

## **HIGH PEAK BOROUGH COUNCIL**

### **Report to the Audit & Regulatory Committee**

**14th February 2017**

<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 December 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 December 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 with projected borrowing costs for 2016/17 and debt rescheduling options; and
- Compliance against the 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 unchanged at 0.25% contrary to expectations of a decrease in the Monetary Policy Committee's previous quarterly inflation report.
- A shortfall of £20,000 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 £50,000 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 September to 31st December was 0.49%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £28,234,000 spread across eleven separate institutions as at 31st December 2016.
- The Council's total level of debt as at 31st December 2016 was £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. Evaluation of Options**

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 2016/17  
(Audit & Regulatory Committee February 2016)

#### **Location**

Finance & Performance,  
Town Hall, Buxton

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# High Peak Borough Council

*Working for our community*

## **Treasury Management Update 31st December 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 31st December 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:

%	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
5yr PWLB rate	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10r PWLB rate	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25yr PWLB rate	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
50yr PWLB rate	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

- 2.2. Capita have updated their interest rate forecasts to take into account the Bank of England quarterly inflation report for November 2016, the decision of the MPC (Monetary Policy Committee) meeting of 3rd November, and the US Presidential election of 8th November.

- 2.3. The bank rate has remained unchanged at 0.25% at the November MPC meeting contrary to expectations of a decrease in the MPC's previous quarterly inflation report, but in line with market expectations at the time. MPC forward views are that the bank rate could still go up or down depending on how economic data evolve in the coming months. Capita are forecasting the rate to remain at 0.25% with the first increase to 0.50% in June 2019.
- 2.4. Economic forecasting remains difficult with so many external influences weighing on the UK. Capita's bank rate forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

### 3. Investment Income

- 3.1. Interest earned on investment deposits up to 31st December 2016 totalled £93,450. 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 £20,000 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 Q2	Average Rate Q3
<b>HPBC Total</b>	<b>0.61%</b>	<b>0.53%</b>	<b>0.48%</b>
HPBC Long-term fixed (>364 days)	0.94%	0.95%	-
HPBC Short-term fixed (<364 days)	0.80%	0.67%	0.58%
HPBC Short-term instant access	0.41%	0.38%	0.31%
<b>Benchmarks (Capita)</b>			
*LIBID 7 Day Rate	0.36%	0.20%	0.12%
*LIBID 3 Month Rate	0.46%	0.31%	0.26%
*LIBID 6 Month Rate	0.60%	0.43%	0.43%
*LIBID 12 Month Rate	0.87%	0.65%	0.67%
Current Base Rate	0.50%	0.25%	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 September to 31st December 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
Goldman Sachs	UK	£2,000,000	6 months	0.62%
Lloyds Bank Plc	UK	£1,000,000	3 months	0.50%
Nationwide Building Society	UK	£1,000,000	5 months	0.36%
Lloyds Bank Plc	UK	£1,150,000	6 months	0.60%
Nationwide Building Society	UK	£1,300,000	4 months	0.32%
Eastleigh Borough Council	UK	£1,000,000	3 months	0.30%
Surrey County Council	UK	£5,000,000	2 months	0.30%
Instant Access Cash <i>(Instant Access Accounts &amp; Money Market Funds)</i>	UK	£2,926,000 <i>(daily average)</i>		0.32%

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, 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 2016 totalled £28,234,000 as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Surrey County Council	UK	£5,000,000	<b>WHITE (12 months)</b>
Money Market Funds	UK	£4,100,000	<b>WHITE (12 months)</b>
Santander UK	UK	£4,000,000	<b>RED (6 months)</b>
NatWest Bank Plc	UK	£3,684,000	<b>BLUE (12 months)</b>
Nationwide Building Society	UK	£2,300,000	<b>RED (6 months)</b>
Lloyds Bank Plc	UK	£2,150,000	<b>RED (6 months)</b>
Coventry Building Society	UK	£2,000,000	<b>RED (6 months)</b>
Goldman Sachs International	UK	£2,000,000	<b>RED (6 months)</b>
Cooperatieve Rabobank UA	Netherlands	£1,000,000	<b>ORANGE (12 months)</b>
Eastleigh Borough Council	UK	£1,000,000	<b>WHITE (12 months)</b>
Swedbank AB	Sweden	£1,000,000	<b>ORANGE (12 months)</b>
<b>TOTAL</b>		<b>£28,234,000</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> December 2016 was £22.9 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.

## 5. Borrowing Position

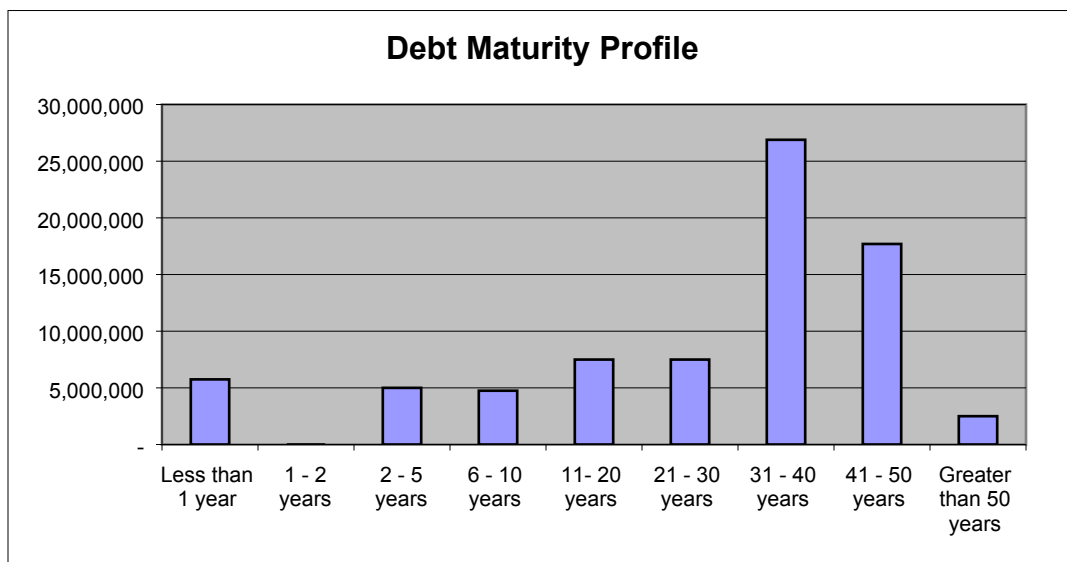
- 5.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management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

Lender	External Borrowing	Average Interest Rate	Maturity period
<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>	
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- 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 is £9.7 million 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 £4.5 million 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.
- 5.5. 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 £50,000 on the borrowing costs related to the refinancing of the maturing loans as if any borrowing is undertaken, it is likely to occur at the end of the financial year or into the next financial year.
- 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.

## **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.