Regulatory & Audit Committee

Title:	**Treasury Management Annual Report 2014/15**
Date:	24 June 2015
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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 2014/15.
The Committee are asked to RECOMMEND to Council changes to the estimates of capital expenditure within Prudential Indicator 2.1 to £129.979m in 2015/16, £53.053m in 2016/17 and £30.100m in 2017/18.
The Committee are asked to RECOMMEND to Council changes to the Capital Financing Requirement within Prudential Indicator 2.2 to £325.887m in 2015/16, £317.505m in 2016/17 and £307.013m 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 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.

4 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

5 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 2014/15 was to potentially borrow £10m in advance of need for the Energy from Waste (EfW) Project and £16m as the accountable body on behalf of the Local Enterprise Partnership (LEP), in 2014/15 the Council decided not to borrow in advance of need for the EfW project and the LEP decided not to borrow; therefore no new borrowing was arranged in 2014/15. Paragraph 11 provides more detail of the Council's borrowing activities in 2014/15.

Investment Performance in 2014/15

6 Internal monitoring procedures of the Treasury Management function included:

- A monthly management review of relative investment performance against 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.

7 The average rate of return on investments was 0.88%, exceeding the weighted average LIBID for the year by 0.56%. During 2014/15 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 £180m and £280m at interest rates between 0.44% and 1.55%. The Director of Assurance 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, with one exception, investments were made within the agreed list of lenders and associated lending limits and maturity periods. As reported in the mid-year report, 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.

8 The interest earned and credited to the Council's revenue account was £2.19m overachieving income by £0.55m compared to the £1.64m 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 and the CCLA property investment achieving higher than anticipated returns. 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. The Bank of England's MPC members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

9 The principal of sums invested as at 31 March 2015 totalled £189.8m. These investments were placed with 19 institutions in sums of between £0.31m and £25m at interest rates of between 0.47% and 1.55%. Of the 19 institutions, 5 are local authorities, 4 are UK banks or building societies, 2 are AAA rated money market funds operated by financial institutions, 1 is a UK property fund and 7 are foreign institutions.

Prudential Indicators

10 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators for 2014/15 and the Indicators for 2015/16 to 2017/18 are shown in Appendix 1.

11 The estimates of capital expenditure (2.1) to be incurred for the current and future years is summarised below:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Approved Capital programme	£000	88,491	71,294	65,654	233,053	30,100
EfW technical adjustment	£000	-	79,618	64,325	-180,000	-
Estimates of capital expenditure	£000	88,491	150,912	129,979	53,053	30,100

12 Actual expenditure and future year's budgets are presented after a technical adjustment for the EfW plant as an asset under construction. As a result the estimate of capital

expenditure is different to the Council approved capital programme which incorporates the EfW plant on the basis of when payment falls due. £36,057k has previously been reported in 2013/14 giving an overall total estimated expenditure of £180m. It is proposed that the estimate of capital expenditure adjusted for the EfW technical adjustment is taken to full Council for approval.

13 The Capital Financing Requirement (2.2) measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. Estimates of the end of year Capital Financing Requirement for the Council for 2015/15 to 2017/18 have been updated to reflect the expenditure incurred in respect of the EfW, net of repayments are:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Estimates of capital financing requirement (CFR)	£000	317,161	319,334	325,887	317,505	307,013

14 The actual in 2014/15 is higher than the revised estimate for 2014/15 which has resulted in a decrease in 2015/16 from £328.189m to £325.887m, in 2016/17 the estimate of CFR has increased from £317.449m to £317.505m and for 2017/18 the estimate of CFR has increased from £307.066m to £307.103m. It is proposed that the revised estimate of capital financing requirement is taken to full Council for approval.

Borrowing in 2014/15

15 Loans outstanding totalled £190.7m at 31 March 2015; £92.2m was from the Public Works Loan Board (PWLB), £82m Lenders Option Borrowers Option (LOBOs) from the money markets, £15m short term borrowing for cash flow purposes from the money markets and £1.5m accrued interest. The provisional outturn for interest on external borrowing is £11.0m, an underspend of £0.3m compared to the £11.3m budget due to the anticipated borrowing in advance of need for the Energy from Waste project slipping into 2015/16, see paragraph 5. £1.732m was repaid to the PWLB as part of scheduled instalments and £10m upon maturity of a loan, 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.

16 During 2014/15 there was one occasion when the Council borrowed £15m for 7 days at 0.28% 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 13 February 2014
https://democracy.buckscc.gov.uk/documents/g5662/Public%20reports%20pack%2013th-Feb-2014%2009.30%20County%20Council.pdf?T=10

Treasury Management Annual Report to County Council 17 July 2014
https://democracy.buckscc.gov.uk/documents/g5665/Public%20reports%20pack%2017th-Jul-2014%2009.30%20County%20Council.pdf?T=10

Treasury Management Update to County Council 20 November 2014
https://democracy.buckscc.gov.uk/documents/g5667/Public%20reports%20pack%2020th-Nov-2014%2009.30%20County%20Council.pdf?T=10
