waste plant, the Council plans to maintain minimum cash levels for operational purposes. In March the base interest rate entered its eighth year at 0.5%. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank of England was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles. The Council's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the second quarter of 2018, finally settling at or below 2% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.
10. The principal of sums invested as at 31 March 2016 totalled £169.5m. These investments were placed with 19 institutions in sums of between £2.75m and £20m at interest rates of between 0.42% and 1.55%. Of the 19 institutions, 4 are local authorities, 5 are UK banks or building societies, 5 are AAA rated money market funds operated by financial institutions, 1 is a UK property fund and 4 are foreign institutions.

### **Prudential Indicators**

11. Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators for 2015/16 and the Indicators for 2016/17 to 2019/20 are shown in Appendix 1.
12. The operational boundary for external debt (3.3) is based on an estimate of the most likely level of external borrowing at any point in the year. It is proposed that a change to the operational boundary for external debt within Prudential Indicator 3.3 from £230m to £250m in 2016/17 is approved by full Council. Officers recently met the Council's treasury advisors to discuss the Council's borrowing strategy in preparation for the £180m plus £36m VAT bullet payment relating to the Energy from Waste plant. It is expected that the Council will need to borrow up to £70m initially. After about 5 weeks the Council will be reimbursed the £36m VAT payment so the external debt will be reduced accordingly. The strategy will be to take several temporary loans.
13. It is proposed that a change to the Upper Limit of Variable Fixed Rate of Borrowing within Prudential Indicator 4.4 from £100m to £140m in 2016/17 is approved by full Council. Arlingclose, the Council's treasury advisor advised that with short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective to borrow short-term loans initially. Instruments that mature during the year are classed as

variable, therefore an increase in the variable fixed rate of borrowing is required. The EfW bullet payment includes £36m VAT which will be reimbursed by HMRC after about 5 weeks.

### **Borrowing in 2015/16**

14. Loans outstanding totalled £163.8m at 31 March 2016; £80.4m was from the Public Works Loan Board (PWLB), £82m Lenders Option Borrowers Option (LOBOs) from the money markets and £1.4m accrued interest. The provisional outturn for interest on external borrowing equals the budget of £10.0m. £1.732m was repaid to the PWLB as part of scheduled instalments and £10m upon maturity of a loan, there has been no new long term borrowing during the period although the Council actively monitors debt restructuring options. The PWLB Certainty Rate allows the authority to borrow at a reduction of 20bps on the Standard Rate.
15. During 2015/16 there was one occasion when the Council borrowed £15m for 7 days at 0.28% from the money markets for short term cash flow purposes.

### **Recommendation**

#### **Council is asked to:**

1. **Agree the Treasury Management Annual Report and the actual Prudential Indicators for 2015/16.**
2. **Agree a change to the operational boundary for external debt within Prudential Indicator 3.3 from £230m to £250m in 2016/17.**
3. **Agree a change to the Upper Limit of Variable Fixed Rate Borrowing within Prudential Indicator 4.4 from £100m to £140m in 2016/17.**

### **CABINET MEMBER FOR RESOURCES**

Appendix 1 – Prudential Indicators for MTP 2016/17 to 2019/20