County Council

# Treasury Management Annual Report

**Thursday 13 July 2017**

**Report from Cabinet Member for Resources**

**Purpose of this Report**

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 and the Prudential Indicators would be reported to the Regulatory and Audit Committee followed by a report to County Council.

**Background**

In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management and the Council's Financial Regulations (A3.2), the previous year's treasury management activity is reported to the Council.

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**

The Council approved the 2016/17 treasury management strategy at its meeting on 18 February 2016. 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. The Council paid a single bullet payment of £180m plus £36m VAT in June 2016 in respect of the Energy from Waste Plant. This was financed by a combination of borrowing, earmarked reserves and current cash investments.

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**
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 2016/17 was to borrow short term since short-term interest rates are currently lower than long term interest rates. Arlingclose, the Council's treasury advised that it is likely to be a more cost effective approach to borrow short-term initially. Paragraph 11 provides more detail of the Council's borrowing activities in 2016/17.

**Investment Performance in 2016/17**
Internal monitoring procedures of the Treasury Management function included:

- The Treasury Management Group which includes the Cabinet Member for Resources, the Deputy Cabinet Member for Resources, the Director of Finance and Assets and other key officer 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.

During 2016/17 Buckinghamshire County Council (BCC) invested cash balances not required on a day-to-day basis in instant access money market funds. The total of these investments at any one time varied between £5m and £220m at interest rates between 0.25% and 1.55%. The Director of Finance and Assets 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.

The average rate of return on investments was 1.0%. The interest earned and credited to the Council's revenue account was £751k, overachieving income by £296k compared to the £455k budget. The difference between the actual income received and the budget is due to the actual EfW payment being made six weeks later than originally scheduled, 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 paid a single bullet payment of £180m plus £36m VAT in June 2016 in respect of the Energy from Waste Plant. Following the EfW payment the Council has managed its cashflow requirements through undertaking temporary borrowing. During 2016/17, the Council's average investment balance reduced from £200m to approximately £30m.

Following payment for the Energy for Waste plant, the Council planned to maintain minimum cash levels for operational purposes. Following the outcome of the European referendum the Monetary Policy Committee cut the bank rate from 0.5% to 0.25% and Arlingclose's outlook for the Bank Rate progressed from 'even lower for even longer' to 'even longer for the indeterminable future'.

The principal of sums invested as at 31 March 2017 totalled £21.8m. These investments were placed with 4 institutions in sums of between £4.1m and £7.6m at interest rates of between 0.27% and 1.4%. Of the 4 institutions, 1 is a local authority, 2 are AAA rated money market funds operated by financial institutions and 1 is a UK property fund.

**Prudential Indicators**

Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators for 2016/17 and the Indicators for 2017/18 to 2020/21 are shown in Appendix 1.

**Borrowing in 2016/17**

Loans outstanding totalled £224.3m at 31 March 2017; £68.7m was from the Public Works Loan Board (PWLB), £82m Lenders Option Borrowers Option (LOBOs) from the money markets, £72.5m temporary borrowing from other local authorities and £1.1m accrued interest. The provisional outturn for interest on external borrowing is £8.9m, an underspend of £0.3m compared to the £9.2m budget. This was due to the Council not undertaking the anticipated long term borrowing. £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.

Following the EfW payment the Council has managed its cashflow requirements through undertaking temporary borrowing. During 2016/17 there were 47 occasions when the Council borrowed temporarily from other local authorities for short term cash flow purposes. The amounts ranged from £1m to £10m at interest rates from 0.23% to 0.54%.

**Recommendation**

**Council is asked to agree the Treasury Management Annual Report and the actual Prudential Indicators for 2016/17.**

**JOHN CHILVER**
**CABINET MEMBER FOR RESOURCES**

Appendix 1 – Prudential Indicators for MTP 2017/18 to 2020/21