



Treasury Management Annual Report

Thursday 26 July 2018

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

Background

2. 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.
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.
4. CIPFA recently published revised editions of the Treasury Management and Prudential Codes. The required changes from the 2017 Code will be incorporated into Treasury Management Strategies and monitoring reports for 2019/20.
5. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury

Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

Treasury Management Strategy

6. The Council approved the 2017/18 treasury management strategy at its meeting on 16 February 2017. 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 (EfW) Plant. This was financed by a combination of borrowing, earmarked reserves and current cash investments, the Council changed from a net positive cash position to a net borrower:

	31 Mar 2016	31 Mar 2017	31 Mar 2018
	£m	£m	£m
Borrowing:			
PWLB*	-80.4	-68.7	-102.1
LOBO#	-82.0	-82.0	-78.0
Temporary Borrowing	0.0	-72.5	-32.0
Accrued Interest	<u>-1.4</u>	<u>-1.1</u>	<u>-1.1</u>
Gross Borrowing	-163.8	-224.3	-213.2
Treasury Cash:			
Money market funds	94.5	11.8	15.3
Term deposits <1 year	55.0	0.0	0.0
Term deposits >1 year	15.0	5.0	0.0
Property fund	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>
Gross Cash	169.5	21.8	20.3
Net Cash / (Borrowing)	<u>5.7</u>	<u>-202.5</u>	<u>-192.9</u>

*PWLB Public Works Loans Board. The PWLB is a statutory body, part of HM Treasury, its purpose is to lend money to local authorities. The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

#LOBO Lender Option Borrower Option. LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

7. The following table summarises interest paid on external debt and interest earned on cash balances:

	2016/17	2017/18	2018/19
	£m	£m	£m
Interest paid on Loans	8.9	7.7	7.6
Interest Income	0.8	0.4	0.4

8. 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

9. 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 2017/18 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. Paragraphs 15 to 18 provide more detail of the Council's borrowing activities in 2017/18.

Investment Performance in 2017/18

10. 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 Procurement 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.
11. During 2017/18 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 £45m at interest rates between 0.2% and 0.44%. The Director of Finance and Procurement 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.

12. The average rate of return on investments was 1.0%. The interest earned and credited to the Council's revenue account was £360k. Following payment for the Energy from Waste plant, the Council has maintained minimum cash levels for operational purposes. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 10 May 2018, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.5%. All MPC members agree that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.
13. The principal of sums invested as at 31 March 2018 totalled £20.3m. These investments were placed with 4 institutions in sums of between £5.0m and £6.0m at interest rates of between 0.44% and 4.5%. Of the 4 institutions, 3 are AAA rated money market funds operated by financial institutions and 1 is a UK property fund.

Prudential Indicators

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

Borrowing in 2017/18

15. The Council arranged a combination of PWLB long term loans and short term bank loans to meet its borrowing requirements in 2017/18. Loans outstanding totalled £213.2m at 31 March 2018; £102.1m was from the Public Works Loan Board (PWLB), £78.0m Lenders Option Borrowers Option (LOBOs) from the money markets, £32.0m temporary borrowing from other local authorities and £1.1m accrued interest. The provisional outturn for interest on external borrowing is £7.7m. £1.732m was repaid to the PWLB as part of scheduled instalments and £10m upon maturity of a loan. The Council also pre-paid a £4m Lender Option Borrower Option (LOBO) loan. The Council borrowed £45.1m from the PWLB during 2017/18. The PWLB Certainty Rate allows the authority to borrow at a reduction of 20bps on the Standard Rate.
16. As reported in November 2017, the Council pre-paid a £4m LOBO loan running at 4.11% and was willing to consider other prepayments options as they arose. The eventual prepayment of the £4m loan totalled £6.1m. At the point of prepayment, net interest savings are expected to be at least £0.3m over five financial years.
17. The Council had been offered attractive prepayment terms from the bank and decided to proceed following consideration of the risk/benefits of maintaining the current position against a range of alternative restructuring scenarios. A further prepayment of 3 loans totalling £48m running at 4.28% was made in April 2018. These loans were replaced by £48m of PWLB loans with an average interest rate of

2.34%. The eventual prepayment of the £48m totalled £74m. Savings over the next 25 years are projected to be £10.4m. Savings will be reduced should interest rates rise faster than expected. Additionally, the Council has both reduced its exposure to the uncertain refinancing risk represented by the inherent optionality of the LOBO structure and reduced the overall term of the debt portfolio. Consequently, the debt portfolio and borrowing need can now be managed more flexibly. The Council continues to be aware of the potential to restructure PWLB debt, but there are unlikely to be opportunities in the prevailing interest rate environment.

18. Following the EfW payment the Council has managed its cashflow requirements through undertaking temporary borrowing. During 2017/18 there were 32 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 0.25% to 0.9%.

Recommendation

Council is asked to:

- 1. Agree the Treasury Management Annual Report and the actual Prudential Indicators for 2017/18.**

CABINET MEMBER FOR RESOURCES

Appendix 1 – Prudential Indicators for 2017/18