Appendix A

High Peak Borough Council

Working for our community

Treasury Management Update
30th September 2018

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 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 2018/19 was approved by Council on 20th February 2018 and revised on 3rd May 2018 to incorporate changes to the capital programme. This report details treasury management performance up to the 30th September 2018 and projects forward for the remainder of the financial year.

2. Economic Forecast – Interest Rates

2.1. The Council's treasury advisers, Link Asset Services ('Link'), provide the latest base rate and PWLB (Public Works Loan Board) forecast:

%	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
5yr PWLB rate	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60
10r PWLB rate	2.50	2.50	2.60	2.70	2.70	2.80	2.90	2.90	3.00	3.10
25yr PWLB rate	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.50	3.50
50yr PWLB rate	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30

2.2. Bank of England base rate increased to 0.75% at the Monetary Policy Committee (MPC) meeting on 2nd August 2018, an uplift of 0.25% from the previous rate of 0.50%. The MPC emphasised again that the future Bank Rate increases would be gradual.

2.3. Some market expectations are for a further increase in February 2019, but Link are of the opinion that this is unlikely ahead of the deadline in March 2019 for Brexit and have therefore not changed their forecast of the next increase taking place in September 2019. Indeed the progress and outcome of Brexit continues to make forecasting of interest rates extremely difficult both in terms of bank rate and PWLB borrowing rates.

3. Investment Income

3.1. Interest earned on investment deposits up to 30th September 2018 totalled £60,150. The Council has budgeted to receive £139,940 in investment income in 2018/19. The budget was set with the potential for one rate rise of 0.25% during 2018/19. As this has now taken place earlier than anticipated (originally forecast in November), interest income is expected be overachieved by £5,000.

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 Q2
HPBC Average	**0.61%**	**0.68%**
HPBC long-term fixed (>364 days)	-	-
HPBC short-term fixed (<364 days)	0.79%	0.86%
HPBC instant access	0.46%	0.53%
Benchmarks		
**LIBID 7 day rate*	*0.36%*	*0.51%*
**LIBID 3 month rate*	*0.55%*	*0.66%*
**LIBID 6 month rate*	*0.67%*	*0.76%*
**LIBID 12 month rate*	*0.84%*	*0.91%*
Base Rate at the end of the period	0.50%	0.75%

**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 30th September 2018. Investments are made in line with Link's creditworthiness guidance and the duration limits applied to each colour banding.

Institution	Country of Domicile	Amount	Length	Rate
Santander UK	UK	£3,700,000	95 day notice	1.00%
Instant Access Cash *(Instant Access Accounts & Money Market Funds)*	UK	£2,663,510 *(daily average)*		0.53%

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 (<1 year). The Council continues to utilise same day access business accounts, money market funds, 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.

3.6. Money Market Fund reforms in Europe have been ongoing for a number of years and the sector is now in the last stages of introducing the new regulations. This will mean that non-government Constant Net Asset Value (CNAV) funds, such as the funds the Council currently uses, will convert to Low Volatility Net Asset Value (LVNAV) pricing. LVNAV funds are not permitted to deviate by more than 0.20% – this is a more stringent approach than the CNAV funds which have a 0.50% collar. No additional market risk or loss of principal is anticipated from these changes, but the treasury team continues to monitor under the advice of its advisors, Link. The changes are anticipated in January 2019.

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 September 2018 totalled £20,570,000:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Average interest rate at end of period
Money Market Funds	UK	£6,900,000	**WHITE (12 months)**	0.69%
Santander UK	UK	£3,700,000	**RED (6 months)**	1.00%
Lloyds Bank	UK	£3,150,000	**ORANGE (12 months)**	0.86%
Goldman Sachs	UK	£2,000,000	**RED (6 months)**	0.825%
Bank of Scotland	UK	£1,000,000	**ORANGE (12 months)**	0.65%
Cooperatieve Rabobank UA	Netherlands	£1,000,000	**ORANGE (12 months)**	1.03%
Coventry Building Society	UK	£1,000,000	**RED (6 months)**	0.71%
NatWest Markets (NRFB) - (previously Royal Bank of Scotland)	UK	£1,000,000	**No Colour (was BLUE (12 months))**	0.75%
NatWest Bank	UK	£820,000	**BLUE (12 months)**	0.05%
TOTAL		**£20,570,000**		

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

Colour Banding	Maximum Duration of Investment	UK Banks	International Banks
PURPLE	Up to 2 years	£6.0m	£4.5m
ORANGE	Up to 12 months	£5.4m	£3.6m
RED	Up to 6 months	£4.5m	£3.0m
GREEN	Up to 100 days	£3.9m	£2.4m
BLUE (Part & fully nationalised financial institutions)	Up to 1 year	£6.0m	n/a
BLUE (NatWest)	Up to 1 year	£9.0m	n/a
Money Market Funds	Up to 1 year	£5.4m	n/a
WHITE (Lending to the Government / Local Authorities)	Up to 1 year	n/a	n/a
	Over 1 Year	£4.0m	n/a

4.3. Group limits are also applied:

Category	Portfolio (% of highest balance*)	Individual Principal Limit	Portfolio % increased by 50%	Group Principal Limit
BLUE	20%	£6.0m	30%	£9.0m
PURPLE	20%	£6.0m	30%	£9.0m
ORANGE	18%	£5.4m	27%	£8.1m
RED	15%	£4.5m	23%	£6.9m
GREEN	13%	£3.9m	20%	£6.0m
Money Market Funds	18%	£5.4m	23%	£6.9m

4.4. The average level of funds available for investment up to 30th September 2018 was £18.4million. 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. The Treasury Management Update report at 30th June 2018 reported to the Audit & Regulatory committee on 25th July 2018 that one investment of the Council had been affected by 'ring-fencing', a process in which the largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities. The 12 month £1,000,000 CD (Certificate of Deposit) with NatWest Markets plc (no colour) originally with the Royal Bank of Scotland (blue) matures on 26th October 2018. This investment continues to be monitored and no further issues have arisen. The expectation remains that this will be carried to maturity.

Crescent Development

4.6. The Council is considering providing a loan as part of the Crescent development subject to terms set out in an Individual Executive Decision Report to be issued week commencing 22nd October 2018 (Confidential Exempt Information by virtue of paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972).

4.7. Further updates will be included in the Treasury Update reports as this progresses.

5. Capital Programme Update & Borrowing Position

Capital Programme Update

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

	Revised TMSS Estimate (May 2018)	Current Estimate (including 17-18 approved carry forwards)*
Total Capital Expenditure	**£10,845,000**	**£11,796,000**
General Fund	£6,485,000	£7,660,000
HRA	£4,360,000	£4,136,000
Funded by:		
Capital Receipts	£1,108,000	£1,108,000
External Funding	£483,000	£616,000
Capital Reserves	£2,487,000	£2,895,000
HRA Contribution	£1,954,000	£1,630,000
2018/19 Net Financing Requirement	**£4,813,000**	**£5,547,000**
Capital Financing Requirement		
Opening CFR	**£80,223,000**	**£79,305,000**

PLUS Net Financing Requirement	£4,813,000	£5,547,000
LESS Minimum Revenue Provision	(£1,871,000)	(£2,034,000)**
Closing CFR	**£83,165,000**	**£82,818,000**
General Fund	£28,306,000	£27,959,000
Housing	£54,859,000	£54,859,000

** Pending Q2 outturn and November 2018 MTFP*
*** Includes termination of Finance Leases*

5.2. The Net Financing Requirement on 2018/19 expenditure is now estimated at £5,547,000: the majority of the increase relates to reprofiled capital schemes carried forward from 2017/18.

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 30th September 2018 is £71,825,404, as detailed in the table below:

Lender	External Borrowing	Average Interest Rate	Maturity period
Public Works Loan Board	£54,025,404	3.76%	between 3 and 44 years
Market Loans	£12,800,000	4.57%	between 4 and 48 years
Local Authority Loans	£5,000,000	2.50%	<1 year
Total	**£71,825,404**	**3.82%**	

5.6. The 'operational boundary' (£87,783,000) and 'authorised limit' (£90,283,000) 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. The Council adopts a ‘one pool’ approach to borrowing whereby investments and borrowing are managed centrally with the proportional income and expenditure then split between the general fund and HRA. The Council has budgeted for interest charges and other financing costs of £1,694,500 to the general fund and £1,891,470 to the HRA in 2018/19.

5.8. The budget for borrowing costs was based on the existing external debt and new external debt from the 2017/18 and 2018/19 general fund borrowing requirements plus the refinancing of a portion of the maturing debt in December 2018.

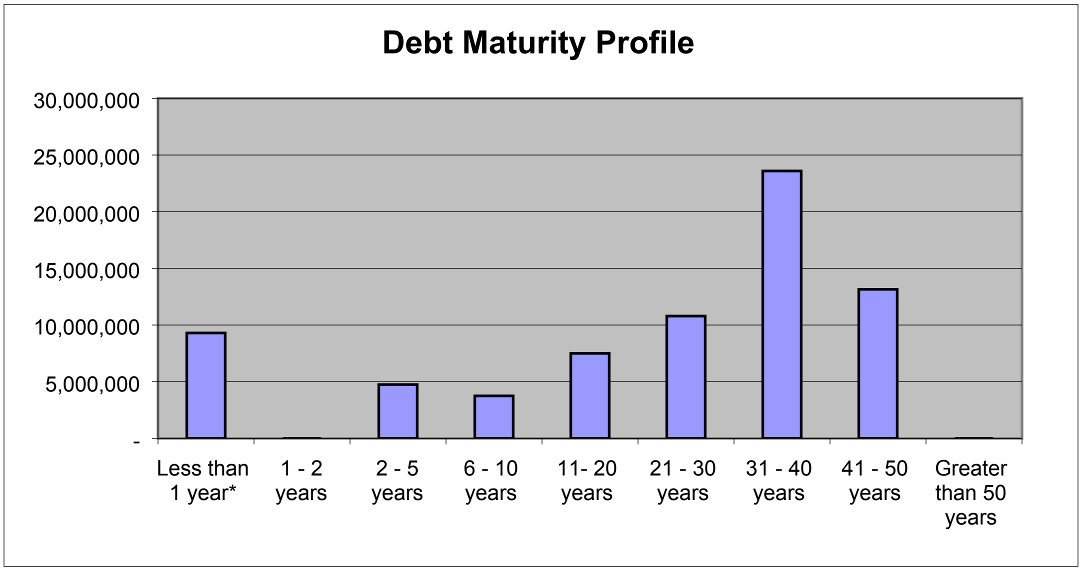
5.9. The revised capital expenditure programme for 2018/19 now forecasts a borrowing requirement of £5.5million, for which external borrowing is anticipated during the final quarter of the financial year.

5.10. There has been no ‘new’ borrowing so far during the year, nor have any loans been refinanced. The next maturing loans of £5million occur in December 2018. No new debt was taken in 2017/18 and the borrowing requirement from that year continues to be internally funded. The savings related to this internal borrowing are expected to offset the increase in borrowing costs relating to the revised capital expenditure programme and consequent borrowing requirement for 2018/19.

5.11. Overall there is a reduction in the borrowing costs expenditure forecast for the year of £39,210: split £11,340 to the general fund and £27,870 to the HRA. The underspend for the general fund relates to reduced MRP payment for the year as a result of a smaller borrowing requirement than forecast in 2017/18; the HRA is forecast to receive an improved investment income proportion on the basis of its reserves available for investment and the improving average interest rate – this is netted off the HRA’s proportional borrowing costs.

5.12. The treasury team will continue to monitor the appropriate time to externally borrow based on the profile of spend and opportunities to ‘internally’ borrow, considering the movement in interest rates and the cost of carry of any borrowings taken.

5.13. 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.



*In accordance with guidance, the maturity date of LOBOS is deemed to be the next call date. Loans of £4.3m showing as 'less than 1 year' have a full maturity date of £1m 2023/24, £3.3m 2064/65.

5.14. 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 Link, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

5.15. No rescheduling has taken place during 2018/19 to date. The Council will work with Link 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 Council has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2018/19 and complies with the Council's Treasury Management Practices.

7. HRA Debt Limits

7.1. Under self-financing for the Housing Revenue Account (HRA) in April 2012, the Council's limit on housing debt was set at £68,233,000. The intention of the limit was to control public sector borrowing in accordance with Treasury requirements.

7.2. Following an announcement by the Prime Minister on 3rd October 2018, the MHCLG has stated that the HRA borrowing cap for council house building will be lifted. It is not clear if this implies some restriction on borrowing that does not relate to new building.

7.3. The announcement comes in the context that the £1bn additional borrowing headroom announced in the 2017 Budget is understood to be significantly oversubscribed. The Government interpretation being that councils are ready and willing to commit to both large and small scale new building projects to deliver the homes their communities need.

7.4. Early indications were that the cap may not be lifted until next year's spending review and because this will affect Government borrowing may come at the expense of cuts elsewhere. Further updates are expected in the forthcoming Budget.