Appendix A

High Peak Borough Council

working for our community

Annual Treasury Management Report

2020/21

June 2021

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 2020/21. 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 & Economy for 2020/21
- The Council's treasury position as at 31st March 2021
- Capital expenditure and the overall borrowing need
- Borrowing outturn
- Investment performance & portfolio, including Ethical investing
- Compliance with prudential &treasury indicators

2. The 2020/21 Treasury Management Strategy & Economic Conditions

2.1. Interest rate expectations applied to the treasury management strategy for 2020/21 were from an environment before the Covid-19 crisis had become apparent. Forecasts were based on the assumption of a Brexit deal being agreed between Parliament and the EU by December 2020 and included a rise in the Bank of England base rate to 1.00% by the end of the financial year. This did not take place and the base rate 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. As a result, investment opportunities and yields decreased dramatically during the year with some accounts paying 0%. Borrowing interest rates, particularly with other local authorities, decreased partly in line with these decreases and partly because of the increased levels of cash flows throughout local authorities due to monies received from Central Government to be issued to local businesses in the form of grants where they were impacted by Covid-19.

2.3. Whilst the Council was in receipt of these cash flows from Central Government, 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 schemes were administered and payments could be made. This occurred at various points in the year as new grants schemes were released. Where cash balances were returned to more normal levels, the treasury management team reverted to the original approved Counterparty Limits. This is shown in more detail at Annex A.

2.4. In October 2019 the Public Works Loan Board (PWLB) increased its borrowing interest rates by 1% without warning. This was effectively reversed in November 2020 following the PWLB consultation results. A restriction is now in place on PWLB borrowing whereby Council's cannot borrow from this source if their capital programme contains any commercial activity.

3. The Current Treasury Position

3.1. The Council's debt and investment position at the beginning and the end of the 2020/21 financial year was as follows:

	2019/20		2020/21	
	31st March 2020 Principal	**Average interest rate**	**31st March 2021 Principal**	**Average interest rate**
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	**£20,468,366**	**0.81%**	**£28,379,000***	**0.26%**

** Investment balances are higher due to monies held as an Agent awarding Business Grants on behalf of Central Government*

4. The Council's Capital Expenditure & Borrowing Requirement 2020/21

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 2020/21 and how this was financed:

	2020/21 Projected Outturn
General Fund Capital Expenditure	£2,817,647
HRA Capital Expenditure	£3,735,069
Total	**£6,552,716**
Resourced by:	
Capital receipts	£218,049
External contributions	£1,088,727
Reserve Funding	£2,199,030
HRA Contribution	£1,636,039
Unfinanced in year capital expenditure (Underlying Need to Borrow)	**£1,410,871**

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 2020/21 anticipated a £2,616,000 underlying borrowing requirement. The table above shows the provisional outturn as £1,410,871. The difference is largely made up of the reprofiling of capital expenditure into future years and some grant funding received earlier than expected.

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 2020/21 MRP Policy was approved as part of the Treasury Management Strategy Statement 2020/21 in February 2020.

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

	2020/21 Projected Outturn
Opening balance (1st April 2020)	£80,951,387
Plus 2020/21 borrowing requirement	£1,410,871
Less MRP	(£1,821,673)
Closing balance (31st March 2021)	**£80,540,585**

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 2020/21 (plus expected changes to the CFR over 2021/22 and 2022/23). 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 2021 Provisional	**31 March 2022 Forecast**	**31 March 2023 Forecast**
Borrowing position	£66,825,404	£63,077,204	£63,077,204
Capital Financing Requirement	£80,540,585	£82,705,283	£83,846,147
Over / (Under) Borrowed	(£13,715,181)	(£19,628,079)	(£20,768,943)

4.11. The Council is in an 'under-borrowed' position of £13,715,181 as at 31st March 2021, therefore is complying with the prudential indicator.

5. Borrowing Outturn

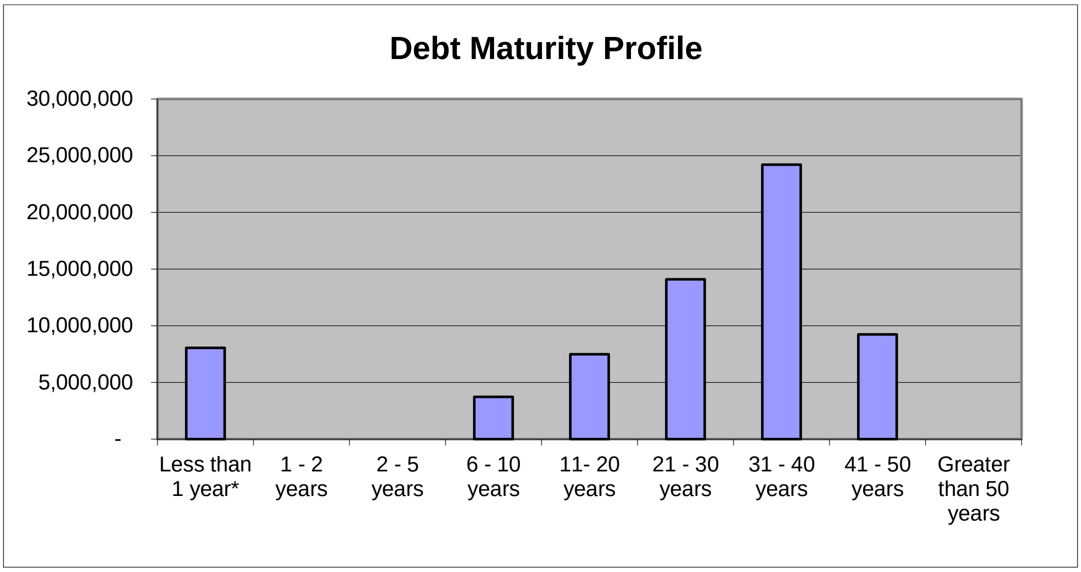
5.1. No new external borrowing was taken during 2020/21; the £1,410,871 borrowing requirement was instead funded using internal resources available at the time. There were no maturating loans during the year, nor were any future maturing loans refinanced.

5.2. The Council's level of external borrowing as at 31st March 2021 totalled £66,825,404 (approximately 65% HRA, 35% 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 where there is 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 £83,230 against the budget. The overall cost is split between the General Fund and HRA under the one pool approach: a saving of £91,225 is allocated to the general fund with a net interest income shortfall of £7,995 allocated to the HRA.

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 2020/21. 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 & Portfolio

6.1. 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.

6.2. The Council achieved an average interest rate of 0.26% 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	**0.50%**	**0.27%**	**0.16%**	**0.11%**	**0.26%**
HPBC Total Long-term (>364 days)	1.10%	1.10%	1.10%	-	**1.10%**
HPBC Total Short-term (<364 days)	0.93%	0.52%	0.32%	0.26%	**0.41%**
HPBC Total Short-term (instant access)	0.37%	0.14%	0.05%	0.02%	**0.16%**
Link Benchmarks					
*LIBID 7 Day Rate	0.56%	0.14%	<0.00%	<0.00%	**<0.00%**
*LIBID 3 Month Rate	0.40%	0.02%	<0.00%	<0.00%	**0.01%**
*LIBID 6 Month Rate	0.26%	<0.00%	<0.00%	<0.00%	**0.07%**
*LIBID 12 Month Rate	<0.00%	<0.00%	<0.00%	<0.00%	**0.17%**
Base Rate at end of period	**0.10%**	**0.10%**	**0.10%**	**0.10%**	

LIBID (London Interbank Bid Rate)

6.3. The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. 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 (see Annex A for current lending limits).

6.4. Money was invested during the year with 10 institutions. All investments were placed in line with the Council's approved lending limits. 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 2020/21 was £32.4m.

Financial Institution	Country of Domicile	Duration	Interest Earned (£)	Average Daily Investment (£)	Rate of Return (%)
Money Market Funds	UK	Instant access	14,045	10,701,260	0.13
Handelsbanken	UK	Instant access	15,984	6,767,255	0.24
Santander	UK	95 day notice	29,055	5,285,039	0.55
NatWest Bank (NRFB)	UK	Instant access	1,901	4,119,109	0.05
Lloyds Bank	UK	95 day notice & 1 year fixed	14,478	2,783,934	0.52
Barclays (ESG linked)	UK	65-95 day notice	5,203	1,899,178	0.27
Standard Chartered (ESG	UK	6 month fixed	457	504,110	0.09
Goldman Sachs	UK	6 month fixed	1,570	164,383	0.96
Bank of Scotland	UK	Instant access	0	123,305	0.00
Credit Suisse AG (CD)	Switzerland	6 month fixed	691	79,452	0.87
Total			**83,384**	**32,427,025**	**0.26**

6.5. The average maturity of investment during the year was necessarily short to allow for uncertainties over cashflow during the Covid-19 situation where there was risk to income streams and changes in the timing of cashflows. The larger investment amounts during the year were a result of monies received by the Council from Central Government to be redistributed under the various Business Grant schemes. To provide some context as to the magnitude of the cash flow impact, the income and expenditure flowing through the Council's accounts in 2020/21 relating to these grants was c.£47million. The funds needed to be kept available as instant access.

6.6. The budget was set with an expectation of interest rate rises during the year up to 1.00%. Yields were therefore lower than anticipated when the Bank of England base rate was cut to 0.10% in March 2020. In addition the Council's use of internal borrowing to fund the borrowing requirement means that the investment portfolio is also reduced. The Council earned £83,384 in investment income in 2020/21.

6.7. Other investment income in the year came from the loan to Buxton Crescent Heritage Trust, £15,000; an unexpected further dividend from the former Icelandic investments with Heritable bank, £10,519; and £169 from a local loan.

6.8. Overall there was a shortfall of £50,928 against the interest income budget of £160,000.

6.9. Investments held at the 31st March 2021 are highlighted in the table below:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested
Money Market Funds	UK	Money Market Fund	£10,500,000
Santander	UK	Santander UK	£5,200,000
Barclays (ESG linked)	UK	Barclays	£5,200,000
NatWest Bank	UK	Royal Bank of Scotland	£3,479,000
Lloyds Bank	UK	Lloyds Banking Group	£3,000,000
Standard Chartered (ESG linked)	UK	Standard Chartered	£1,000,000
		Total Principal Invested	**£28,379,000**

6.10. All investments held as at 31st March 2021 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	31st March 2021 Actual
Fixed Rate	£1,000,000
Variable Rate	£27,379,000
TOTAL	**£28,379,000**

Ethical Investing

6.11. The table above includes £6,200,000 in financial investments with Environmental, Social and Governance (ESG) links, sometimes known as Ethical Investing and encompassing the Climate Change agenda:

Product	Amount	ESG merits
Barclays 'Green' (65day & 95 day notice accounts)	£5,200,000	Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.
Standard Chartered 'Sustainable' Deposit (6 month fixed term)	£1,000,000	Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.
TOTAL	**£6,200,000**	**21.85% of total portfolio**

7. Compliance with Treasury Limits

7.1. Treasury Limits and Prudential Indicators were set in the 2020/21 Treasury Management Strategy. The full outturn for the Indicators is shown in Annex B.

7.2. 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

		Approved TMSS 2020/21		Extraordinary counterparty limit increase during Covid-19 excess cash balances
Colour Banding	**Maximum Duration of Investment**	**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

Group Limits

Portfolio % increased by 50%	Approved TMSS 2020/21	Extraordinary counterparty limit increase during Covid-19 excess cash balances
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

ANNEX B

PRUDENTIAL INDICATORS	2020/21	2020/21
	TMSS/ Budget	Provisional Outturn
	£'000	£'000
Capital Expenditure		
General Fund	4,651	2,818
HRA	5,277	3,735
Total	**9,928**	**6,553**
Reduction in capital expenditure due to reprofiling of Asset Management and Fleet programmes to future years		
Ratio of financing costs to net revenue stream		
General Fund	**16%**	**11%**
HRA	**12%**	**12%**
Increased Business Rates Retention Funding recorded in the year due to large s31 grants for Extended Retail Relief reduces ratio of financing costs. However the funding will be retained in an earmarked reserve to offset the resulting collection fund deficit to be distributed in future years. Removing this from the ratio calculation would result in a provisional outturn of 15% which is due to a small reduction in borrowing costs.		
Gross borrowing requirement		
Total Gross Borrowing (31st March)	68,138	66,825
2020/21 Borrowing requirement	**2,626**	**1,411**
Capital Financing Requirement as at 31 March		
General Fund	29,582	29,548
HRA	52,399	52,399
TOTAL	**81,981**	**81,947**
Annual change in Capital Financing Requirement		
General Fund	1,721	1,996
HRA	(1,000)	(1,000)
Total	**721**	**996**

TREASURY MANAGEMENT INDICATORS	2020/21	2020/21
	TMSS/ Budget	Provisional Outturn
	£'000	£'000
Authorised Limit for external debt	Limit	Actual
Borrowing	90,837	66,825
other long term liabilities	0	0
TOTAL	**90,837**	**66,825**
Operational Boundary for external debt	Limit	Actual
Borrowing	88,337	66,825
other long term liabilities	0	0
TOTAL	**88,337**	**66,825**
	Limit	Actual
Upper limit for total principal sums invested for over 365 days	5,000	0

Maturity structure of fixed rate borrowing	Upper limit in 2020/21 Strategy	2020/21 Actual Maturity Profile (at 31st March 2021)
under 12 months *	60%	12%
12 months and within 2 years	60%	0%
2 years and within 5 years	60%	0%
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 2020/21 Strategy	2020/21 Actual Maturity Profile (at 31st March 2021)
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%