Regulatory & Audit Committee

Title: **Treasury Management Mid-year Report 2013/14**

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Electoral divisions affected: n/a

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 Committee is asked to NOTE the treasury and investment borrowing performance and the monitoring against the Prudential Indicators.
The Committee is asked to RECOMMEND to County Council an amended Investment Strategy for the remainder of 2013/14 in respect of collective investment schemes and pooled funds and that the table overleaf is added to the list of non-specified investments, the changes are highlighted in grey:

Investment	Why use it? Associated risks?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Maximum value	Maximum period
Organisations and pooled funds which do not meet the above criteria, subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser	These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds) including property funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed.	5 years for an investment with a registered social housing provider. The pooled funds do not have a defined maturity date.	Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£5m per individual counterparty such as a registered provider of social housing £25m per pooled fund.	5 years There is no maximum period, but it is envisaged that funds would be placed for an expected long duration, for example 3 years minimum.
Collective investment schemes (pooled funds) which do not meet the definition of collective investment schemes in Statutory Instrument (SI) 2004 No 534 or SI 2007 No 573 and subsequent amendments	These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds), where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed.	These funds do not have a defined maturity date.	Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£25m	

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 2013/14 treasury management strategy at its meeting on 14 February 2013. 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.

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 Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be on track, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

Outlook for Interest Rates

8 There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

Interim Performance Report

9 During the first six months of 2013/14 Buckinghamshire County Council invested cash balances not required on a day to day basis for periods of up to 1 year. These investments were invested at interest rates between 0.25% and 3.25%. The average rate of return to date is 0.61% which exceeds the weighted average LIBID benchmark rate of 0.49% by 0.12%, this is projected to increase to an average of 0.62% by the end of year. The projected revenue of £1.75m for investment income is expected to exceed

the budget of £1.70m by £50,000. This is due to investments placed earning average interest of 0.62% compared to the budgeted interest earned of 0.60% and cash balances being higher due to receipt of grant income at the beginning of the financial year.

10 Loans outstanding totalled £186.8m at 30 September 2013; £104.8m was from the Public Works Loan Board (PWLB) and £82m from the money markets. The forecast outturn for interest payments on external debt is on target compared to the budget of £11.6m. During the six months to 30 September £866,000 was repaid to the PWLB, there has been no new long term borrowing during the period, the Council continues to actively monitor debt restructuring options. A further debt principal repayment of £866,000 was made on 1 October 2013 reducing the total outstanding loans to £185.9m.

11 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The Indicators 2013/14 to 2016/17 agreed by County Council at its meeting on 14 February 2013 are shown in Appendix 1 along with the Prudential Indicator forecast for 2013/14.

12 The Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors, this means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims. We are being paid first when it comes to getting our money back; to date we have received £2.7m and will recover most of the £5 million we had on deposit with Landsbanki.

Amendment to Investment Strategy

13 Due to the ongoing risks in the banking system and the low interest rates due to the low base rate and the impact of the Funding for Lending Scheme it is recommended that the Council looks for diversification opportunities.

14 Specified investments offer relatively high security and high liquidity. These investments can be used with minimal procedural formalities. The DCLG Guidance defines specified investments as those denominated in sterling, with a maturity of no more than a year and invested with one of the UK Government, a UK local authority, parish council or community council or a body or investment scheme of "high credit quality." Any investment not meeting the definition of a specified investment is classed as non-specified. For non-specified investments proper procedures must be in place for undertaking risk assessments prior to investments being placed.

15 The Committee is asked to recommend to County Council that the table overleaf is added to the list of non-specified investments, the changes are highlighted in grey:

Investment	Why use it? Associated risks?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Maximum value	Maximum period
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16 The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled Funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Investments in Pooled Funds will be undertaken with advice from Arlingclose Ltd. The performance and continued suitability in meeting the Authority's investment objectives will be regularly monitored. For example, Arlingclose Ltd have recommended that the Council invests £5m in the CCLA Local Authorities Property Fund a high quality, diversified property fund managed exclusively for local authority investors which will generate rental income yield. Due to the costs associated with entering and exiting this asset class it is anticipated that the initial investment will be for a minimum of 5 years.

Resource implications

There are no additional costs associated with the recommendation.

Legal implications

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

Not applicable.

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

Not applicable

Background Papers

Treasury Management Strategy Report to Regulatory & Audit Committee 30 January 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=148&MId=5370&Ver=4

Treasury Management Strategy Report to County Council 14 February 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=107&MId=5449&Ver=4

Treasury Management Activity 2012/13 Report to Regulatory & Audit Committee 27 June 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=148&MId=5375&Ver=4

Treasury Management Activity 2011/12 Report to County Council 18 July 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=107&MId=5452&Ver=4
