

**HIGH PEAK BOROUGH COUNCIL**

**Report to Council**

**6<sup>th</sup> October 2016**

<b>TITLE:</b>	<b>Recommendations from the Audit &amp; Regulatory Committee – 27<sup>th</sup> July 2016 and 29th September 2016</b>
<b>CONTACT OFFICER:</b>	<b>Mark Trillo, Executive Director (People) &amp; Monitoring Officer</b>
<b>WARDS INVOLVED:</b>	<b>As detailed in the attached reports</b>

To approve the following recommendations of the Audit and Regulatory Committee:

**1. Councillor Pritchard to move the following recommendations:**

**a) ANNUAL TREASURY MANAGEMENT REPORT 2015/16**

**RECOMMENDED:**

To approve the Annual Treasury Management Report 2015/16.

**b) TREASURY MANAGEMENT UPDATE – MID-YEAR REPORT 2016/17**

**RECOMMENDED:**

To note the treasury management position (as at 30th June 2016).

**c) TREASURY MANAGEMENT UPDATE: MID-YEAR REPORT 2016/17**

**RECOMMENDED:**

To note the treasury management position (as at 31st August 2016).

**Mark Trillo  
Executive Director (People) and Monitoring Officer**



**HIGH PEAK BOROUGH COUNCIL**

**Report to the Audit & Regulatory Committee**

**27th July 2016**

<b>TITLE:</b>	<b>Annual Treasury Management Report 2015/16</b>
<b>EXECUTIVE COUNCILLOR:</b>	<b>Cllr Emily Thrane – Executive Councillor for Finance &amp; Corporate Services</b>
<b>CONTACT OFFICER:</b>	<b>Claire Hazeldene – Finance &amp; Procurement Manager Emily Bennetts – Finance Business Partner</b>
<b>WARD:</b>	<b>Non-specific</b>

**Appendices attached:**

**Appendix A – Annual Treasury Management Report 2015/16**

**1. Reason for the Report**

- 1.1. The purpose of the report is to allow the robust scrutiny of the Council's treasury management performance in 2015/16 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 and generally accepted good practice.

**2. Recommendation**

- 2.1. That the Annual Treasury Management Report 2015/16 is recommended to Council for approval.

**3. Executive Summary**

- 3.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities for the year.
- 3.2 The Annual Treasury Management Report for 2015/16 considers the following areas:
- The Treasury Management Strategy adopted for 2015/16 and the economic environment during the year;
  - The current treasury position, highlighting the Council's borrowing and lending position at the year end;

- The Council's capital expenditure, overall borrowing need and borrowing outturn during 2015/16;
- Performance measurements, which look at the returns achieved during the year by the Council on its overall investments;
- The Council's investment portfolio, which sets out for Members how and where the Council has invested its money during the year;
- The interest yield for 2015/16; and
- Compliance with Prudential Indicators, showing the outturn against those Indicators formally adopted in the 2015/16 Treasury Management Strategy.

### 3.3 The main headlines include:

- Capital expenditure in 2015/16 totalled £4.2 million. The majority was funded via funded by revenue contributions. There was no borrowing requirement during the year.
- Total debt at 31st March 2016 amounted to £82.1 million including loans from Public Works Loan Board, Market Loans, Local Authority Loans and finance lease arrangements.
- There were no loan maturities during the year; no new external borrowing took place; nor was there any debt rescheduling.
- General Fund borrowing costs were £44,000 underspent against budget owing to a larger net charge to the HRA than anticipated due to the effect of the proportional split of the one pool approach (consequently an overspend against borrowing costs on the HRA, partially offset by additional investment income).
- The average daily investment during 2015/16 was £21.8 million invested with a total of 14 institutions, yielding £144,000 in investment income. This represented a surplus of £39,000 against the 2015/16 budgeted investment income. There was also an additional £44,000 windfall from a further unanticipated Heritable Bank distribution.
- The average return achieved by the Council on its investment portfolio for the year was 0.66%, which compares favourably to short-term industry benchmarks.
- Year-end investments totalled £18.3million all internally managed by the Council's Treasury Management Team.
- The outturn against the treasury and prudential indicators set within the Treasury Strategy 2015/16 is shown in Annex B.

## 4. How this report links to Corporate Priorities

- 4.1. An effective Treasury Management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin the Council's main priorities.

## 5. Options

- 5.1. This report sets out the Treasury Management position for High Peak Borough Council for 2015/16. As such it is a statement of fact and there are no options to consider.

## 6. Implications

6.1. Community Safety – (Crime and Disorder Act 1998)

None

6.2. Workforce

None

6.3. Equality and Diversity/ Equality Impact Assessment

This report has been prepared in accordance with the Council's Diversity and Equality Policies.

6.4. Financial Considerations

Included throughout the report.

6.5. Legal

None

6.6. Sustainability

None

6.7. Internal and External Consultation

None

6.8. Risk Assessment

There are a number of inherent financial risks associated with Treasury Management activity, not least the potential for loss of interest and/ or deposits. For this reason, the Council engages the services of external Treasury Management advisors, Capita Asset Services ('Capita').

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. That Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

**ANDREW P STOKES**

**Executive Director (Transformation) & Chief Finance Officer**

**Background Papers**

'Treasury Management Strategy  
Statement 2015/16'  
Audit & Regulatory Committee Feb 15

'Treasury Management – Governance  
and Scrutiny Arrangements'  
Audit & Regulatory Committee Sept 09

**Location**

Finance and Procurement, Town  
Hall, Buxton

**Contacts**

Claire Hazeldene  
Finance & Procurement Manager  
Tel. 01538 395400 Ext. 4191

Emily Bennetts  
Finance Business Partner  
Tel. 01538 395400 Ext. 4186



# Annual Treasury Management Report

## 2015/16

July 2016

## **1. Introduction and Background**

- 1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the outturn against prudential and treasury indicators for 2015/16. This report meets the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 Recent changes in the regulatory environment place a greater onus on Members for the review and scrutiny of Treasury Management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 1.3 This report covers:
- Strategy for 2015/16
  - Economy in 2015/16
  - The Council's treasury position as at 31st March 2016
  - Capital Expenditure and the Overall Borrowing Need
  - Borrowing Outturn
  - Investment Performance
  - Investment Portfolio & Yield
  - Compliance with Prudential Indicators

## **2. The 2015/16 Treasury Management Strategy**

- 2.1 The 2015/16 Treasury Strategy anticipated the continuation of a low bank rate - with the first increase not forecast until the quarter ending December 2015. Investment returns were expected to remain relatively low following ups and downs in UK GDP growth in 2013 and 2014 and continuing worldwide sovereign debt difficulties suggesting the use of higher quality counterparties for shorter periods of time.
- 2.2 Volatile and remarkably low levels of borrowing interest rates leading up to the period emphasised the importance of carefully monitoring external borrowing and/or refinancing opportunities versus internal borrowing, whilst continuing to consider the cost of carry of the potential increase in investment returns against the borrowing costs.

## **3. Economic Conditions 2015/16**

- 3.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns around China's economic growth; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

- 3.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.
- 3.3 Forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

#### 4 The Current Treasury Position

- 4.1 The Council's debt and investment position at the beginning and the end of the 2015/16 financial year was as follows:

	2014/15		2015/16	
	31st March 2015 Principal	Rate/Return	31st March 2016 Principal	Rate/Return
<b>External Borrowing</b>				
Public Works Loan Board	£63,773,504	3.66%	£63,773,504	3.66%
Market Loans	£12,800,000	4.57%	£12,800,000	4.57%
Local Authority Loans	£5,000,000	2.99%	£5,000,000	2.50%
Finance Lease Liabilities	£690,092	n/a	£556,242	n/a
<b>Total Debt</b>	<b>£82,263,596</b>	<b>3.79%</b>	<b>£82,129,746</b>	<b>3.71%</b>
<b>Investments</b>				
In-House	£13,593,602	0.57%	£18,299,695	0.66%
<b>Total Investments*</b>	<b>£13,593,602</b>	<b>0.57%</b>	<b>£18,299,695</b>	<b>0.66%</b>

\* includes funds held in the Council's main bank account (NatWest)

#### 5. The Council's Capital Expenditure & Borrowing Requirement 2015/16

- 5.1 The Council undertakes capital expenditure on long-term assets. These activities may either be financed:
- through the application of capital or revenue resources (including capital receipts, capital grants, revenue contributions etc.); or
  - by external borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.
- 5.2 Capital expenditure constitutes one of the required prudential indicators. The table below shows actual capital expenditure for 2015/16 and how this was financed:

	<b>2015/16 Projected Outturn (£)</b>
General Fund Capital Expenditure	1,112,632
HRA Capital Expenditure	3,038,507
<b>Total</b>	<b>4,151,139</b>
Resourced by:	
Capital receipts	31,281
Capital grants & contributions	380,262
Sums set aside from Revenue	741,705
Major Repairs Reserve	1,555,721
HRA Contribution	1,442,170
<b>Unfinanced in year capital expenditure (Underlying Need to Borrow)</b>	<b>-</b>

- 5.3 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2015/16 unfinanced capital expenditure and prior years' unfinanced capital expenditure which has not yet been paid for.
- 5.4 The Treasury Strategy 2015/16 anticipated a £243,950 underlying borrowing requirement. The table above shows the provisional outturn as £0. The difference reflects the reprofiling of some capital expenditure into 2016/17.
- 5.5 The Treasury Management team plans the Council's cash position to ensure sufficient cash is available to meet capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Public Works Loan Board or the money markets), or utilising temporary cash resources within the Council.
- 5.6 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment via revenue of the cumulative borrowing need.
- 5.7 The Council's overall CFR is shown below:

	<b>2015/16 Projected Outturn (£)</b>
<b>Opening balance (1<sup>st</sup> April 2015)</b>	<b>82,029,308</b>
Add unfinanced capital expenditure	-
Less MRP	(2,108,940)
<b>Closing balance (31<sup>st</sup> March 2016)</b>	<b>79,920,368</b>

- 5.8 Borrowing activity is constrained by prudential indicators for the CFR, and Authorised Borrowing Limit. In order to ensure that borrowing levels are prudent over the medium term, external borrowing must only be for a capital purpose – essentially this means that the Council is not borrowing to support revenue expenditure. Borrowing should not, except in the short-term, exceed the CFR for 2015/16 (plus expected changes to the CFR over 2016/17 and 2017/18). This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

5.9 The table below highlights the Council's borrowing position against the CFR:

	<b>31st March 2016 Outturn £</b>	<b>31st March 2017 Projected £</b>	<b>31st March 2018 Projected £</b>
<b>Borrowing position</b>	82,129,746	77,436,303	77,311,896
<b>Capital Financing Requirement</b>	79,920,368	78,916,912	79,250,876
<b>Over / (Under) Borrowed</b>	2,209,378	(1,480,609)	(1,938,980)

5.10 The Council is in an 'over-borrowed' position of £2,209,378 as at 31<sup>st</sup> March 2016. This will be resolved in 2016/17 as there are a number of maturing loans during the year which are not anticipated to be refinanced. The Authority is expected to be in an 'under-borrowed' position by 31<sup>st</sup> March 2017 (subject to the annually approved capital programme and future borrowing requirement).

## **6 Borrowing Outturn**

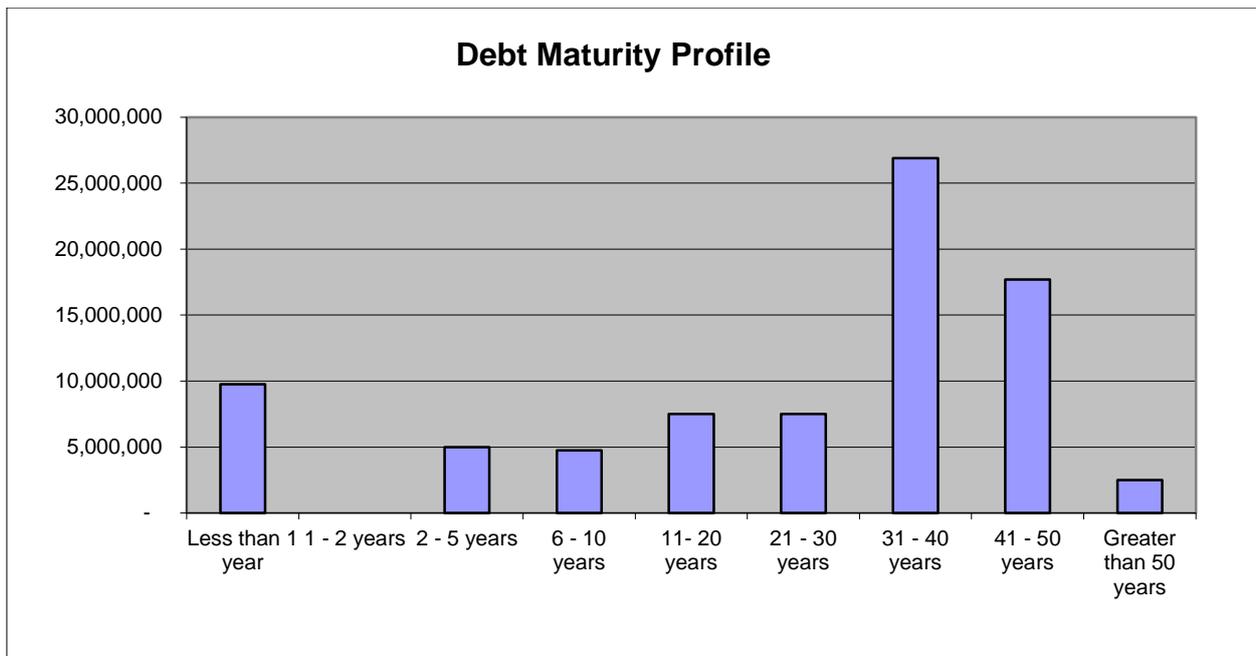
6.1 No new external borrowing was required during 2015/16 as there was no in-year borrowing requirement.

6.2 There were no maturities of existing loans during 2015/16 and no future maturing loans were refinanced during the year.

6.3 The borrowing costs outturn was £44,000 underspent against the 2015/16 budget of £1,586,070 owing to the net effect of a larger borrowing cost charge to the HRA due to the General Fund borrowing being less than anticipated in 2015/16 therefore affecting the proportional split of the one pool approach; and a reduced MRP payment from the General Fund as a result of a smaller borrowing requirement in 2014/15 than anticipated. Consequently, there was an overspend against borrowing costs against the HRA.

6.4 The Council's level of external borrowing (excluding the finance lease arrangement) as at 31<sup>st</sup> March 2016 totalled £81,573,504 (approximately 75% HRA, 25% General Fund).

6.5 Attention must be given to the maturity profile of the loans to ensure maturity dates are evenly spread and the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below illustrates the maturity profile of the current portfolio of loans.



6.6 As the graph shows, there is £9.7million of loans maturing in 2016/17 - refinancing options were considered within the Treasury Strategy Statement 2016/17 and will continue to be reviewed during the coming year dependent on revised capital programme forecasts.

6.7 Debt Rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable.

6.8 No debt rescheduling took place during 2015/16. Capita advised that the premium the Council would expect to pay on early redemption would be higher than potential interest savings from debt rescheduling.

## 7 Investment Performance

7.1 The economic backdrop for the year underpins how the Council has performed with regard to maximising its investment return.

7.2 The tight monetary conditions following the 2008 financial crisis continued through 2015/16 with shorter term interest rates remaining unchanged or only increasing slightly. Bank rate remained at its historical low of 0.5%.

7.3 The investment performance of the Treasury Management function is dependent upon a number of factors, including

- the size of available investment balances
- the market interest rates available
- the timing of capital spend
- the restrictions placed on the Council by its approved Lending List

7.4 The Council achieved an average interest rate of 0.66% on its investment portfolio. This compared favourably with market benchmarks as shown in the table below:

Comparator	Average Rate Q1	Average Rate Q2	Average Rate Q3	Average Rate Q4	Total 2015/16
<b>HPBC Total</b>	<b>0.62%</b>	<b>0.64%</b>	<b>0.64%</b>	<b>0.64%</b>	<b>0.66%</b>
HPBC Total Long-term (>364 days)	0.98%	0.98%	0.98%	0.96%	<b>0.98%</b>
HPBC Total Short-term (<364 days)	0.65%	0.66%	0.68%	0.75%	<b>0.70%</b>
HPBC Total Short-term (instant access)	0.38%	0.39%	0.39%	0.39%	<b>0.43%</b>
<b>Capita Benchmarks</b>					
*LIBID 7 Day Rate	0.36%	0.36%	0.36%	0.36%	<b>0.36%</b>
*LIBID 3 Month Rate	0.44%	0.46%	0.45%	0.46%	<b>0.46%</b>
*LIBID 6 Month Rate	0.58%	0.62%	0.61%	0.61%	<b>0.61%</b>
*LIBID 12 Month Rate	0.87%	0.93%	0.92%	0.89%	<b>0.90%</b>
Average Base Rate	0.50%	0.50%	0.50%	0.50%	<b>0.50%</b>
<i>Current Base Rate</i>	0.50%	0.50%	0.50%	0.50%	<b>0.50%</b>

\*LIBID (London Interbank Bid Rate)

7.5 Most of the investment portfolio was held on a short-term basis (< 1 year) through 2015/16, in line with professional advice issued by Capita. The Council continues to take advantage of the above market rates on offer to public bodies by part-nationalised banks.

7.6 The return on fixed short term investments have shown an improvement over the four quarters mostly due to the increased use of Certificates of Deposit with the custodian King & Shaxson, which offer competitive rates with good quality counterparties not otherwise available to the council, rather than any significant increase in the rates available on fixed investments in general.

## 8 Investment Portfolio & Interest Yield

8.1 The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. The Council currently invests for a range of periods from overnight up to 2 years, dependent on cash flows, its interest rate view, the interest rates on offer and durational limits as set out in the Treasury Strategy.

8.2 The Lending List is constructed based on credit ratings provided by the three main credit agencies supplemented by additional market data, using the Capita Creditworthiness analysis.

8.3 Money was invested during the year with 14 institutions. All investments were placed in line with the Council's approved lending limits (see Annex A for current lending limits) and the Treasury Management Strategy.

8.4 The table below summarises the institutions that the Council invested funds with during the financial year. It also indicates the average daily investment, interest earned and the associated interest rates. Interest rates vary depending on the length and timing of investments. The investment funds include those held in the Council's instant access accounts. The average daily investment during 2015/16 was £21.8m.

Financial Institution	Country of Domicile	Interest Earned (£s)	Average Daily Investment (£s)	Rate of Return (%)
Nationwide Building Society	UK	20,393	3,118,356	0.65
Money Market Funds	UK	15,123	3,057,534	0.49
Lloyds Bank Plc	UK	25,474	2,639,863	0.96
Standard Chartered Bank	UK	13,181	1,750,685	0.75
Santander UK plc	UK	12,425	1,711,443	0.73
The Royal Bank of Scotland Plc	UK	14,245	1,502,740	0.95
Credit Suisse AG	Switzerland	9,580	1,349,041	0.71
NatWest Bank Plc	UK	3,520	1,231,856	0.29
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Germany	7,304	1,123,288	0.65
Bank of Scotland Plc	UK	4,876	1,101,976	0.44
Svenska Handelsbanken AB	Sweden	5,195	1,068,933	0.49
Nordea Bank AB	Sweden	6,270	997,260	0.63
Sumitomo Mitsui Banking Corporation Europe Ltd	UK	4,802	750,685	0.64
Coventry Building Society	UK	1,657	331,507	0.50
<b>Total</b>		<b>144,045</b>	<b>21,735,167</b>	<b>0.66</b>

8.5 The Council earned £144,000 in investment income in 2015/16; this is a surplus of £39,000 against budget. This is a result of the higher core balances due to in year surpluses achieved on the General Fund and HRA and lower than forecast capital expenditure. There was also an additional windfall of £43,945 during the year relating to the 15th distribution from the Icelandic Investment in Heritable Bank which was not anticipated in the budget.

8.6 Investments held at the 31st March 2016 are highlighted in the table below:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested (£)
Money Market Funds	UK	Money Market Fund	£4,400,000
Nationwide Building Society	UK	Nationwide Building Society	£3,300,000
NatWest Bank Plc	UK	Royal Bank of Scotland Group	£2,349,695
Lloyds Bank Plc	UK	Lloyds Banking Group	£2,150,000
Santander UK Plc	UK	Santander UK	£2,000,000
Royal Bank of Scotland	UK	Royal Bank of Scotland Group	£1,500,000
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Germany	DZ Bank AG	£1,000,000
Nordea Bank AB	Sweden	Nordea Bank AB	£1,000,000
Bank of Scotland Plc	UK	Lloyds Banking Group	£600,000
<b>Total Principal Invested</b>			<b>£18,299,695</b>

8.7 All investments held as at 31st March 2016 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	<b>31st March 2016 Actual</b>
Fixed Rate	£7,950,000
Variable Rate	£10,349,695
<b>TOTAL</b>	<b>£18,299,695</b>

## **9 Compliance with Treasury Limits**

9.1 Treasury Limits and Prudential Indicators were set in the 2015/16 Treasury Management Strategy. The full outturn for the Indicators is shown in Annex B.

**Current Lending Limits**

**UK Banks**

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance)
Purple	£4.4m	Up to 2 years	20%
Gold	£4.0m	Up to 1 year	18%
Red	£3.3m	Up to 6 months	15%
Green	£2.9m	Up to 100 days	13%
Yellow**	£4.4m	Up to 5 years	20%
No Colour	n/a	Not to be used	n/a

**International Banks**

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance)
Purple	£3.3m	Up to 2 years	15%
Gold	£2.6m	Up to 1 year	12%
Red	£2.2m	Up to 6 months	10%
Green	£1.8m	Up to 100 days	8%
No Colour	n/a	Not to be used	n/a

**Nationalised Banks**

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance)
Blue	£4.4m	Up to 1 year	20%
NatWest (the Council's main bank account)	£6.6m	Up to 1 year	30%

Note: there is also a 'Group Limit' of 20% of the estimated highest balance during the year which works out as £4,400,000. This is allowed to rise to 30%, £6,600,000 if at least the additional 10% is in an instant access account.

**Local Authorities**

£7.0m for up to 5 years

**Money Market Funds**

£3.3m for up to 1 year per fund (£5.5m maximum overall)

<b>PRUDENTIAL INDICATORS</b>	<b>2015/16</b>	<b>2015/16</b>
	<b>Strategy</b>	<b>Provisional Outturn</b>
	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b>		
General Fund	1,642	1,113
HRA	5,117	3,038
<b>Total</b>	<b>6,759</b>	<b>4,151</b>
<b>Ratio of financing costs to net revenue stream</b>		
<b>General Fund</b>	<b>16%</b>	<b>14%</b>
<b>HRA</b>	<b>22%</b>	<b>15%</b>
<b>Gross borrowing requirement</b>		
Total Gross Borrowing (31 <sup>st</sup> March)	82,130	82,130*
2015/16 borrowing requirement	<b>244</b>	<b>0</b>
<i>*includes £556,000 of Finance Lease liabilities</i>		
<b>Capital Financing Requirement as at 31 March</b>		
General Fund	22,201	21,562
HRA	58,368	58,358
<b>TOTAL</b>	<b>80,569</b>	<b>79,920</b>
<b>Annual change in Capital Financing Requirement</b>		
General Fund	(624)	(859)
HRA	(1,249)	(1,249)
<b>Total</b>	<b>(1,873)</b>	<b>(2,108)</b>
<i>Decreases resulting from MRP payments being greater than financing requirement</i>		
<b>Incremental impact of capital investment decisions on Council Tax Band D equivalent</b>		
Actual compared to Feb 15 Budget Strategy	(£2.44)	(£0.31p)
<i>Reduction in impact due to lower than budgeted capital expenditure resulting in a nil borrowing requirement in the year</i>		
<b>Incremental impact of capital investment decisions on Housing Rent per week</b>		
Actual compared to Feb 15 Budget Strategy	£0.01p	(£0.07p)
<i>Reduction in impact due to lower than budgeted capital spend – reduced impact on investment balances</i>		

TREASURY MANAGEMENT INDICATORS	2015/16	2015/16
	Strategy	Provisional Outturn
	£'000	£'000
<b>Authorised Limit for external debt -</b>	Limit	Actual
borrowing	88,106	81,574
other long term liabilities	556	556
<b>TOTAL</b>	<b>88,662</b>	<b>82,130</b>
<b>Operational Boundary for external debt -</b>	Limit	Actual
borrowing	85,606	81,574
other long term liabilities	556	556
<b>TOTAL</b>	<b>86,162</b>	<b>82,130</b>
<b>Upper limit for fixed interest rate exposure</b>	Limit	Actual
Borrowing	83,590	81,574
Investments	18,225	14,810
<i>Actual based on average balances during the year</i>		
<b>Upper limit for variable rate exposure</b>	Limit	Actual
Borrowing	23,418	0
Investments	15,600	6,925
<i>Actual based on average balances during the year</i>		
	Limit	Actual
<b>Upper limit for total principal sums invested for over 364 days</b>	7,000	0

Maturity structure of fixed rate borrowing during 2015/16	Upper limit in 2015/16 Strategy	2015/16 Actual Maturity Profile (as at 31 <sup>st</sup> March 2016)
under 12 months	25%	12%
12 months and within 2 years	30%	0%
2 years and within 5 years	40%	6%
5 years and within 10 years	60%	6%
10 years and above	90%	72%

**HIGH PEAK BOROUGH COUNCIL**

**Report to the Audit & Regulatory Committee**

**27th July 2016**

<b>TITLE:</b>	<b>Treasury Management Update: Mid-Year Report 2016/17</b>
<b>EXECUTIVE COUNCILLOR:</b>	<b>Cllr Emily Thrane – Executive Councillor for Finance &amp; Corporate Services</b>
<b>CONTACT OFFICER:</b>	<b>Claire Hazeldene – Finance &amp; Procurement Manager Emily Bennetts – Finance Business Partner</b>
<b>WARDS INVOLVED:</b>	<b>Non-specific</b>

**Appendices Attached:**

**Appendix A - Treasury Management Mid-Year Update Report – 30th June 2016**

**1. Reason for the Report**

- 1.1 To allow the robust scrutiny of the Council's Treasury Management performance in 2016/17 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 and generally accepted good practice.

**2. Recommendation**

- 2.1 That the Committee note the current treasury management position (as at 30th June 2016).

**3. Executive Summary**

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 was adopted by the Council in March 2010. This Council fully complies with its requirements, one of which is to produce at least one mid-year operational report.

3.2 This report comprises the following:

- The latest interest rate forecast;
- Investment income earned to date and projected for 2016/17;
- The current investment portfolio;
- The borrowing portfolio, projected borrowing costs for 2016/17 and debt rescheduling options; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2016/17.

3.3 The main headlines include:

- The Bank of England base rate remained at 0.5% during the period to 30th June 2016. The bank rate is now expected to be cut to 0.25% in the quarter ending September 2016 and the first increase thereafter is forecast for the end of June 2018.
- Both the borrowing costs and investment income budgets are currently on target.
- The average return on investments achieved by the Council during the period to 30th June 2016 was 0.61%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £23,668,000 spread across nine separate institutions as at 30th June 2016.
- The Council's total level of debt as at 30th June 2016 is £82,129,746 (including finance leases) and the average rate of borrowing is 3.71%.

## **4 How this report links to Corporate Priorities**

4.1 An effective treasury management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

## **5 Options and Analysis**

5.1 This report sets out the treasury management position for High Peak Borough Council for 2016/17 to date and the projected outturn. As such it is a statement of fact and there are no options.

## 6 Implications

### 6.1 Community Safety - (Crime and Disorder Act 1998)

None

### 6.2 Workforce

None

### 6.3 Equality and Diversity/ Equality Impact Assessment

This report has been prepared in accordance with the Council's Equality and Diversity policies.

### 6.4 Financial Considerations

Financial considerations are embedded throughout the report.

### 6.5 Legal

None

### 6.6 Sustainability

None

### 6.7 Internal and External Consultation

None

### 6.8 Risk Assessment

There are a number of inherent financial risks associated with treasury management activity, not least the potential for loss of interest and/ or deposits. For this reason, the Council engages the services of external treasury management advisors, Capita Asset Services ('Capita').

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. This strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

## **ANDREW P STOKES**

### **Executive Director (Transformation) & Chief Finance Officer**

#### **Background Papers**

'Treasury Management – Governance and Scrutiny Arrangements'  
(Audit & Regulatory Committee Sep 09)

'Treasury Management Strategy 2015/16  
(Audit & Regulatory Committee February 2016)

#### **Location**

Joint Finance Team,  
Town Hall, Buxton

#### **Contacts**

Claire Hazeldene  
Finance & Procurement Manager  
Tel. 01538 395400 Ext. 4191

Emily Bennetts  
Finance Business Partner  
Tel. 01538 395400 Ext. 4186

# High Peak Borough Council

*Working for our community*

## Treasury Management Update 30th June 2016

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Income
4. Investment Portfolio
5. Borrowing Position
6. Prudential Indicators

## 1. Introduction

- 1.1. Treasury Management is defined as “The management of the Authority’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”.
- 1.2. The Council has adopted CIPFA’s revised Code of Practice for Treasury Management (2009) which recommends that Members should be briefed on treasury management activities at least twice a year.
- 1.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Regulatory Committee are reported to full Council.
- 1.4. The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 25th February 2016. This report details treasury management performance up to the 30<sup>th</sup> June 2016 and projects forward for the remainder of the financial year.

## 2. Economic Forecast – Interest Rates

- 2.1. The latest base rate and PWLB (Public Works Loan Board) forecast from the Council’s treasury advisers, Capita Asset Services (‘Capita’), is shown below:

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	1.00%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.30%
10yr PWLB rate	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%	1.90%
25yr PWLB rate	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
50yr PWLB rate	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%

- 2.2. Capita have undertaken a review of their interest rate forecast following the outcome of the EU referendum. The forecast is now based on a reduction of the bank rate of 0.25% in the current quarter and further cuts are not ruled out. The first increase does not then occur until quarter two 2018 and the pace of increases thereafter has slowed from previous forecasts. The mix of extreme political and economic uncertainties over this time period makes it very likely that these forecasts will be subject to significant updating as events evolve.

### 3. Investment Income

- 3.1. Interest earned on investment deposits up to 30th June 2016 totalled £32,160. The Council has budgeted to receive £130,660 in investment income in 2016/17. This is anticipated to be on target at the end of the year.
- 3.2. Average interest rates achieved on the Council's investments are shown in the table below; these compare favourably to the LIBID rates, the recognised industry benchmark rates:

Comparator	Average Rate Q1
<b>HPBC Total</b>	<b>0.61%</b>
HPBC Long-term fixed (>364 days)	0.94%
HPBC Short-term fixed (<364 days)	0.80%
HPBC Short-term instant access	0.41%
<b>Benchmarks (Capita)</b>	
*LIBID 7 Day Rate	0.36%
*LIBID 3 Month Rate	0.46%
*LIBID 6 Month Rate	0.60%
*LIBID 12 Month Rate	0.87%
Average Base Rate	0.50%
Current Base Rate	0.50%

*\*LIBID = London Inter Bank Bid Rate*

- 3.3. The table below highlights the level of investment activity and the rates obtained in the period from 1st April to 30th June 2016. Investments are made in line with Capita's creditworthiness guidance and the duration limits applied to each colour banding.

Institution	Country of Domicile	Amount	Length	Rate
Nationwide Building Society	UK	£1,300,000	6 months	0.71%
Nationwide Building Society	UK	£1,000,000	6 months	0.66%
Nationwide Building Society	UK	£1,000,000	4 months	0.54%
Coventry Building Society	UK	£1,000,000	6 months	0.60%
Instant Access Cash (Instant Access Accounts & Money Market Funds)	UK	£2,673,000 (daily average)		0.41%

- 3.4. The rates achieved by the Council vary by institution, by duration of investment and by the timing of when the investment was made. The Council's lending criteria restricts the number of financial institutions that

are eligible to be on the lending list, and the amount that can be invested with eligible counterparties (and counterparty groups) at any one time.

- 3.5. The majority of the investment portfolio is held on a short-term basis (less than 1 year). The Council continues to utilise same day access business accounts; and also use certificates of deposits (via the use of custodian - King & Shaxson) which offer competitive rates and access to banks that would not necessarily deal direct with the Authority for the sums invested.

#### 4. Investment Portfolio

- 4.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 30th June 2016 totalled £23,668,000 as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Money Market Funds	UK	£5,500,000	<b>WHITE (12 months)</b>
Santander UK	UK	£4,000,000	<b>RED (6 months)</b>
Bank of Scotland	UK	£3,350,000	<b>GREEN (100 days)</b>
Nationwide Building Society	UK	£3,300,000	<b>RED (6 months)</b>
NatWest Bank Plc	UK	£2,368,000	<b>BLUE (12 months)</b>
Lloyds Bank	UK	£2,150,000	<b>GREEN (100 days)</b>
Coventry Building Society	UK	£1,000,000	<b>RED (6 months)</b>
Nordea Bank AB	Sweden	£1,000,000	<b>ORANGE (12 months)</b>
The Royal Bank of Scotland	UK	£1,000,000	<b>BLUE (12 months)</b>
<b>TOTAL</b>		<b>£23,668,000</b>	

- 4.2. The maximum investment term, as recommended by Capita, is shown by colour banding in the table below:

Colour Banding	Maximum Duration of Investment	UK Banks	International Banks
<b>PURPLE</b>	Up to 2 Years	£5.5m	£4.0m
<b>ORANGE</b>	Up to 1 Year	£4.9m	£3.3m
<b>RED</b>	Up to 6 Months	£4.0m	£2.7m
<b>GREEN</b>	Up to 100 Days	£3.5m	£2.2m
<b>BLUE (Part &amp; fully nationalised financial institutions)</b>	Up to 1 Year	£5.5m	n/a
<b>BLUE (NatWest)</b>	Up to 1 Year	£8.2m	n/a
<b>Money Market Funds</b>	Up to 1 Year	£4.1m	n/a
<b>WHITE (Lending to the Government / Local Authorities)</b>	Up to 1 Year	n/a	n/a
	Over 1 Year	£6.0m	n/a

- 4.3. Group limits are also applied, restricting the total amount that can be invested on a fixed basis per the colour category above, increasing by a percentage (10% blue, 8% red; 7% green) if at least the additional amount is held on an instant access basis.
- 4.4. The average level of funds that have been available for investment up to 30th June 2016 was £21.1 million. Investments are generally made up of short-term cash and core cash. Short-term cash is dependent on the timing of major payments e.g. precept payments, salaries and creditor payments, and major receipts e.g. receipt of grants and Council Tax direct debit dates. Core cash is dependent on capital programme commitments.
- 4.5. Investment balances will decrease during the year as external loans are repaid (see section 5).

## 5. Borrowing Position

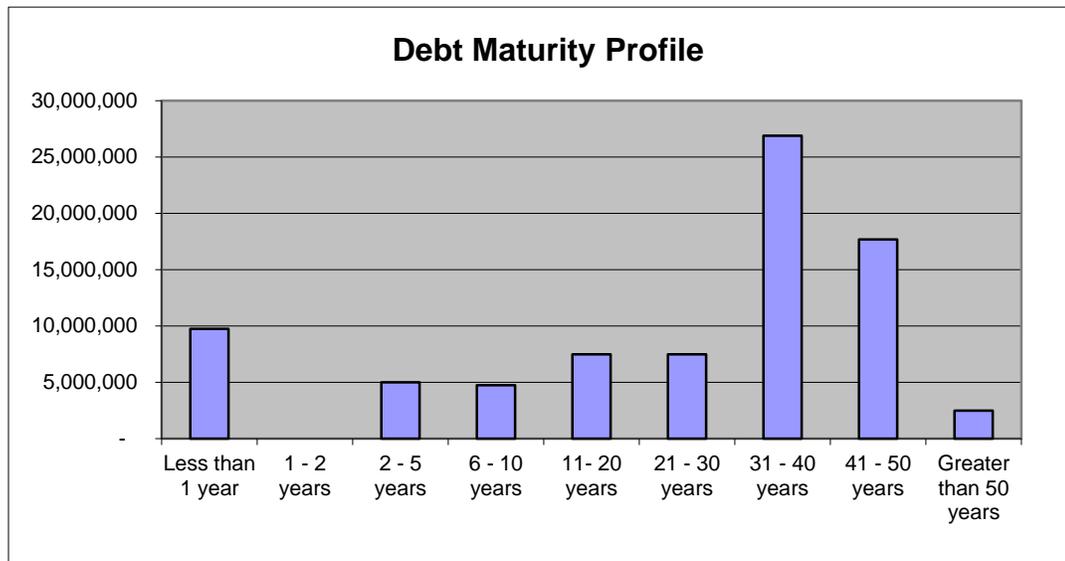
- 5.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.
- 5.2. The Council's total outstanding debt as at 30th June 2016 is £82,129,746, as detailed in the table below:

Lender	External Borrowing	Average Interest Rate	Maturity period
Public Works Loan Board	£63,773,504	3.66%	between 0 and 46 yrs
Market Loans	£12,800,000	4.57%	between 6 and 51 yrs
Local Authority Loans	£5,000,000	2.50%	up to 3 yrs
Finance Leases	£556,242	n/a	Between 3 and 6 years
<b>Total</b>	<b>£82,129,746</b>	<b>3.71%</b>	

- 5.3. The 'operational boundary' (£83,431,000) and 'authorised limit' (£85,931,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.
- 5.4. There has been no 'new' borrowing undertaken to date, nor is any anticipated for the year. However, there are £9.7 million of external loans maturing during 2016/17: £4 million in August 2016 and £5.7 million in February/ March 2017. The budget included the refinancing of £4.5 million of these loans. The treasury team will monitor if this requires reconsideration based on latest capital forecasts, the appropriate time to undertake any refinancing, being careful to consider the movement in

interest rates and the cost of carry of any borrowings taken in advance of the maturity dates.

- 5.5. The Council has budgeted to incur £1,547,970 in interest charges and other financing costs in 2016/17. This is expected to be on target.
- 5.6. Attention must also be given to the maturity profile of the loans to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below details the maturity profile of current loans.



- 5.7. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, along with Capita, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.
- 5.8. No rescheduling has taken place during 2016/17 to date. The Council will work with Capita to identify any potential debt rescheduling options – taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings.
- 5.9. The Council has three 'Lender Option, Borrower Option' (LOBO) loans with Barclays Bank plc: these amount to £8.5million and were taken out in 2005 and 2006. The Council has been informed by Barclays Bank that with effect from 21st June 2016 they have decided to remove the 'Lender Option' from the loans and have waived their right to change the applicable interest rate of the loans on future call dates. Therefore, these loans effectively become fixed rate loans at their current interest rates with their stated maturities without the risk that rates will be changed in the future. The 'Borrower Option' remains in place.

## **6. Prudential Indicators**

- 6.1. The prudential & treasury indicators (as set in the Treasury Management Strategy 2016/17) have not been breached during the year.

**HIGH PEAK BOROUGH COUNCIL**

**Report to the Audit & Regulatory Committee**

**29th September 2016**

<b>TITLE:</b>	<b>Treasury Management Update: Mid-Year Report 2016/17</b>
<b>EXECUTIVE COUNCILLOR:</b>	<b>Cllr Emily Thrane – Executive Councillor for Finance &amp; Corporate Services</b>
<b>CONTACT OFFICER:</b>	<b>Claire Hazeldene – Finance &amp; Procurement Manager Emily Bennetts – Finance Business Partner</b>
<b>WARDS INVOLVED:</b>	<b>Non-specific</b>

**Appendices Attached:**

**Appendix A - Treasury Management Mid-Year Update Report – 31st August 2016)**

**1. Reason for the Report**

- 1.1. The purpose of the report is to allow the robust scrutiny of the Council's Treasury Management performance in 2016/17 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 and generally accepted good practice.

**2. Recommendation**

- 2.1. That the committee note the current treasury management position (as at 31st August 2016).

**3. Executive Summary**

- 3.1. The CIPFA Code of Practice on Treasury Management 2009 was adopted by the Council in March 2010. This Council fully complies with its requirements, one of which is to produce at least one mid-year operational report.

3.2. This report comprises the following:

- The latest interest rate forecast;
- Investment income earned to date and projected for 2016/17;
- The current investment portfolio;
- The capital programme update, borrowing portfolio with projected borrowing costs for 2016/17 and debt rescheduling options; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2016/17.

3.3. The main headlines include:

- The Bank of England base rate reduced from 0.50% to 0.25% following the Monetary Policy Committee (MPC) meeting of 4th August. There is a suggestion that bank rate will be cut further to 0.10% in the quarter ending December 2016 and the first increase thereafter is forecast for the end of June 2018.
- A shortfall of £30,000 is anticipated on the investment income budget following the reduction in the Bank of England base rate.
- The borrowing costs budget is currently expected to be underspent by £30,000 due to the later than anticipated potential refinancing of maturing loans.
- The average return on investments achieved by the Council during the period to 1st July to 31st August was 0.54%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £21,900,000 spread across eight separate institutions as at 31st August 2016.
- The Council's total level of debt as at 31st August 2016 is £78,129,746 (including finance leases) and the average rate of borrowing is 3.74%.

#### **4. How this report links to Corporate Priorities**

4.1. An effective treasury management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

#### **5. Options and Analysis**

5.1. This report sets out the treasury management position for High Peak Borough Council for 2016/17 to date and the projected outturn. As such it is a statement of fact and there are no options.

## 6. Implications

### 6.1. Community Safety - (Crime and Disorder Act 1998)

None

### 6.2. Workforce

None

### 6.3. Equality and Diversity/ Equality Impact Assessment

This report has been prepared in accordance with the Council's Equality and Diversity policies.

### 6.4. Financial Considerations

Financial considerations are embedded throughout the report.

### 6.5. Legal

None

### 6.6. Sustainability

None

### 6.7. Internal and External Consultation

None

### 6.8. Risk Assessment

There are a number of inherent financial risks associated with Treasury Management activity, not least the potential for loss of interest and/ or deposits. For this reason, the Council engages the services of external Treasury Management advisors, Capita Asset Services ('Capita').

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. That Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

## **ANDREW P STOKES**

### **Executive Director (Transformation) & Chief Finance Officer**

#### **Background Papers**

'Treasury Management – Governance and Scrutiny Arrangements'  
(Audit & Regulatory Committee Sep 09)

'Treasury Management Strategy 2016/17'  
(Audit & Regulatory Committee February 2016)

#### **Location**

Finance & Performance,  
Town Hall, Buxton

#### **Contacts**

Claire Hazeldene  
Finance & Procurement Manager  
Tel. 01538 395400 Ext. 4191

Emily Bennetts  
Finance Business Partner  
Tel. 01538 395400 Ext. 4186

# High Peak Borough Council

*Working for our community*

## **Treasury Management Update 31st August 2016**

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Income
4. Investment Portfolio
5. Capital Programme Update & Borrowing Position
6. Prudential Indicators

## 1. Introduction

- 1.1. Treasury Management is defined as “The management of the Authority’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”.
- 1.2. The Council has adopted CIPFA’s revised Code of Practice for Treasury Management (2009) which recommends that Members should be briefed on Treasury Management activities at least twice a year.
- 1.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Regulatory Committee are reported to full Council.
- 1.4. The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 25th February 2016. This report details treasury management performance up to the 31st August 2016 and projects forward for the remainder of the financial year.

## 2. Economic Forecast – Interest Rates

- 2.1. The latest base rate and PWLB (Public Works Loan Board) forecast from the Council’s treasury advisers, Capita Asset Services (‘Capita’), is shown below:

	Now	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank Rate	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.50
5yr PWLB rate	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.30
10r PWLB rate	1.60	1.50	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80
25yr PWLB rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60
50yr PWLB rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.40

- 2.2. Capita have updated their interest rate forecasts to take account of the MPC (Monetary Policy Committee) meeting of 4th August which cut Bank Rate from 0.50% to 0.25%. They have included the likelihood that a further cut to near zero at 0.10% will take place if data comes in as forecast, but do not project the possibility of negative rates.

2.3. The tentative forecast is for increases in bank rate in May 2018 to 0.25% and to 0.50% in May 2019, but these will very much depend on how strongly, and how soon, the UK economy makes a gradual recovery and so start a process of very gradual increases in bank rate over a prolonged period. The mix of extreme political and economic uncertainties over this time period continue to make it very likely that these forecasts will be subject to significant updating as events evolve.

### 3. Investment Income

3.1. Interest earned on investment deposits up to 31st August 2016 totalled £52,600. The Council has budgeted to receive £130,660 in investment income in 2016/17. The interest which can be earned on investments for the remainder of the year has been adversely affected by the reduction in the base rate at the Bank of England to 0.25% on 4th August. Therefore, it is anticipated that there will be a shortfall of £30,000 on this budget at the end of the year.

3.2. Average interest rates achieved on the Council's investments are shown in the table below; these compare favourably to the LIBID rates, the recognised industry benchmark rates:

Comparator	Average Rate Q1	Average Rate Jul-Aug
<b>HPBC Total</b>	<b>0.61%</b>	<b>0.54%</b>
HPBC Long-term fixed (>364 days)	0.94%	0.95%
HPBC Short-term fixed (<364 days)	0.80%	0.70%
HPBC Short-term instant access	0.41%	0.40%
<b>Benchmarks (Capita)</b>		
*LIBID 7 Day Rate	0.36%	0.25%
*LIBID 3 Month Rate	0.46%	0.33%
*LIBID 6 Month Rate	0.60%	0.44%
*LIBID 12 Month Rate	0.87%	0.66%
Current Base Rate	0.50%	0.25%

*\*LIBID = London Inter Bank Bid Rate*

3.3. The table below highlights the level of investment activity and the rates obtained in the period from 1st July to 31st August 2016. Investments are made in line with Capita's creditworthiness guidance and the duration limits applied to each colour banding.

Institution	Country of Domicile	Amount	Length	Rate
Lloyds Bank Plc	UK	£1,000,000	3 months	0.65%
Coventry Building Society	UK	£2,000,000	6 months	0.42%
Cooperatieve Rabobank UA	Netherlands	£1,000,000	7 months	0.50%
Lloyds Bank Plc	UK	£1,150,000	3 months	0.50%
Swedbank AB	Sweden	£1,000,000	6 months	0.44%
Instant Access Cash <i>(Instant Access Accounts &amp; Money Market Funds)</i>	UK	£2,028,000 <i>(daily average)</i>		0.40%

3.4. The rates achieved by the Council vary by institution, by duration of investment and by the timing of when the investment was made. The Council's lending criteria restricts the number of financial institutions that are eligible to be on the lending list, and the amount that can be invested with eligible counterparties (and counterparty groups) at any one time.

3.5. The majority of the investment portfolio is held on a short-term basis (less than 1 year). The Council continues to utilise same day access business accounts, fixed term deposits and certificates of deposits (via the use of custodian King & Shaxson) which offer competitive rates and access to banks that would not necessarily deal direct with the Authority for the sums invested.

#### 4. Investment Portfolio

4.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 31st August 2016 totalled £21,900,000 as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Money Market Funds	UK	£5,500,000	<b>WHITE (12 months)</b>
Santander UK	UK	£4,000,000	<b>RED (6 months)</b>
Nationwide Building Society	UK	£3,300,000	<b>RED (6 months)</b>
Coventry Building Society	UK	£3,000,000	<b>RED (6 months)</b>
Lloyds Bank Plc	UK	£2,150,000	<b>RED (6 months)</b>
NatWest Bank Plc	UK	£1,950,000	<b>BLUE (12 months)</b>
Cooperatieve Rabobank UA	Netherlands	£1,000,000	<b>ORANGE (12 months)</b>
Swedbank AB	Sweden	£1,000,000	<b>ORANGE (12 months)</b>
<b>TOTAL</b>		<b>£21,900,000</b>	

- 4.2. The maximum investment term, as recommended by Capita, is shown by colour banding in the table below:

Colour Banding	Maximum Duration of Investment	UK Banks	International Banks
<b>PURPLE</b>	Up to 2 Years	£5.5m	£4.0m
<b>ORANGE</b>	Up to 1 Year	£4.9m	£3.3m
<b>RED</b>	Up to 6 Months	£4.0m	£2.7m
<b>GREEN</b>	Up to 100 Days	£3.5m	£2.2m
<b>BLUE (Part &amp; fully nationalised financial institutions)</b>	Up to 1 Year	£5.5m	n/a
<b>BLUE (NatWest)</b>	Up to 1 Year	£8.2m	n/a
<b>Money Market Funds</b>	Up to 1 Year	£4.1m	n/a
<b>WHITE (Lending to the Government / Local Authorities)</b>	Up to 1 Year	n/a	n/a
	Over 1 Year	£6.0m	n/a

- 4.3. Group limits are also applied, restricting the total amount that can be invested on a fixed basis per the colour category above, increasing by a percentage (10% blue, 8% red; 7% green) if at least the additional amount is held on an instant access basis.
- 4.4. The average level of funds that have been available for investment up to 31<sup>st</sup> August 2016 was £21.9 million. Investments are generally made up of short-term cash and core cash. Short-term cash is dependent on the timing of major payments e.g. precept payments, salaries and creditor payments, and major receipts e.g. receipt of grants and Council Tax direct debits. Core cash is dependent on capital programme commitments.
- 4.5. Investment balances will decrease during the year as external loans are repaid (see section 5).

## 5. Capital Programme Update & Borrowing Position

### Capital Programme Update

5.1. The table below provides current projections for capital expenditure and funding:

	Original Estimate	Revised Estimate
<b>Total Capital Expenditure</b>	<b>£6,774,000</b>	<b>£7,410,000</b>
General Fund	£2,088,000	£2,724,000
HRA	£4,686,000	£4,686,000
<b>Funded by:</b>		
Capital Receipts	£1,163,000	£1,163,000
External Funding	£309,000	£604,000
Capital Reserves	£1,955,000	£1,955,000
HRA Contribution	£2,247,000	£2,247,000
<b>2016/17 Net Financing Requirement</b>	<b>£1,100,000</b>	<b>£1,441,000</b>
<b>Capital Financing Requirement</b>		
<b>Opening CFR</b>	<b>£80,072,000</b>	<b>£79,920,000</b>
<i>PLUS Net Financing Requirement</i>	£1,100,000	£1,441,000
<i>LESS Minimum Revenue Provision</i>	(£2,107,000)	(£2,103,000)
<b>Closing CFR</b>	<b>£79,065,000</b>	<b>£79,258,000*</b>
<i>General Fund</i>	£21,957,000	£22,150,000
<i>Housing</i>	£57,108,000	£57,108,000

\* Includes £410,900 finance Leases

5.2. The Net Financing Requirement on 2016/17 expenditure is now estimated at £1,441,000: £229,000 of the increase relates to carried forward general fund capital schemes; and £112,000 of the increase is due to the accelerated implementation of the on-going ICT Strategy in its current phase, 'Infrastructure Upgrade and Microsoft Compliance'.

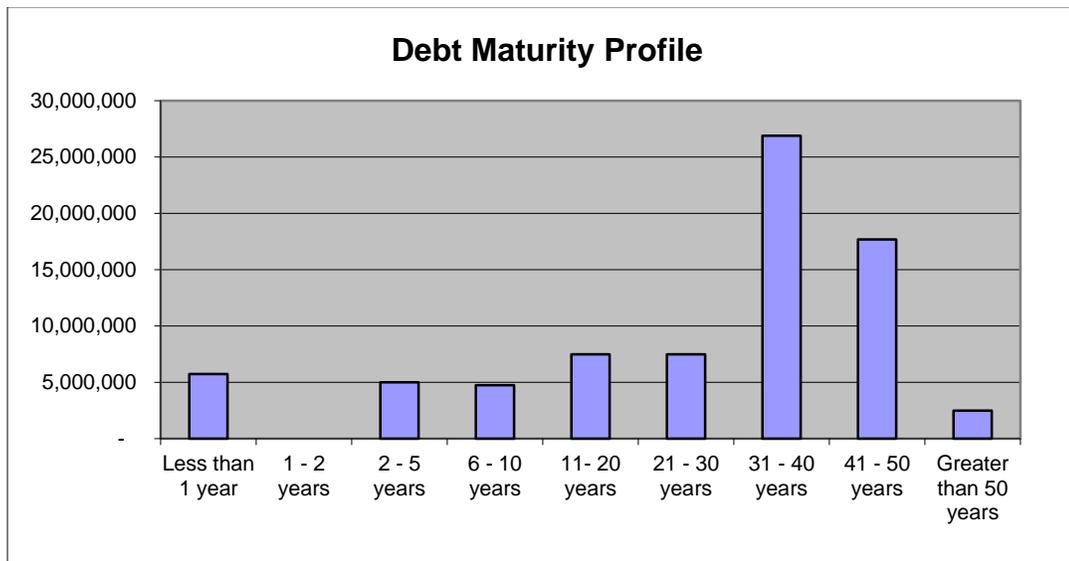
5.3. The Capital Financing Requirement (CFR) is a prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow to finance capital expenditure and is derived by aggregating specified items for the Council's balance sheet. The closing CFR is in line with the Capital Financing Requirement set in the Treasury Strategy Statement. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

### *Borrowing Position*

- 5.4. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.
- 5.5. The Council's total outstanding debt as at 31st August 2016 is £78,129,746, as detailed in the table below:

<b>Lender</b>	<b>External Borrowing</b>	<b>Average Interest Rate</b>	<b>Maturity period</b>
<b>Public Works Loan Board</b>	£59,773,504	3.70%	between 0 and 46 yrs
<b>Market Loans</b>	£12,800,000	4.57%	between 6 and 51 yrs
<b>Local Authority Loans</b>	£5,000,000	2.50%	up to 3 yrs
<b>Finance Leases</b>	£556,242	n/a	Between 3 and 6 years
<b>Total</b>	<b>£78,129,746</b>	<b>3.74%</b>	

- 5.6. The 'operational boundary' (£83,431,000) and 'authorised limit' (£85,931,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.
- 5.7. There has been no 'new' borrowing undertaken to date, nor is any anticipated for the year. However, there is £9.7million of external loans maturing during 2016/17: £4 million matured in August 2016 and was fully repaid; a further £5.7 million matures in February/ March 2017. The budget included the refinancing of £4.5million of these maturing loans. The treasury team will monitor if this requires reconsideration based on latest capital forecasts, the appropriate time to undertake any refinancing, being careful to consider the movement in interest rates, and the cost of carry of any borrowings taken in advance of the maturity dates.
- 5.8. The Council has budgeted to incur £1,547,970 in interest charges and other financing costs in 2016/17. There is expected to be an underspend of £30,000 on the borrowing costs related to the refinancing of the maturing loans as this is now forecast to take place later in the year than was assumed in the budget.
- 5.9. Attention must also be given to the maturity profile of the loans to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below details the maturity profile of current loans.



5.10. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, along with Capita, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

5.11. No rescheduling has taken place during 2016/17 to date. The Council will work with Capita to identify any potential debt rescheduling options – taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings.

## 6. Prudential Indicators

6.1. The prudential & treasury indicators (as set in the Treasury Management Strategy 2016/17) have not been breached during the year.