

High Peak Borough Council

Working for our community

Treasury Management Update 31st December 2019

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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 2019/20 was approved by Council on 13th February 2019. This report details treasury management performance up to the 31st December 2019 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-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
5yr PWLB rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10r PWLB rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

- 2.2. Link’s interest rate forecast takes account of the continuing uncertainties around the exit of the EU and political situations both domestic and international. The next increase for the Bank of England base rate to 1.00% is forecast for the quarter ending March 2021 with no further increase beyond this until June 2022. Link continues to acknowledge that unfolding events could prompt movements in rates in either direction at any time.

3. Investment Income

3.1. Interest earned on investment deposits up to 31st December 2019 totalled £124,390. The Council has budgeted to receive £225,260 in investment income in 2019/20. The budget was set with an expectation of higher interest rates than the current environment: 1.00% for the first three quarters of the year and a further potential rate rise to 1.25% at the end of the year. The Bank of England base rate remains at 0.75% at the end of the first quarter and is now not expected to rise until 2021. In addition, the Council continues to internally borrow some of the underlying borrowing requirement from previous capital expenditure resulting in a smaller investment portfolio. Therefore a shortfall of £35,000 is currently forecast on the investment income budget; this will be monitored throughout 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 Q2	Average Rate Q3
HPBC Average	0.82%	0.82%	0.81%
HPBC long-term fixed (>364 days)	1.25%	1.21%	1.16%
HPBC short-term fixed (<364 days)	0.97%	0.98%	0.93%
HPBC instant access	0.67%	0.64%	0.65%
Benchmarks			
*LIBID 7 day rate	0.57%	0.56%	0.57%
*LIBID 3 month rate	0.68%	0.64%	0.64%
*LIBID 6 month rate	0.78%	0.69%	0.74%
*LIBID 12 month rate	0.91%	0.75%	0.83%
Base Rate at the end of the period	0.75%	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 1st October to 31st 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
Coventry Building Society	UK	£1,000,000	3 months	0.67%
Coventry Building Society	UK	£1,000,000	6 months	0.78%
Credit Suisse AG (CD)	Switzerland	£1,000,000	6 months	0.87%
Goldman Sachs	UK	£2,000,000	6 months	0.955%
Lloyds Bank (RFB)	UK	£1,150,000	1 year	1.10%
Instant Access Cash (Instant Access Accounts & Money Market Funds)	UK	£3,143,159 (daily average)		0.65%

- 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 uses 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 31st December 2019 totalled £29,238,000:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Average interest rate at end of period	Average Maturity
NatWest Bank (RFB)	UK	£4,988,000	BLUE (12 months)	0.30%	Instant access
Handelsbanken	UK	£4,700,000	ORANGE (12 months)	0.65%	Instant access
Santander UK	UK	£4,500,000	RED (6 months)	1.00%	95 day notice
Federated MMF	UK	£4,200,000	WHITE (12 months)	0.73%	Instant access
Lloyds Bank (RFB)	UK	£3,150,000	ORANGE (12 months)	1.15%	1 year
Aberdeen MMF	UK	£2,700,000	WHITE (12 months)	0.73%	Instant access
Coventry Bldg. Soc.	UK	£2,000,000	RED (6 months)	0.73%	138 days
Goldman Sachs	UK	£2,000,000	RED (6 months)	0.955%	183 days
Credit Suisse AG (CD)	Switzerland	£1,000,000	RED (6 months)	0.87%	183 days
TOTAL		£29,238,000			

MMF = Money Market Fund

- 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 31st December 2019 was £17.9million. 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. 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.

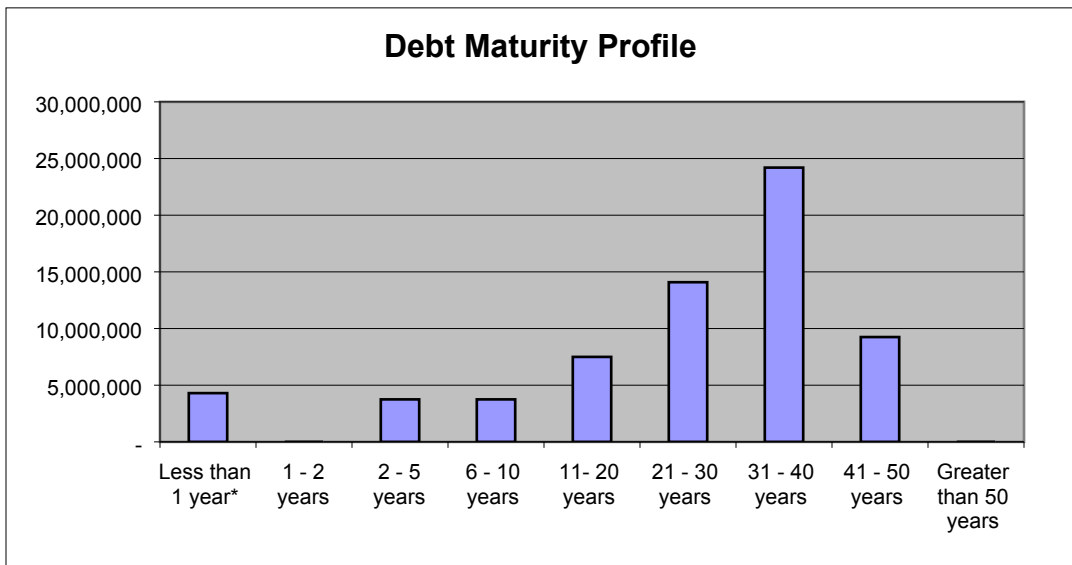
4.6. The loan has now been fully drawn to the value of £250,000: £70,000 on 28th February 2019; £70,000 on 25th March 2019; £60,000 on 25th April 2019; and £50,000 on 25th May 2019. Interest is charged on the loan at 6% which amounts to £14,360 during 2019/20. This was not anticipated in the budget, therefore will partially offset the £35,000 shortfall on investment income forecast above.

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 31st December 2019 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 2 and 43 years
Market Loans	£12,800,000	4.57%	between 3 and 48 years
Total	£66,825,404	3.92%	

- 5.3. The 'operational boundary' (£88,182,000) and 'authorised limit' (£90,682,000) 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 £1,794,630 to the general fund and £1,783,310 to the HRA in 2019/20.
- 5.5. The budget for borrowing costs was based on the existing external debt and new external debt from the 2018/19 and 2019/20 general fund borrowing requirements. There has been no 'new' borrowing thus far during the current year and the Council continues to maintain a level of internal borrowing which is reducing the level of forecast borrowing costs for the year by £124,020: split £76,280 to the general fund and £47,740 to the HRA.
- 5.6. 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.
- 5.7. 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.

5.8. 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.

5.9. No rescheduling has taken place during 2019/20 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 2019/20 and complies with the Council's Treasury Management Practices.