



Treasury Management Annual Report

Thursday 25 July 2019

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 (B5.2), 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. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

Treasury Management Strategy

5. The Council approved the 2018/19 treasury management strategy at its meeting on 22 February 2018. 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 Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The Council is a net borrower:

	31 Mar 2018	30 Sept 2018	31 Dec 2018	31 Mar 2019
	£m	£m	£m	£m
Borrowing				
PWLB Borrowing*	-102.1	-150.0	-244.1	-243.5
LOBO Borrowing#	-78.0	-30.0	-30.0	-30.0
Short term Borrowing	-32.0	-45.0	-28.0	-20.0
Accrued Interest	-1.1	-1.0	-2.4	-2.7
Gross Borrowing	-213.2	-226.0	-304.5	-296.2
Treasury Cash				
Money Market Funds	15.3	4.8	37.0	5.5
CCLA Property Fund	5.0	5.0	5.0	5.0
Total Cash	20.3	9.8	42.0	10.5
Net Cash / (Borrowing)	-192.9	-216.2	-262.5	-285.7

*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.

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

	2017/18	2018/19
	£m	£m
Interest paid on Loans	7.7	8.6
Interest Income	-0.4	-0.5
Net Interest Cost	7.3	8.1

7. 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

8. 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. Paragraphs 14 to 16 provide more detail of the Council's borrowing activities in 2018/19.

Investment Performance in 2018/19

9. 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;
 - 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.
10. During 2018/19 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 £1m and £57m at interest rates between 0.22% and 0.66%. 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.
11. The average rate of return on investments was 1.9%. The interest earned and credited to the Council's revenue account was £467k. The Council maintains 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. Following the Bank of England's decision to increase Bank Rate to 0.75% in August 2018, no changes to monetary policy have been made since.

12. The principal of sums invested as at 31 March 2019 totalled £10.5m. These investments were placed with 4 institutions in sums of between £25,000 and £5.3m at interest rates of between 0.6% and 4.3%. Of the 4 institutions, 3 are AAA rated money market funds operated by financial institutions and 1 is a UK property fund. Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into a property fund, diversifying investment risk.

Prudential Indicators

13. Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators for 2018/19 are shown in Appendix 1.

Borrowing in 2018/19

14. The Council arranged a combination of PWLB long term loans and short term bank loans to meet its borrowing requirements in 2018/19. Loans outstanding totalled £296.2m at 31 March 2019; £243.5m was from the Public Works Loan Board (PWLB), £30.0m Lenders Option Borrowers Option (LOBOs) from the money markets, £20.0m temporary borrowing from other local authorities and £2.7m accrued interest. The provisional outturn for interest on external borrowing is £8.6m. £2.6m was repaid to the PWLB as part of scheduled instalments and £10m upon maturity of a loan. The Council also pre-paid a £48m Lender Option Borrower Option (LOBO) loan. The Council borrowed £154.0m from the PWLB during 2018/19, locking in debt long term low rates mitigating the risk of interest rates increasing. The PWLB Certainty Rate allows the authority to borrow at a reduction of 20bps on the Standard Rate.

15. As reported previously, the Council pre-paid 3 LOBO loans totalling £48m running at 4.28%. 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. The 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 and treasury advisors continue to be aware of the potential to restructure PWLB debt, but there are unlikely to be opportunities in the prevailing interest rate environment.

16. During 2018/19 there were 30 occasions when the Council borrowed temporarily from other local authorities for short term cash flow purposes. The amounts ranged from £3m to £15m at interest rates from 0.4% to 1.0%.

Recommendation



Council is asked to:

- 1. Agree the Treasury Management Annual Report and the actual Prudential Indicators for 2018/19.**

CABINET MEMBER FOR RESOURCES

Appendix 1 – Prudential Indicators for 2018/19