

Regulatory & Audit Committee

Title: Treasury Management Mid-year Report 2014/15

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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.

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.



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Treasury Management Strategy

- 4 The Council approved the 2014/15 treasury management strategy at its meeting on 13 February 2014. 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 CIPFA Code of Practice and the relevant legislative provisions. There was one investment placed which resulted in a breach of the investment strategy. An investment was made with OCBC bank which resulted in the Singapore national investment limit of £30m being exceeded by £5m. On discovering the breach, the investment was repaid with interest to the Council for the period that the £5m was invested. In order to reduce the chances of a similar occurrence, we have made the national limit warnings much more noticeable and changed the summary sheet so that the 'Can't Do' checkbox only appears when a term deposit is being made, rather than being a static feature.

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 The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014 and at 0.9% in Q2. The services sector once again grew strongly. On the back of strong consumption growth, business investment appeared to be recovering quickly, albeit from a low base. The annual CPI inflation rate fell to 1.2% year-on-year in September, the lowest rate for 5 years. The labour market continued to improve, with strong employment gains and the headline unemployment rate falling to 6.2%. However, earnings growth remained very weak, rising just 0.6% for the three months May-July 2014 when compared to the same period a year earlier. The growth in employment was masked by a large number of zero-hour contracts and involuntary part-time working.

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. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. In August, September and October the MPC voted 7-2 to maintain the Bank Rate at 0.5%. For most members, there was "insufficient evidence" of inflationary pressure to raise rates. The MPC emphasised that when Bank Rate did begin to rise, it was expected to do so only gradually and would likely remain below average historical levels for some time to come.

Interim Performance Report

- 9 During the first six months of 2014/15 Buckinghamshire County Council invested cash balances not required on a day to day basis for periods of up to 3 years 8 months. These investments were invested at interest rates between 0.5% and 1.55%. The average rate of return to date is 0.76% which exceeds the weighted average LIBID benchmark rate of 0.49% by 0.27%. The projected revenue of £1.75m for investment income is expected to exceed the budget of £1.62m by £130,000. This is due to average cash balances being higher than anticipated due to receipt of grant income at the beginning of the financial year.
- 10 Loans outstanding totalled £185.1m at 30 September 2014; £103.1m 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, a further debt principal repayment of £866,000 was made on 1 October 2014 and a further payment of £10m is due to be paid on 14 February 2015, reducing the total outstanding loans to £174.2m. There has been no new long term borrowing during the six months to 30 September 2014, The Council continues to actively monitor debt restructuring options.
- 11 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The Indicators 2014/15 to 2017/18 agreed by County Council at its meeting on 13 February 2014 are shown in Appendix 1 along with the Prudential Indicator forecast for 2014/15.

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 County Council 13 February 2014

<https://democracy.buckscc.gov.uk/documents/g5662/Public%20reports%20pack%2013th-Feb-2014%2009.30%20County%20Council.pdf?T=10>
