APPENDIX A

High Peak Borough Council

working for our community

Annual Treasury Management Report

2018/19

July 2019

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 2018/19. 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. The regulatory environment places responsibility 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 2018/19
- Economy in 2018/19
- The Council's treasury position as at 31st March 2019
- Capital Expenditure and the Overall Borrowing Need
- Borrowing Outturn
- Investment Performance
- Investment Portfolio & Yield
- Compliance with Prudential Indicators

2. The 2018/19 Treasury Management Strategy & Economic Conditions

2.1. The expectation for interest rates within the Treasury Management Strategy for 2018/19 included a rise in the Bank of England base rate from 0.50% to 0.75%. Originally expected in May, the rate rise took place a little later in August 2018. In anticipation of the rate increase there was a gently rising trend in investment interest rates available in the market which the Council was able to take advantage of as much of its portfolio was being held in instant access accounts or short term investments.

2.2. There was no expectation of a further rate rise after August as the UK was entering a time of major uncertainty particularly surrounding Brexit which was due to happen in March 2019. Therefore investment returns have relatively static since.

2.3. Borrowing interest rates with the Public Works Loan Board (PWLB) peaked during October 2018 then were generally on a downward trend with most borrowing terms available reaching a year-low in March.

3. The Current Treasury Position

3.1. The Council's debt and investment position at the beginning and the end of the 2018/19 financial year was as follows:

	2017/18		2018/19	
	31st March 2018 Principal	Rate/Return	31st March 2019 Principal	Rate/Return
External Borrowing				
Public Works Loan Board	£54,025,404	3.76%	£54,025,404	3.76%
Market Loans	£12,800,000	4.57%	£12,800,000	4.57%
Local Authority Loans	£5,000,000	2.50%	£0	-
Finance Lease Liabilities	£286,492	*n/a*	£0	-
Total Debt	**£72,111,896**	**3.80%**	**£66,825,404**	**3.92%**
Investments				
In-House	£13,747,417	0.49%	£14,392,056	0.73%**
Total Investments*	**£13,747,417**	**0.49%**	**£14,392,056**	**0.73%**

** includes funds held in the Council's main bank account (NatWest)*
***Average investment interest rate in March*

4. The Council's Capital Expenditure & Borrowing Requirement 2018/19

4.1. 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.), which has no resultant impact on the Council's borrowing need; or
- by external borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

4.2. Capital expenditure constitutes one of the required prudential indicators. The table below shows actual capital expenditure for 2018/19 and how this was financed:

	2018/19 Projected Outturn
General Fund Capital Expenditure	£3,989,297
HRA Capital Expenditure	£3,379,681
Total	**£7,368,978**
Resourced by:	
Capital receipts	£554,811
Capital grants & contributions	£285,381
Reserve Funding	£2,894,070
HRA Contribution	£1,008,555
Unfinanced in year capital expenditure (Underlying Need to Borrow)	**£2,626,161**

4.3. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2018/19 unfinanced capital expenditure and prior years' unfinanced capital expenditure which has not yet been paid for.

4.4. The Treasury Strategy 2018/19 anticipated a £4,813,360 underlying borrowing requirement. The table above shows the provisional outturn as £2,626,161. The difference is largely made up of the reprofiling of capital expenditure related to the Asset Management Programme and vehicle provision into future years.

4.5. 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.

4.6. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. 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.

4.7. The Council's 2018/19 MRP Policy was approved as part of the Treasury Management Strategy Statement 2018/19 in February 2018.

4.8. The Council's overall CFR is shown below:

	2018/19 Projected Outturn
Opening balance (1st April 2018)	£79,305,221
Plus 2018/19 borrowing requirement	£2,626,161
Less MRP	(£1,747,398)
Less finance lease repayments*	(£286,492)
Closing balance (31st March 2019)	**£79,897,492**

**All finance leases repaid in full during 2018/19*

4.9. Borrowing activity is constrained by prudential indicators for the CFR and the 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 2018/19 (plus expected changes to the CFR over 2019/20 and 2020/21). This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

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

	31 March 2019 Projected	**31 March 2020 Forecast**	**31 March 2021 Forecast**
Borrowing position	£66,825,404	£74,025,404	£75,725,404
Capital Financing Requirement	£79,897,492	£82,791,979	£82,460,724
Over / (Under) Borrowed	(£13,072,088)	(£8,766,575)	(£6,735,320)

4.11. The Council is in an 'under-borrowed' position of £13,072,088 as at 31st March 2019, therefore is complying with the prudential indicator.

5. Borrowing Outturn

5.1. No new external borrowing was taken during 2018/19; the £2,626,161 borrowing requirement was instead funded using internal resources available at the time.

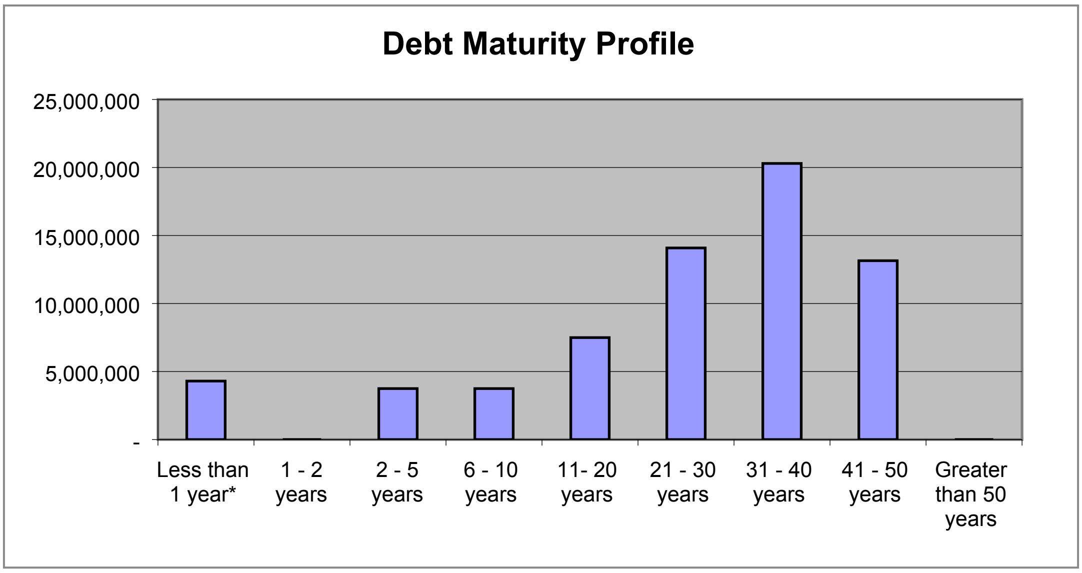
5.2. There was a maturity of an existing loan during 2018/19: £5million with Hampshire County Council. The Medium Term Financial Plan anticipated that part of this would be refinanced, however cash reserves continued to be available to fund balances internally during the year. There were no future maturing loans refinanced during the year.

5.3. The Council's level of external borrowing as at 31st March 2019 totalled £66,825,404 (approximately 68% HRA, 32% General Fund).

5.4. Currently the cost of potential new external borrowing is greater than the interest income lost through reduced investment opportunities resulting from this internal borrowing. The practice of avoiding new borrowing by utilising spare cash balances has served well over recent years in terms of making net savings on financing costs. However, this is kept under constant review, especially with an expectation of rate rises, to avoid higher borrowing costs in the future.

5.5. As a result of the internal funding described above, the total borrowing costs achieved a saving of £86,490 against the budget. The overall cost is split between the General Fund and HRA under the one pool approach. The general fund share of the saving is £51,830 owing to the reduced borrowing requirement; and the HRA share is £34,660 related to improved investment income (which is netted off borrowing costs) from HRA reserves available for investment and the improved average investment rate.

5.6. 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.



NB: 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.

5.7. 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.

5.8. No debt rescheduling took place during 2018/19. Link advised that any premium the Council would expect to pay on early redemption would be higher than potential interest savings from debt rescheduling.

6. Investment Performance

6.1. The economic backdrop for the year underpins how the Council has performed with regard to maximising its investment return. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by lower counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.2. 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.

6.3. The Council achieved an average interest rate of 0.73% 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 2018/19
HPBC Total	**0.61%**	**0.68%**	**0.78%**	**0.82%**	**0.73%**
HPBC Total Long-term (>364 days)	-	-	-	-	**-**
HPBC Total Short-term (<364 days)	0.79%	0.86%	0.93%	0.97%	**0.89%**
HPBC Total Short-term (instant access)	0.46%	0.53%	0.64%	0.68%	**0.58%**
Link Benchmarks					
*LIBID 7 Day Rate	0.36%	0.51%	0.58%	0.57%	**0.51%**
*LIBID 3 Month Rate	0.55%	0.66%	0.74%	0.75%	**0.68%**
*LIBID 6 Month Rate	0.67%	0.76%	0.85%	0.88%	**0.79%**
*LIBID 12 Month Rate	0.84%	0.91%	1.00%	1.10%	**0.94%**
Base Rate at the end of the period	0.50%	0.75%	0.75%	0.75%	**0.75%**

LIBID (London Interbank Bid Rate)

6.4. The investment portfolio was held on a short-term basis (< 1 year) through 2018/19, in line with professional advice issued by Link. The Council continues to take advantage of the above market rates on offer to public bodies by part-nationalised banks.

6.5. The return on investments has improved slightly throughout the year as available investment rates gently increased following the base rate rise to 0.75% in August 2018.

7. Investment Portfolio & Interest Yield

7.1. 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.

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

7.3. Money was invested during the year with 10 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.

7.4. 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 2018/19 was £20m.

Financial Institution	Country of Domicile	Interest Earned (£s)	Average Daily Investment (£s)	Rate of Return (%)
Money Market Funds	UK	38,778	5,788,630	0.67
Santander	UK	27,337	3,546,207	0.77
Lloyds Bank	UK	25,607	2,930,822	0.87
Goldman Sachs	UK	16,937	2,000,000	0.85
NatWest Bank	UK	6,672	1,786,749	0.37
Bank of Scotland	UK	8,061	1,240,723	0.65
Cooperatieve Rabobank	Netherlands	10,046	975,342	1.03
Handelsbanken	UK	3,971	610,978	0.65
Royal Bank of Scotland	UK	4,426	591,781	0.75
Coventry Building Society	UK	3,579	504,110	0.71
Total		**145,414**	**19,975,342**	**0.73**

7.5. The Council earned £145,414 in investment income in 2018/19. This is a small surplus of £5,474 against the interest income budget of £139,940.

7.6. Investments held at the 31st March 2019 are highlighted in the table below:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested
Money Market Funds	UK	Money Market Fund	£5,400,000
Lloyds Bank	UK	Lloyds Banking Group	£2,150,000
Goldman Sachs	UK	Goldman Sachs	£2,000,000
NatWest Bank	UK	Royal Bank of Scotland	£1,992,056
Handelsbanken	UK	Handelsbanken	£1,850,000
Cooperatieve Rabobank	UK	Cooperatieve Rabobank	£1,000,000
		Total Principal Invested	**£14,392,056**

7.7. All investments held as at 31st March 2019 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	31st March 2019 Actual
Fixed Rate	£6,150,000
Variable Rate	£8,242,056
TOTAL	**£14,392,056**

Cresent Development

7.8. The Council agreed to provide a loan to the Buxton Crescent Heritage Trust as part of the Crescent development, per the Individual Executive Decision report dated 24th October 2018 (Confidential Exempt Information by virtue of paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972); and approved at full Council on 12th December 2018.

7.9. When fully drawn the loan value will be £250,000. At 31st March £140,000 had been drawn (£70,000 on 28th February 2019 and £70,000 on 25th March 2019). Interest is charged on the loan at 6% which amounted to £448.77 during 2018/19. This is included in the investment income earned as reported above.

8. Compliance with Treasury Limits

8.1. Treasury Limits and Prudential Indicators were set in the 2018/19 Treasury Management Strategy. The full outturn for the Indicators is shown in Annex B.

8.2. The Council has not borrowed more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.

ANNEX A

Current Lending Limits

UK Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance)
Purple	**£6.0m**	**Up to 2 years**	**20%**
Orange	**£5.4m**	**Up to 1 year**	**18%**
Red	**£4.5m**	**Up to 6 months**	**15%**
Green	**£3.9m**	**Up to 100 days**	**13%**
Yellow**	**£6.0m**	**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	**£4.5m**	**Up to 2 years**	**15%**
Orange	**£3.6m**	**Up to 1 year**	**12%**
Red	**£3.0m**	**Up to 6 months**	**10%**
Green	**£2.4m**	**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	**£6.0m**	**Up to 1 year**	**20%**
NatWest (the Council's main bank account)	**£9.0m**	**Up to 1 year**	**30%**

Group Limits

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
£5.4m for up to 1 year per fund (£6.9m maximum overall)

ANNEX B

PRUDENTIAL INDICATORS	2018/19	2018/19
	Strategy	Provisional Outturn
	£'000	£'000
Capital Expenditure		
General Fund	6,485	3,989
HRA	4,360	3,380
Total	**10,845**	**7,369**
Ratio of financing costs to net revenue stream		
General Fund	**20%**	**14%**
HRA	**13%**	**12%**
Reduction in general fund ratio of financing costs due to increased business rates retention and contribution from balances		
Gross borrowing requirement		
Total Gross Borrowing (31st March)	78,084	66,825
2018/19 Borrowing requirement	**4,813**	**2,626**
Capital Financing Requirement as at 31 March		
General Fund	28,306	25,498
HRA	54,859	54,399
TOTAL	**83,165**	**79,897**
Annual change in Capital Financing Requirement		
General Fund	3,942	2,052
HRA	(1,000)	(1,460)
Total	**2,942**	**592**

TREASURY MANAGEMENT INDICATORS	2018/19	2018/19
	Strategy	Provisional Outturn
	£'000	£'000
Authorised Limit for external debt	Limit	Actual
Borrowing	90,283	66,825
other long term liabilities	0	0
TOTAL	**90,283**	**66,825**
Operational Boundary for external debt	Limit	Actual
Borrowing	87,783	66,825
other long term liabilities	0	0
TOTAL	**87,783**	**66,825**
	Limit	Actual
Upper limit for total principal sums invested for over 365 days	4,000	0

Maturity structure of fixed rate borrowing during 2018/19	Upper limit in 2018/19 Strategy	2018/19 Actual Maturity Profile (as at 31st March 2019)
under 12 months *	30%	6%
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%	82%

* in accordance with guidance, the maturity date of LOBOS is now deemed to be the next call date. Loans of £4.3m (6%) showing as 'less than 1 year' have a full maturity date of £1m 2023/24, £3.3m 2064/65.