



High Peak Borough Council

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Information Digest



To: Audit & Regulatory Committee

Date: 3rd July 2020

Treasury Management Update

Appendices Attached – Appendix A: Treasury Management Mid-Year Update Report, 31st May 2020

**Councillor Alan Barrow
Executive Councillor for Corporate Services &
Finance**

**Emily Bennetts
Finance Business Partner**

1. Reason for the Report

- 1.1. To allow the robust scrutiny of the Council's Treasury Management performance in 2020/21 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 Members note the current Treasury Management position as at 31st May 2020.

3. Executive Summary

- 3.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 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 2020/21;
- The current investment portfolio;
- The borrowing portfolio with projected borrowing costs for 202/21 and debt rescheduling options; and
- Compliance against Prudential and Treasury indicators set in the Treasury Management Strategy 2020/21.

- 3.3. The main headlines include:

- The Bank of England base rate has reduced to 0.10% in March 2020 with no expectation for any increase in the medium term.
- The Covid-19 pandemic and resulting economic crisis is considered in terms of the impact on treasury management, in particular the cash flows.
- A shortfall of £42,000 is expected against the investment income budget of £160,000 due to reducing interest rates.
- The average return on investments achieved by the Council during the period from 1st April to 31st May was 0.55%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £26million spread across six separate institutions as at 31st May 2020.

- The borrowing costs are forecast as on target against the budget.
- The Council's total level of debt as at 31st May was £66.8million at an average annual borrowing rate of 3.92%.

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. Alternative Options

5.1. This report sets out the Treasury Management position for High Peak Borough Council for 2020/21 to date and the projected outturn. As such it is a statement of fact and there are no options.

Claire Hazeldene
Interim Executive Director & Chief Finance Officer

Web Links and Background Papers

'Treasury Management – Governance & Scrutiny Arrangements' (Audit & Regulatory Committee September 2009)

'Treasury Management Strategy Statement 2020/21' (Audit & Regulatory Committee, February 2020)

Location

Finance & Procurement
Town Hall, Buxton

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Treasury Management Update 31st May 2020

1. Introduction
2. Economic Forecast – Interest Rates
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4. Investment Income
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6. Borrowing Position
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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 2020/21 was approved by Council on 12th February 2020. This report details treasury management performance up to the 31st May 2020 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:

%	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10r PWLB rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

- 2.2. Link’s interest rate forecast has been updated following the Bank of England base rate cut from 0.75% to 0.25% on 11th March and again to 0.10% on 19th March 2020. The forecast was made at the end of March 2020 and took into account the known situation with regard to coronavirus at the time and its potential impact on economies around the world. Link has pragmatically reduced the forecast to two years ahead to acknowledge the exceptional level of uncertainty at the current time.

3. Covid-19 impact on Treasury Management

- 3.1. As a period of lockdown was implemented in March 2020 due the Coronavirus pandemic, there were immediate concerns about the Council's cash flow due to the resulting economic crisis affecting the Council's main sources of income in Council Tax and Business Rates receipts.
 - 1.1. Cash flow will be affected by deferrals of payment plans, shifting the cash flow to later in the year than is usual; increase in recipients of Local Council Tax Reduction Scheme as more residents become eligible, reducing the Council's income; increase in instances of non-payment, reducing the Council's income and an increase in business rates reliefs, which is replaced by the equivalent income from the government via a grant, but could change the cash flow profile of these amounts. It is also impacted by a reduction in general fees and charges – some of which have reduced during the lockdown period – such as car parking fees.
- 3.2. Liquidity is a primary concern in Treasury Management, subordinate only to security, therefore a decision was made that all fixed investments should be returned to instant access accounts upon maturity and no new fixed investments would be taken until a clearer understanding of the cash flow situation had been gained.
- 3.3. Conversely, on 1st April the Council received £29million from Central Government to distribute under the Business Grants Scheme. This cash flow level is significantly greater than the Council's normal levels, therefore it was necessary to increase all the Counterparty limits set in the Treasury Management Strategy Statement for 2020/21 in order to accommodate these balances in the short term as the scheme was administered and payments could be made. The increase in these limits is show in detail at section 5.
- 3.4. Central government also allowed Councils to delay payments of the Business Rates share which eased cash flow in the first quarter, but will unwind as we progress throughout the year.

4. Investment Income

- 4.1. Interest earned on investment deposits up to 31st May 2020 totalled £31,270. The Council has budgeted to receive £160,000 in investment income in 2020/21. The budget was set with an expectation of higher interest rates than the current environment: 0.75% for the first three quarters of the year and a further potential rise to 1.00% at the end of the year.
- 4.2. The Bank of England base rate reductions in March have resulted in cuts to all of the instant access accounts. If a decision is made to include fixed investments in the portfolio again, the yield opportunities are also significantly reduced, therefore may not improve income receipts.

4.3. The investment portfolio is also reduced due to the continuation of internal borrowing, though this still represents a net saving in lieu of the external borrowing costs. Therefore a shortfall of £42,000 is forecast on the investment income budget.

4.4. 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 Apr-May
HPBC Average	0.55%
HPBC long-term fixed (>364 days)	1.10%
HPBC short-term fixed (<364 days)	0.98%
HPBC instant access	0.41%
Benchmarks	
*LIBID 7 day rate	0.00%
*LIBID 3 month rate	0.30%
*LIBID 6 month rate	0.43%
*LIBID 12 month rate	0.59%
Base Rate at the end of the period	0.10%

*LIBID = London Inter Bank Bid Rate

Crescent Development

4.5. The Council provided a loan of £250,000 to the Buxton Crescent Heritage Trust as part of the Crescent development. Interest is charged on the loan at 6% which amounts to £15,000 during 2020/21. This income is included in the investment income forecast outturn reported above. Repayments of the loan at £50,000 per year begin August 2021.

5. Investment Portfolio

5.1. 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 May 2020 totalled £25,864,000:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Average interest rate at end of period	Average Maturity
Handelsbanken	UK	£7,300,000	ORANGE (12 months)	0.35%	Instant access
Aberdeen MMF	UK	£5,600,000	WHITE (12 months)	0.33%	Instant access
Santander UK	UK	£4,500,000	RED (6 months)	1.00%	95 day notice
Santander UK	UK	£4,000,000	RED (6 months)	0.40%	Instant access
Lloyds Bank (RFB)	UK	£2,150,000	ORANGE (12 months)	1.10%	1 year
Federated MMF	UK	£1,500,000	WHITE (12 months)	0.31%	Instant access
NatWest Bank (RFB)	UK	£814,000	BLUE (12 months)	0.20%	Instant access
TOTAL		£25,864,000			

MMF = Money Market Fund

5.2. The average level of funds available for investment up to 31st May 2020 was £33.7million.

5.3. The maximum investment term, as recommended by Link, is shown by colour banding in the table below:

Colour Banding	Maximum Duration of Investment	Per TMSS 2020/21		Extraordinary counterparty limit increase: Covid-19
		UK Banks	International Banks	UK Banks
PURPLE	Up to 2 years	£7.0m	£5.2m	£14.0m
ORANGE	Up to 12 months	£6.3m	£4.2m	£12.6m
RED	Up to 6 months	£5.2m	£3.5m	£10.4m
GREEN	Up to 100 days	£4.5m	£2.8m	£9.0m
BLUE (Part nationalised financial institutions)	Up to 1 year	£7.0m	n/a	£14.0m
BLUE (NatWest)	Up to 1 year	£10.5m	n/a	£21.0m
Money Market Funds	Up to 1 year	£7.0m	n/a	£14.0m

5.4. Group limits are also applied:

Portfolio % increased by 50%	Per TMSS 2020/21	Extraordinary counterparty limit increase: Covid-19
Category	Group Principal Limit	Group Principal Limit
BLUE	£10.5m	£21.0m
PURPLE	£10.5m	£21.0m
ORANGE	£9.4m	£18.8m
RED	£8.0m	£16.0m
GREEN	£7.0m	£14.0m
Money Market Funds	£10.5m	£21.0m

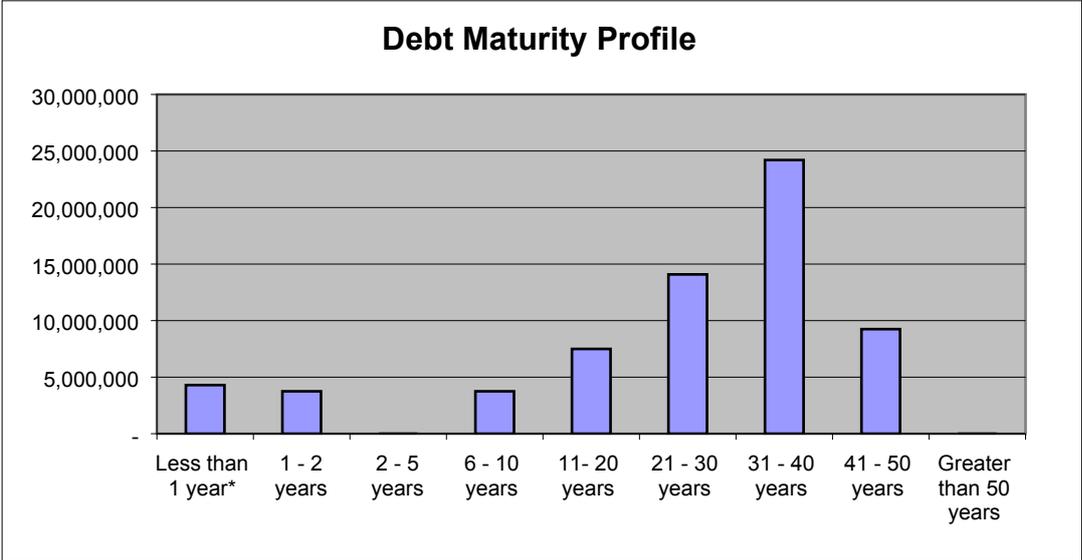
6. Borrowing Position

6.1. 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.

6.2. The Council's total outstanding debt as at 31st May 2020 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%	

- 6.3. The 'operational boundary' (£89,098,000) and 'authorised limit' (£91,598,000) 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.
- 6.4. 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 £1,837,940 to the general fund and £1,746,340 to the HRA in 2020/21
- 6.5. The budget for borrowing costs was based on the existing external debt and new external debt from the 2019/20 and 2020/21 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 as anticipated. Therefore the borrowing costs are forecast to be on target against the budget.
- 6.6. 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.
- 6.7. 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.

- 6.8. 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.

6.9. No rescheduling has taken place during 2020/21 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.

7. Prudential Indicators

7.1. The Council has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2020/21 and complies with the Council's Treasury Management Practices.