

BUCKINGHAMSHIRE COUNTY COUNCIL

1. Background

- 1.1. The Council approved the 2019/20 treasury management strategy at its meeting on 21 February 2019. The general policy objective for this Council is the prudent investment of its treasury balances. In accordance with Central Government Guidance on Local Government Investments, and the CIPFA Treasury Management Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return.
- 1.2. The Council has adopted and complied with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code for Capital Finance during the year. The minimum reporting requirements were that the Council should receive the following reports:
- An annual treasury strategy in advance of the year to the full Council.
 - A mid-year (minimum) treasury update report to the full Council.
 - An annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Regulatory and Audit Committee before they were reported to the full Council.
- 1.4. The Treasury Management Annual Report covers the following:
- Capital expenditure and Financing
 - Capital Financing Requirements (CFR)
 - Affordability Indicators
 - Maturity Structure of Borrowing
 - Borrowing and CFR
 - Authorised Limits and Operational Boundary
 - Interest Rate Exposure
 - Treasury Management outturn
 - Treasury Investments
 - Interest Rates Exposure

2. The Council's Capital Expenditure and Financing

- 2.1. The Council undertakes capital expenditure on long-term assets. These can be financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) or if insufficient financing is available from those sources or a decision is taken not to use those resources, the expenditure will give rise to a borrowing need.
- 2.2. The capital expenditure statement forms one of the required prudential indicators. The table overleaf shows how capital expenditure was financed:

2018/19 Actual £m	Capital Expenditure and Funding	2019/20	
		Revised Budget £m	Actual £m
184.255	Capital Expenditure	92.325	87.170
	Financed in year		
3.734	Capital Receipt	5.529	3.281
87.617	Capital Grants and Contributions	66.526	60.215
13.340	Revenue Contribution to Capital Outlay (RCCO)	15.795	20.733
0.000	Earmarked Reserve	0.000	0.000
79.564	Net Borrowing for the year	4.475	2.940

Capital Financing Requirements

- 2.3. The Council's underlying need to borrow for Capital Expenditure is called the Capital Financing Requirement (CFR). It represents the cumulative 2019/20 and previous years' net capital expenditure which has not yet been funded by revenue or other resources, but has been paid for by borrowing either externally or by borrowing from internal existing cash balances.
- 2.4. The MRP policy is required to be approved by Council annually and this was approved for 2019/20 on 21 February 2019 by Council.
- 2.5. The Council's CFR for the year is shown in the table below, and represents a key prudential indicator.

2018/19 Actual £m	Capital Financing Requirement (CFR)	2019/20	
		Approved £m	Actual £m
395.587	CFR as at 1 April	468.208	389.132
-6.455	Less Minimum Revenue Provision	-7.908	7.474
79.564	Add Net Borrowing	4.475	2.940
468.696	CFR as at 31 March	464.776	399.546

3. Borrowing

- 3.1. The Council arranged a combination of Public Works Loan Board (PWLB*) loans and short term loans from other local authorities to meet its borrowing requirements in 2019/20. Loans outstanding totalled £312.665m at 31 March 2020; £280.410m was from the PWLB, £30.000m Lenders Option Borrowers Option (LOBOs#) from the money markets and £2.255m accrued interest. The table overleaf sets out the borrowing maturity profile.

2018/19 Actuals			Maturity Structure of Borrowing	2019/20 Approved Limit		
Upper Limit	Lower Limit	£m		Upper Limit	Lower Limit	£m
40%	0%	35.945	Under 12 months	25%	0%	63.617
50%	0%	20.962	12 months and within 24 months	20%	0%	6.435
50%	0%	43.334	24 months and within 5 years	20%	0%	44.765
75%	0%	32.161	5 years and within 10 years	25%	0%	34.586
100%	25%	164.153	10 years and above	70%	25%	163.262

*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.

#LOBOs 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.

3.2. The Council 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. New borrowing from the PWLB totalled £49.800m, one long term loan of £9.800m and a £40.000m short term loan to facilitate cash flow at the end of the financial year when the availability of cash from other local authorities and banks was limited due to the coronavirus pandemic. The PWLB Certainty Rate allows the authority to borrow at a reduction of 20bps on the Standard Rate. £6.090m was repaid to the PWLB as part of scheduled instalments and £7.000m upon maturity of a loan. During 2019/20 there were 15 occasions when the Council borrowed temporarily from other local authorities for short term cash flow purposes. The amounts ranged from £1m to £16m at interest rates from 0.8% to 2.0%. The Council and its 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.

3.3. **Gross Borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as detailed in the table below.

2018/19 Actual £m	Borrowing and the CFR	2019/20	
		Approved £m	Actual £m
296.600	Gross Debt	425.000	312.665
468.696	CFR 31st March	464.776	399.546
-172.096	Over / (Under) borrowing	-39.776	-86.881

3.3 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

3.4 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.5 The table below provides the actual borrowing against the limits set.

3.6

2018/19 Actual £m	Authorised Limit & Operational Boundary for External Debt	2019/20	
		Approved £m	Actual £m
296.600	Authorised Limit for external debt		
0.000	Borrowing	435.000	312.665
	Other long term liabilities	10.000	0.000
296.600	Total	445.000	312.665
	Operational Boundary for external debt		
296.600	Borrowing	405.000	312.665
0.000	Other long term liabilities (Finance Lease)	7.500	0.000
296.600	Total	412.500	312.665

3.7 Net Treasury position is summarised in the table below.

As at March 19			Debt Portfolio	As at March 20		
Principal £m	Average Interest %	Average Life Yrs		Principal £m	Average Interest %	Average Life Yrs
			Fixed Rate funding			
243.190	3.01%	21	PWLB	280.410	2.67%	18
50.000	2.79%	59	Market	30.000	4.04%	58
			Variable Rate funding			
0.000	0.00%	0	PWLB	0.000	0.00%	0
0.000	0.00%	0	Market	0.000	0.00%	0
293.190	0.00%		Total Debt	310.410	0.00%	
20.300	1.39%	0	Total Investments	30.690	0.77%	0
272.890			Net Debt	279.720		

4. Treasury Position

4.1. Given the increasing risk and very low returns from short-term unsecured bank investments, the majority of the Council's surplus cash remains invested in money market funds. The Council may invest its surplus funds with any of the counterparty types in the table overleaf, subject to the cash limits (per counterparty) and the time limits shown.

Credit rating	Banks unsecured	Banks secured	Government
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£5m	£10m	£10m

	5 years	20 years	50 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years
AA	£5m 4 years	£10m 5 years	£10m 15 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years

4.2. The table below summarises the investment limits for 2019/20.

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£25m per manager
AAA sovereign rated foreign countries	£20m per country
AA+ sovereign rated foreign countries	£10m per country
Money market funds	£75m in total

4.3. The investment activity during the year conformed to the approved strategy. The Council 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. The Council arranged a £40.000m short term loan from the PWLB to facilitate cash flow at the end of the financial year when the availability of cash from other local authorities and banks was limited due to the coronavirus pandemic.

4.4. The treasury outturn position is summarised below:-

	Budget	Outturn	Variance	
	£m	£m	£m	%
Cost of Borrowing	8.75	8.47	-0.28	-3.22%
Minimum Revenue Provision	7.91	7.47	-0.43	-5.48%
Investment Income	-0.58	-0.45	0.12	-21.57%
Total	16.09	15.49	-0.59	-3.68%

4.5. There are no significant variances. During 2019/20 the treasury investments average rate of return was 1.24%.

4.6. The Treasury investment position is summarised in the table below.

As at March 2019		Treasury Investments	As at March 2020	
£m	%		£m	%
0.00	0%	Banks & Building Societies	0.00	0%
0.00	0%	Local Authorities (invested less than 364 days)	0.00	0%
15.30	75%	Money Market Funds	25.69	84%
0.00	0%	Local Authorities (invested longer than 364 days)	0.00	0%
0.00	0%	Gilts	0.00	0%
5.00	25%	Property Fund	5.00	16%
20.30	100%	Total Investments as at March	30.69	100%

As at March 2019		Non Treasury Investments	As at March 2020	
£m	%		£m	%
2.259	2%	Third Party Loans	3.250	2%
0.000	0%	Subsidiaries	0.000	0%
0.000	0%	Companies	0.000	0%
146.740	98%	Property	141.460	98%
148.999	100%	Total Investments as at March	144.710	100%

4.7. During 2018/19 Buckinghamshire County Council 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 £0.975m and £58.760m. The Council has a £5m investment in a property fund.

5. Treasury Management Indicators

5.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

5.2. **Interest rates:** The indicators below are set to control the Council's exposure to interest rate risk. The upper limits on the one year revenue impact of a 1% rise or fall in interest rates will be:

2018/19 Actual £m	Interest Rate Risk Indicator	2019/20	
		Approved £	Actual £
Not applicable in 2018/19	Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-23,000	-167,000
	Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	23,000	167,000

5.3. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

5.4. **Principal Sums Invested for Periods Longer than a Year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

2018/19 Actual £m	Price Risk Indicator	2019/20	
		Approved £m	Actual £m
0.000	Limit on principal invested beyond year end	10.000	0.000

5.5. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

2018/19 Actual £m	Credit Risk Indicator	2019/20	
		Approved £m	Actual £m
A+	Portfolio average credit rating	A	AA-

5.6. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one month period, without additional borrowing.

2018/19 Actual £m	Liquidity Risk Indicator	2019/20	
		Approved £m	Actual £m
Not applicable in 2018/19	Total cash available within one month	10.000	10.811