

HIGH PEAK BOROUGH COUNCIL

Report to Audit & Regulatory Committee

3rd July 2020

TITLE:	Annual Treasury Management Report 2019/20
EXECUTIVE COUNCILLOR:	Cllr Alan Barrow – Executive Councillor for Corporate Services and Finance
CONTACT OFFICER(S):	Keith Pointon – Interim Head of Finance Emily Bennetts – Finance Business Partner
WARD:	Non-specific

Appendix A (attached) – Annual Treasury Management Report 2019/20

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 2019/20 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and generally accepted good practice.

2. Recommendation

- 2.1. That the Annual Treasury Management Report 2019/20 is recommended to Council for approval.

3. Executive Summary

- 3.1. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities for the year.
- 3.2. The Annual Treasury Management Report for 2019/20 considers the following areas:
 - The Treasury Management Strategy adopted for 2019/20 and the economic environment during the year;
 - The current treasury position, highlighting the Council's borrowing and lending position at the year end;
 - The Council's capital expenditure, overall borrowing need and borrowing outturn during 2019/20;

- Performance measurements, which look at the returns achieved during the year by the Council on its overall investments;
- The Council's investment portfolio, which sets out for Members how and where the Council has invested its money during the year;
- The interest yield for 2019/20; and
- Compliance with Prudential Indicators, showing the outturn against those Indicators formally adopted in the 2019/20 Treasury Management Strategy.

3.3. The Executive Director & Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

3.4. The main headlines include:

- Capital expenditure in 2019/20 totalled £7.3million. This created a borrowing requirement of £2.8million wholly applicable to General Fund capital expenditure.
- Total debt at 31st March 2020 amounted to £66.8million including loans from Public Works Loan Board and Market Loans. No new external borrowing or refinancing took place; nor was there any debt rescheduling.
- Overall borrowing costs were £148,590 underspent against the budget as internal borrowing continued. This was split between the General Fund £123,480 and HRA £25,110.
- The average daily investment during 2019/20 was £21 million invested with a total of 11 institutions, yielding £174,400 in investment income. £14,360 was also received in interest payments from the loan to Buxton Crescent Heritage Trust. There was a shortfall against the investment income budget of £36,500.
- The average return achieved by the Council on its investment portfolio for the year was 0.81%, which compares favourably to short-term industry benchmarks.
- Year-end investments totalled £20.5million all internally managed by the Council's Treasury Management Team.
- The outturn against the treasury and prudential indicators set within the Treasury Strategy 2019/20 is shown in Annex B.

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 the Council's main priorities.

5. Options

- 5.1. This report sets out the Treasury Management position for High Peak Borough Council for 2019/20. As such it is a statement of fact and there are no options to consider.

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 Diversity and Equality Policies.

- 6.4. Financial Considerations

Included 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, Link Asset Services ('Link').

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. That Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

Claire Hazeldene
Interim Executive Director & Chief Finance Officer

Background Papers

'Treasury Management Strategy
Statement 2019/20'
Audit & Regulatory Committee Feb 19

Location

Finance and Procurement, Town
Hall, Buxton

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'Treasury Management – Governance
and Scrutiny Arrangements'
Audit & Regulatory Committee Sept 09

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Annual Treasury Management Report

2019/20

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 2019/20. 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 2019/20
 - Economy in 2019/20
 - The Council's treasury position as at 31st March 2020
 - Capital Expenditure and the Overall Borrowing Need
 - Borrowing Outturn
 - Investment Performance
 - Investment Portfolio & Yield
 - Compliance with Prudential Indicators

2. The 2019/20 Treasury Management Strategy & Economic Conditions

- 2.1. The expectation for interest rates within the treasury management strategy for 2019/20 was based on the assumption of a Brexit deal being agreed between Parliament and the EU in the first quarter of 2019 and included a rise in the Bank of England base rate from 0.75% to 1.00% in quarter 1 and a further increase to 1.25% in quarter 4. None of these rises took place; the base rate remained at 0.75% for the majority of the year, then decreased to 0.25% on 11th March 2020 and again to 0.10% on 19th March in response to the Covid-19 crisis.
- 2.2. The hold on base rate at 0.75% meant that investment opportunities and yields were not as high as anticipated. The reduction in base rate in March will be felt in further reduced investment yields in 2020/21.
- 2.3. In October 2019 the Public Works Loan Board (PWLB) increased its borrowing interest rates by 1% without warning. However, this actually brought the borrowing rates closer to what had been anticipated in the strategy. It also meant the the Local Authority lending market became more competitive again and offers were available for longer periods, up to 2 or 3 years, whereas they terms on offer had reduced closer to a year in recent times.
- 2.4. A consultation on PWLB borrowing was announced in March which may result in changes to borrowing rates for certain types of projects including discounts on borrowing for housing, infrastructure and restrictions around commercial activities. The outcome of the consultation is anticipated around September 2020.

3. The Current Treasury Position

3.1. The Council's debt and investment position at the beginning and the end of the 2019/20 financial year was as follows:

	2018/19		2019/20	
	31st March 2019 Principal	Rate/Return	31st March 2020 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%
Total Debt	£66,825,404	3.92%	£66,825,404	3.92%
Total Investments	£13,747,417	0.73%*	£20,468,366	0.81%*

* Average investment interest rate in March

4. The Council's Capital Expenditure & Borrowing Requirement 2019/20

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 2019/20 and how this was financed:

	2019/20 Projected Outturn*
General Fund Capital Expenditure	£4,704,613
HRA Capital Expenditure	£2,549,397
Total	£7,254,010
Resourced by:	
Capital receipts	£1,055,000
Capital grants & contributions	£374,885
Reserve Funding	£2,599,030
HRA Contribution	£389,367
Unfinanced in year capital expenditure (Underlying Need to Borrow)	£2,835,728

*subject to external audit review

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

4.4. The Treasury Strategy 2019/20 anticipated a £4,676,000 underlying borrowing requirement. The table above shows the provisional outturn as £2,835,728. The difference is largely made up of the reprofiling of capital expenditure 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 2019/20 MRP Policy was approved as part of the Treasury Management Strategy Statement 2019/20 in February 2019.
- 4.8. The Council's overall CFR is shown below:

	2019/20 Projected Outturn
Opening balance (1st April 2019)	£79,897,492
Plus 2019/20 borrowing requirement	£2,835,728
Less MRP	(£1,781,833)
Closing balance (31st March 2020)	£80,951,387

- 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 2019/20 (plus expected changes to the CFR over 2020/21 and 2021/22). 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:

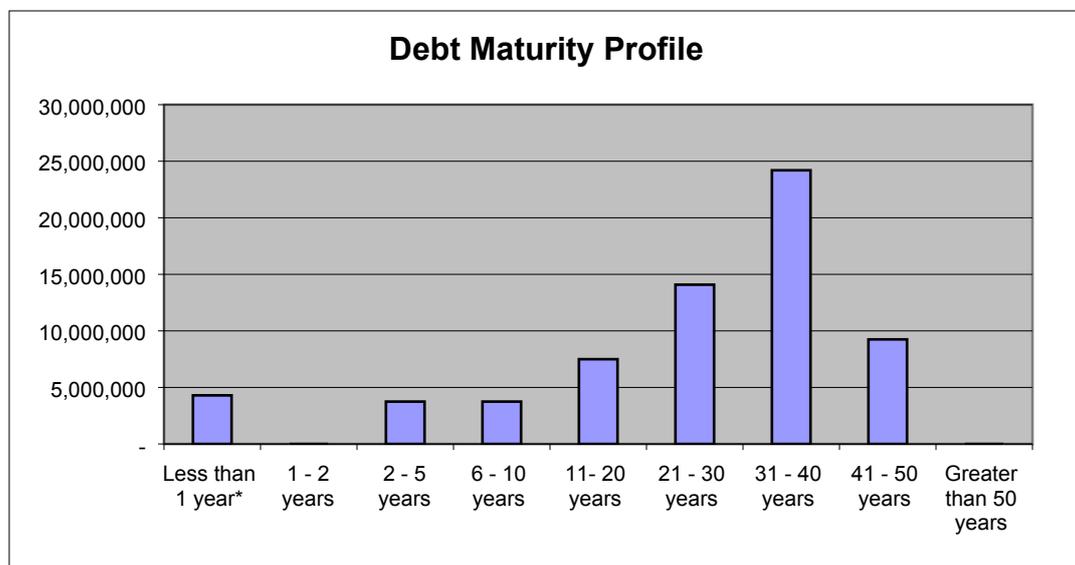
	31 March 2020 Projected	31 March 2021 Forecast	31 March 2022 Forecast
Borrowing position	£66,825,404	£68,138,384	£65,348,854
Capital Financing Requirement	£80,951,387	£81,678,039	£80,698,972
Over / (Under) Borrowed	(£14,125,983)	(£13,539,655)	(£15,350,118)

- 4.11. The Council is in an 'under-borrowed' position of £14,125,983 as at 31st March 2020, therefore is complying with the prudential indicator.

5. Borrowing Outturn

- 5.1. No new external borrowing was taken during 2019/20; the £2,835,728 borrowing requirement was instead funded using internal resources available at the time. There were no maturing loans during the year, nor were any future maturing loans refinanced.

- 5.2. The Council's level of external borrowing as at 31st March 2020 totalled £66,825,404 (approximately 66% HRA, 34% General Fund).
- 5.3. 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.
- 5.4. As a result of the internal funding described above, the total borrowing costs achieved a saving of £148,590 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 £123,480 and the HRA share is £25,110.
- 5.5. 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.

- 5.6. 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.
- 5.7. No debt rescheduling took place during 2019/20. 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. Uncertainty in the long aftermath of the 2008 financial crisis promotes 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 0.81% 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 2019/20
HPBC Total	0.82%	0.82%	0.81%	0.80%	0.81%
HPBC Total Long-term (>364 days)	1.25%	1.21%	1.16%	1.15%	1.17%
HPBC Total Short-term (<364 days)	0.97%	0.98%	0.93%	0.95%	0.95%
HPBC Total Short-term (instant access)	0.67%	0.64%	0.65%	0.63%	0.64%
Link Benchmarks					
*LIBID 7 Day Rate	0.57%	0.56%	0.57%	0.43%	0.53%
*LIBID 3 Month Rate	0.68%	0.64%	0.64%	0.55%	0.63%
*LIBID 6 Month Rate	0.78%	0.69%	0.74%	0.61%	0.70%
*LIBID 12 Month Rate	0.91%	0.75%	0.83%	0.69%	0.80%
Base Rate at end of period	0.75%	0.75%	0.75%	0.10%	

**LIBID (London Interbank Bid Rate)*

- 6.4. The investment portfolio was held on a short-term basis (< 1 year) through 2019/20, 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.

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 1 year, 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 11 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 2019/20 was £21.4m.

Financial Institution	Country of Domicile	Interest Earned (£s)	Average Daily Investment (£s)	Rate of Return (%)
Money Market Funds	UK	47,237	6,444,794	0.73
Santander	UK	38,241	3,824,114	1.00
Lloyds Bank	UK	34,833	3,155,890	1.10
Handelsbanken	UK	14,576	2,242,528	0.65
Goldman Sachs	UK	19,017	2,005,479	0.95
NatWest Bank (NRFB)	UK	4,452	1,594,308	0.28
Bank of Scotland	UK	5,934	916,252	0.65
Coventry Building Society	UK	5,618	756,164	0.74
Credit Suisse AG (CD)	Switzerland	3,671	421,918	0.87
NatWest Bank (RFB)	UK	592	65,753	0.90
Cooperatieve Rabobank (CD)	Netherlands	226	21,918	1.03
Total		174,397	21,449,120	0.81

7.5. The Council earned £174,397 in investment income in 2019/20. In addition the Council received £14,360 in interest income from the loan to Buxton Crescent Heritage Trust. Overall there was a shortfall of £36,503 against the interest income budget of £225,260.

7.6. Investments held at the 31st March 2020 are highlighted in the table below:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested
Money Market Funds	UK	Money Market Fund	£5,700,000
Santander	UK	Santander UK	£4,500,000
Handelsbanken	UK	Handelsbanken	£2,300,000
Lloyds Bank	UK	Lloyds Banking Group	£2,150,000
Goldman Sachs	UK	Goldman Sachs	£2,000,000
NatWest Bank	UK	Royal Bank of Scotland	£1,818,366
Coventry Building Society	UK	Coventry Building Society	£1,000,000
Credit Suisse AG (CD)	Switzerland	Credit Suisse (AG)	£1,000,000
Total Principal Invested			£20,468,366

7.7. All investments held as at 31st March 2020 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	31st March 2020 Actual
Fixed Rate	£10,650,000
Variable Rate	£9,818,366
TOTAL	£20,468,366

8. Compliance with Treasury Limits

- 8.1. Treasury Limits and Prudential Indicators were set in the 2019/20 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.

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	2019/20	2019/20
	Strategy	Provisional Outturn
	£'000	£'000
Capital Expenditure		
General Fund	6,744	4,705
HRA	4,094	2,549
Total	10,838	7,254
<i>Reduction in capital expenditure due to reprofiling of programmes to future years</i>		
Ratio of financing costs to net revenue stream		
General Fund	15%	15%
HRA	12%	12%
Gross borrowing requirement		
Total Gross Borrowing (31 st March)	74,025	66,825
2019/20 Borrowing requirement	4,676	2,836
Capital Financing Requirement as at 31 March		
General Fund	28,821	27,552
HRA	53,859	53,399
TOTAL	82,680	80,951
Annual change in Capital Financing Requirement		
General Fund	3,894	2,054
HRA	(1,000)	(1,000)
Total	2,942	1,054

TREASURY MANAGEMENT INDICATORS	2019/20	2019/20
	Strategy	Provisional Outturn
	£'000	£'000
Authorised Limit for external debt	Limit	Actual
Borrowing	90,682	66,825
other long term liabilities	0	0
TOTAL	90,682	66,825
Operational Boundary for external debt	Limit	Actual
Borrowing	88,182	66,825
other long term liabilities	0	0
TOTAL	88,182	66,825
Upper limit for total principal sums invested for over 365 days	Limit	Actual
	4,000	0

Maturity structure of fixed rate borrowing	Upper limit in 2019/20 Strategy	2019/20 Actual Maturity Profile (as at 31st March 2020)
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.

Maturity structure of variable rate borrowing	Upper limit in 2019/20 Strategy	2019/20 Actual Maturity Profile (as at 31st March 2020)
under 12 months *	100%	0%
12 months and within 2 years	50%	0%
2 years and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%