

# High Peak Borough Council

*Working for our community*

## **Treasury Management Update 31<sup>st</sup> December 2018**

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## 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 20<sup>th</sup> February 2018 and revised on 3<sup>rd</sup> May 2018 to incorporate changes to the capital programme. This report details treasury management performance up to the 31<sup>st</sup> December 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:

%	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.50	1.50	1.75	1.75	1.75	2.00
5yr PWLB rate	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60	2.60	2.70	2.80	2.80
10r PWLB rate	2.50	2.60	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20
25yr PWLB rate	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.40	3.50	3.50	3.60	3.60
50yr PWLB rate	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40	3.40

- 2.2. After the August 2018 increase in Bank Rate to 0.75%, the first above 0.50% since the financial crash, the Monetary Policy Committee (MPC) has since then put any further action on hold amidst the uncertainty around Brexit. Link have commented that their interest rate forecast are based on a central assumption that there is an agreement on a reasonable form of Brexit – in this scenario they anticipate an increase in Bank Rate in May 2019 with other increases thereafter slow and steady. However, in the event of a disorderly Brexit, cuts in Bank Rate could occur.

### 3. Investment Income

- 3.1. Interest earned on investment deposits up to 31<sup>st</sup> December 2018 totalled £105,660. 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 took place earlier than anticipated (originally forecast in November), interest income is expected to be overachieved by £10,000.
- 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	Average Rate Q3
<b>HPBC Average</b>	<b>0.61%</b>	<b>0.68%</b>	<b>0.78%</b>
HPBC long-term fixed (>364 days)	-	-	-
HPBC short-term fixed (<364 days)	0.79%	0.86%	0.93%
HPBC instant access	0.46%	0.53%	0.64%
<b>Benchmarks</b>			
*LIBID 7 day rate	0.36%	0.51%	0.58%
*LIBID 3 month rate	0.55%	0.66%	0.74%
*LIBID 6 month rate	0.67%	0.76%	0.85%
*LIBID 12 month rate	0.84%	0.91%	1.00%
Base Rate at the end of the period	0.50%	0.75%	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 1<sup>st</sup> October to 31<sup>st</sup> December. 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
NatWest (RFB)	UK	£1,000,000	3 months	0.81%
Goldman Sachs	UK	£2,000,000	6 months	0.905%
Lloyds Bank (RFB)	UK	£1,150,000	6 months	1.00%
Instant Access Cash (Instant Access Accounts & Money Market Funds)	UK	£3,042,107 (daily average)		0.64%

- 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.

#### 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 31<sup>st</sup> December 2018 totalled £22,854,000:

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)	0.74%
NatWest Bank (RFB)	UK	£5,104,000	BLUE (12 months)	0.30%
Santander UK	UK	£3,700,000	RED (6 months)	1.00%
Lloyds Bank (RFB)	UK	£3,150,000	ORANGE (12 months)	0.95%
Goldman Sachs	UK	£2,000,000	RED (6 months)	0.905%
Cooperatieve Rabobank UA	Netherlands	£1,000,000	ORANGE (12 months)	1.03%
NatWest Bank (RFB) (CD)	UK	£1,000,000	BLUE (12 months)	0.81%
<b>TOTAL</b>		<b>£22,854,000</b>		

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
<b>BLUE</b>	20%	£6.0m	30%	£9.0m
<b>PURPLE</b>	20%	£6.0m	30%	£9.0m
<b>ORANGE</b>	18%	£5.4m	27%	£8.1m
<b>RED</b>	15%	£4.5m	23%	£6.9m
<b>GREEN</b>	13%	£3.9m	20%	£6.0m
<b>Money Market Funds</b>	18%	£5.4m	23%	£6.9m

4.4. The average level of funds available for investment up to 31<sup>st</sup> December 2018 was £20million. 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.

### **Crescent Development**

4.5. An Individual Executive Decision report dated 24<sup>th</sup> October 2018 (Confidential Exempt Information by virtue of paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972), recommended offering a loan to the Buxton Crescent Heritage Trust as part of the Crescent development. This was approved at full Council on 12<sup>th</sup> December 2018 - the loan agreement is currently being drafted.

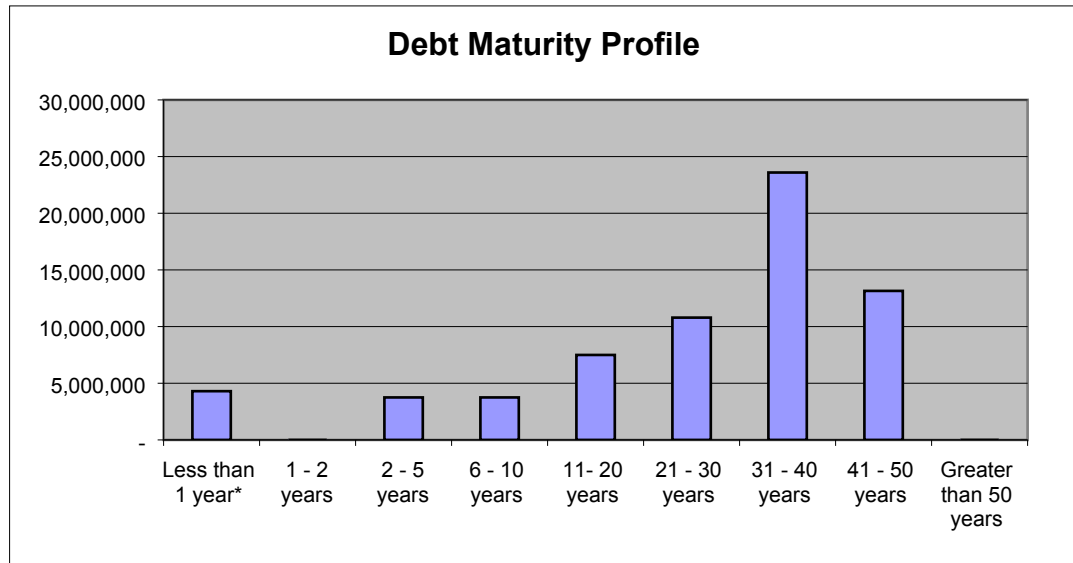
## **5. Borrowing Position**

- 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 31<sup>st</sup> December 2018 is £66,825,404, 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
<b>Total</b>	<b>£66,825,404</b>	<b>3.92%</b>	

- 5.3. 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.
- 5.4. 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.
- 5.5. 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.
- 5.6. There was no 'new' borrowing during 2017/18 nor thus far during the current year. Loans of £5million matured in December 2018, which have not been refinanced to date. This has increased the level of internal borrowing which is reducing the level of forecast borrowing costs for the year by £39,350: split £6,990 to the general fund and £32,360 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.
- 5.7. 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.

- 5.8. 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 LOBO's 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.

- 5.9. 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.
- 5.10. 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.