Regulatory & Audit Committee

Title:	**Treasury Management Annual Report 2013/14**
Date:	25 June 2014
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Electoral divisions affected:	n/a

Summary

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 in June.

Recommendation

The Committee are asked to RECOMMEND to Council the Treasury Management Annual Report and the actual Prudential Indicators for 2013/14.
The Committee are asked to RECOMMEND to Council changes to the authorised limit (for other long term liabilities) within Prudential Indicator 5.1 to £150m in 2014/15, £200m in 2015/16, £15m in 2016/17 and £15m in 2017/18.
The Committee are asked to RECOMMEND to Council changes to the operational boundary (for other long term liabilities) within Prudential Indicator 5.2 to £130m in 2014/15, £136.5m in 2015/16, £6.5m in 2016/17 and £6.5m in 2017/18.

A Supporting information

Background

1 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 Regulatory and Audit Committee with a report on the previous year's treasury management activity.

2 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

3 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.

4 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

5 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 the County Council agreed an amendment to the Investment Strategy. It was agreed collective investment schemes including property funds subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser. The Council invested £5m in the CCLA Local Authorities Property Fund in November 2013, at 31 March 2014 the investment had generated an income return of 5.2%.

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.
- The strategy for new borrowing in 2013/14 was to potentially borrow £10m in advance of need for the Energy from Waste (EfW) Project, no new borrowing was arranged in 2013/14.

Investment Performance in 2013/14

7 Internal monitoring procedures of the Treasury Management function included:

- A monthly management review of relative investment performance against the Finance & Commercial Services 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;
- 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 0.62%, exceeding the weighted average LIBID for the year by 0.13%. During 2013/14 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 £200m and £295m at interest rates between 0.25% and 3.25%. The Service Director (Finance and Commercial Services) 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 £1.77m overachieving income by £70,000 compared to the £1.70m 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. The base interest rate has been 0.5% since March 2009 and is forecast by Arlingclose, the Council's treasury advisors, to remain at 0.5% until the second quarter of 2016. In a speech on 12 June 2014, Mark Carney the Governor of the Bank of England indicated that interest rates may rise sooner than expected and they could begin to do so later this year.

10 The principal of sums invested as at 31 March 2014 totalled £205.9m. These investments were placed with 23 institutions in sums of between £1.94m and £25m at interest rates of between 0.41% and 1.13%. Of the 23 institutions, 3 are local authorities, 9 are UK banks or building societies, 3 are AAA rated money market funds operated by financial institutions, 1 is a UK property fund and 7 are foreign institutions.. During 2013/14 there was one investment placed with a German bank, this was the Council's only investment in the eurozone.

11 In 2013/14 Buckinghamshire County Council sold its claim against the insolvent estate of Landsbanki Islands through a competitive auction process and received £4.6m or 93 per cent of the £5m originally deposited with Landsbanki Islands in 2008. The price at which the claim was sold was based on a reserve price set by Buckinghamshire County Council on the basis of legal advice received from Bevan Brittan, financial advice procured by the Local Government Association (LGA) and the Council's own analysis of the financial position. The proceeds of the sale were paid in cash. Peter Hardy, the Cabinet Member for Finance and Resources said "We are obviously delighted that we have recovered a very large portion of our Landsbanki Islands deposit. The sale of our claim represents a clean break, Buckinghamshire County Council is now no longer a creditor of Landsbanki Islands."

Prudential Indicators

12 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators for 2013/14 and the Indicators for 2014/15 to 2017/18 agreed by County Council at its meeting on 13 February 2014 are shown in Appendix 1.

13 Prudential Indicator 5.1, the authorised limit for external debt, separately identifies external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year. Construction on the Energy from Waste (EfW) Plant commenced on site on 11 September 2013 and £36.057m of expenditure has been certified as at 31 March 2014 in respect of the EfW plant. Technical accounting rules require the Council to recognise an asset under construction and a corresponding PFI-equivalent liability for the work certified to date and forecast under the project. This requirement has only become apparent as part of the closing of Accounts. The liability is included in the 'other long-term liabilities' line and as a result actual other long term liabilities has breached the agreed authorised limit (although the overall limit for total external debt has not been breached).

14 There is now a need to raise authorised borrowing limits for other long-term liabilities both retrospectively and going forward. It is proposed that the following limits are taken to full Council for approval:

Indicator	Unit	Revised Estimate 2013-14	Actual 2013-14	2014/15	2015/16	2016/17	2017/18
Authorised limit (for borrowing) *	£000	250,000	250,000	250,000	250,000	300,000	300,000
Authorised limit (for other long term liabilities) *	£000	10,000	50,000	150,000	200,000	15,000	15,000
Authorised limit (for total external debt) *	£000	260,000	300,000	400,000	450,000	315,000	315,000

15 Prudential Indicator 5.2, the operational boundary for external debt is based on the most likely level of external borrowing at any point in the year. As detailed above, it is proposed that the following increase in the authorised limit for other long-term liabilities is taken to full Council for approval.

Indicator	Unit	Revised Estimate 2013-14	Actual 2013-14	2014/15	2015/16	2016/17	2017/18
Operational boundary (for borrowing)	£000	200,000	187,649	210,000	210,000	250,000	250,000
Operational boundary (for other long term liabilities)	£000	5,500	42,237	130,000	136,500	6,500	6,500
Operational boundary (for total external debt)	£000	205,500	229,886	340,000	346,500	256,500	256,500

Borrowing in 2013/14

16 Loans outstanding totalled £187.649m at 31 March 2014; £103.928m was from the Public Works Loan Board (PWLB), £82m from the money markets and £1.7m accrued interest. The provisional outturn for interest on external borrowing is £11.387m. £1.732m was repaid to the PWLB as part of scheduled instalments and £4m was repaid to Aylesbury Vale Advantage for Berryfields development, 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.

17 During 2013/14 there were two occasions when the Council borrowed from the money markets for short term cash flow purposes.

B Resource implications

There are no additional costs associated with the recommendation.

C Legal implications

The publication of annual strategy, a mid year treasury report and an annual strategy conforms to best practice as required by the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.

D Other implications/issues

There are none.

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

Not applicable.

Background Papers

Treasury Management Strategy Report to County Council 14 February 2013
http://moderngov/documents/g5449/Public%20reports%20pack%2014th-Feb-2013%2009.30%20County%20Council.pdf?T=10

Treasury Management Annual Report to County Council 18 July 2013
http://moderngov/documents/g5452/Public%20reports%20pack%2018th-Jul-2013%2009.30%20County%20Council.pdf?T=10

Treasury Management Update to County Council 21 November 2013
http://moderngov/documents/g5454/documents/g5454/Public%20reports%20pack%2021st-Nov-2013%2009.30%20County%20Council.pdf?T=10
