HIGH PEAK BOROUGH COUNCIL

Report to Audit & Regulatory Committee

27th September 2017

TITLE:	**Treasury Management Update: Mid-Year Report 2017/18**
EXECUTIVE COUNCILLOR:	**Cllr Emily Thrane – Executive Councillor for Finance & Corporate Services**
CONTACT OFFICERS:	**Claire Hazeldene – Finance & Procurement Manager** **Emily Bennetts – Finance Business Partner**
WARDS INVOLVED:	**Non-specific**

Appendix A Attached:
Treasury Management Mid-Year Update Report – 31st August 2017

1. Reason for the Report

1.1. To allow the robust scrutiny of the Council's treasury management performance in 2017/18 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 August 2017).

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 2017/18;
- The current investment portfolio;
- The capital programme update, borrowing portfolio with projected borrowing costs for 2017/18 and debt rescheduling options; and
- Compliance against Prudential and Treasury indicators set in the Treasury Management Strategy 2017/18.

3.3. The main headlines include:

- The Bank of England base rate remained unchanged at 0.25%.
- The investment income budget is expected to be on target as the current low interest environment was anticipated.
- The borrowing costs budget for external borrowing is currently expected to be to budget overall. However, a saving to the HRA of £60,000 is anticipated; with a corresponding overspend to the General Fund as a result of the net charge attributed to each fund for borrowing and investments under the one pool approach. This is dependent on the actual borrowing requirment for the General Fund.
- The average return on investments achieved by the Council during the period to 1st July to 31st August was 0.47%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £19.7million spread across seven separate institutions as at 31st August 2017.
- The Council's total level of debt as at 31st August was £72,236,303 (including finance leases) and the average rate of borrowing is 3.80%.
- Capita plc announced on 23rd June 2017 that it had exchanged contracts with Link Group for the sale of the division Capita Asset Services, the Council's treasury management advisors. The Council has been assured of Capita Asset Services' ongoing commitment to client service and that there will be no disruption to service levels or the teams who provide support.

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. Options and Analysis

5.1. This report sets out the Treasury Management position for High Peak Borough Council for 2017/18 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. That 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	***Location***	***Contacts***
'Treasury Management – Governance and Scrutiny Arrangements' (Audit & Regulatory Committee September 2009)	Finance & Performance, Town Hall, Buxton	Claire Hazeldene Finance & Procurement Manager Tel. 01538 395400 Ext. 4191
'Treasury Management Strategy 2017/18 (Audit & Regulatory Committee February 2017)		Emily Bennetts Finance Business Partner Tel. 01538 395400 Ext. 4186

Appendix A

High Peak Borough Council

Working for our community

Treasury Management Update
31st August 2017

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Income
4. Investment Portfolio
5. Capital Programme Update & Borrowing Position
6. Prudential Indicators
7. Treasury Management Advisors
8. MiFID II

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 2017/18 was approved by Council on 14th February 2017. This report details treasury management performance up to the 31st August 2017 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:

%	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	0.50	0.50	0.75	0.75
5yr PWLB rate	1.40	1.50	1.60	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10r PWLB rate	2.10	2.20	2.30	2.30	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25yr PWLB rate	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30
50yr PWLB rate	2.60	2.70	2.70	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10

2.2. Following the latest Bank of England quarterly Inflation Report on 3rd August, Capita has reviewed their interest forecasts. They remain unchanged as they have "seen very little in the way of any material change of any significance over the last three months to warrant making any changes".

2.3. The extent of uncertainties at the current time continues to mean that the interest rate forecast is likely to be subject to changes.

3. Investment Income

3.1. Interest earned on investment deposits up to 31st August 2017 totalled £31,900. The Council has budgeted to receive £64,720 in investment income in 2017/18. The budget was set with the expectation that the low interest environment would continue, therefore the interest receipts are expected to be on target.

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 Jul-Aug
HPBC Total	**0.44%**	**0.47%**
HPBC Long-term fixed (>364 days)	-	-
HPBC Short-term fixed (<364 days)	0.55%	0.56%
HPBC Short-term instant access	0.35%	0.36%
Benchmarks (Capita)		
*LIBID 7 Day Rate	0.11%	0.11%
*LIBID 3 Month Rate	0.19%	0.16%
*LIBID 6 Month Rate	0.33%	0.30%
*LIBID 12 Month Rate	0.54%	0.50%
Current Base Rate	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 July to 31st August 2017. 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
Nationwide Building Society	UK	£1,000,000	6 months	0.32%
Lloyds Bank	UK	£1,000,000	6 months	0.55%
Goldman Sachs	UK	£2,000,000	6 months	0.585%
Instant Access Cash *(Instant Access Accounts & Money Market Funds)*	UK	£1,356,000 *(daily average)*		0.36%

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, 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 August 2017 totalled £19,651,000 as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Goldman Sachs	UK	£4,000,000	**RED (6 months)**
Santander UK	UK	£4,000,000	**RED (6 months)**
Money Market Funds	UK	£3,700,000	**WHITE (12 months)**
Lloyds Bank	UK	£3,150,000	**RED (6 months)**
Nationwide Building Society	UK	£2,000,000	**RED (6 months)**
NatWest Bank	UK	£1,801,000	**BLUE (12 months)**
Royal Bank of Scotland	UK	£1,000,000	**BLUE (12 months)**
TOTAL		**£19,651,000**	

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
PURPLE	Up to 2 Years	£5.5m	£4.0m
ORANGE	Up to 1 Year	£4.9m	£3.3m
RED	Up to 6 Months	£4.0m	£2.7m
GREEN	Up to 100 Days	£3.5m	£2.2m
BLUE (Part & fully nationalised financial institutions)	Up to 1 Year	£5.5m	n/a
BLUE (NatWest)	Up to 1 Year	£8.2m	n/a
Money Market Funds	Up to 1 Year	£4.9m	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%	£5.5m	30%	£8.2m
Purple	20%	£5.5m	30%	£8.2m
Gold	18%	£4.9m	27%	£7.4m
Red	15%	£4.0m	23%	£6.3m
Green	13%	£3.5m	20%	£5.5m

4.4. The average level of funds that have been available for investment up to 31st August 2017 was £16.8 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. Capital Programme Update & Borrowing Position

Capital Programme Update

5.1. The table below provides current projections for capital expenditure and funding:

	Original Estimate	**Revised Estimate**
Total Capital Expenditure	**£9,801,000**	**£10,270,000**
General Fund	£5,865,000	£6,123,000*
HRA	£3,936,000	£4,147,000*
Funded by:		
Capital Receipts	£1,031,000	£1,031,000
External Funding	£471,000	£527,000
Major Repairs Reserve	£1,550,000	£2,099,000
HRA Contribution	£1,997,000	£1,659,000
2017/18 Net Financing Requirement	**£4,752,000**	**£4,954,000**
Capital Financing Requirement		
Opening CFR	**£78,974,000**	**£78,784,000**
PLUS Net Financing Requirement	£4,752,000	£4,954,000
LESS Minimum Revenue Provision	(£2,088,000)	(£2,085,000)
Closing CFR	**£81,638,000**	**£81,653,000****
General Fund	£25,779,000	£25,794,000
Housing	£55,859,000	£55,859,000

**Includes approved budget carry forwards from 2016/17*
***Includes £286,500 Finance Leases*

5.2. The Net Financing Requirement on 2017/18 expenditure is now estimated at £4,954,000: this increase relates to carried forward general fund capital schemes.

5.3. The Capital Financing Requirement (CFR) is a prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow to finance capital expenditure and is derived by aggregating specified items for the Council's balance sheet. The closing CFR is in line with the Capital Financing Requirement set in the Treasury Strategy Statement. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

Borrowing Position

5.4. 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.

5.5. The Council's total outstanding debt as at 31st August 2017 is £72,236,303, as detailed in the table below:

Lender	External Borrowing	Average Interest Rate	Maturity period
Public Works Loan Board	£54,025,404	3.76%	between 1 and 50 years
Market Loans	£12,800,000	4.57%	between 5 and 50 years
Local Authority Loans	£5,000,000	2.50%	up to 2 years
Finance Leases	£410,899	n/a	Up to 4 years
Total	**£72,236,303**	**3.80%**	

5.6. The 'operational boundary' (£85,997,000) and 'authorised limit' (£88,497,000) 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.

5.7. The revised capital expenditure budget includes a borrowing requirement of £4.9m (was £4.7m). There has been no 'new' borrowing undertaken to date. 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.

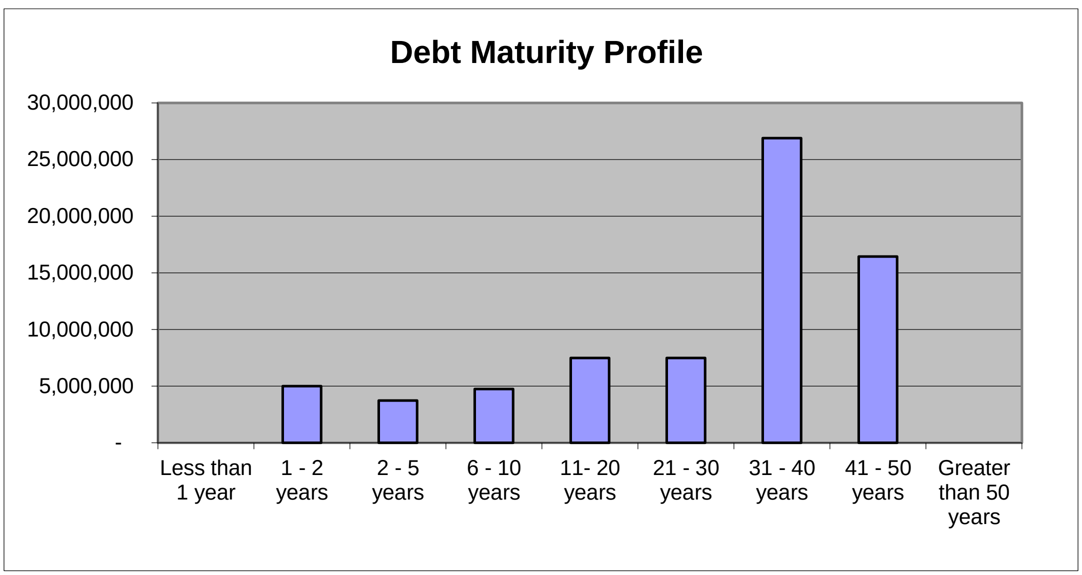
5.8. The Council's general fund and HRA has budgeted to incur £1,425,230 and £3,381,630 respectively in interest charges and other financing costs in 2017/18. The interest costs on external borrowing are expected to be to budget overall.

5.9. However, under the 'one pool' approach to borrowing which the Council adopts, the share of interest costs attributable to the general fund is forecast to be £60,000 more than budgeted; with a corresponding underspend on the HRA. This is due to the repayment of loans during 2016/17, which has taken the Council into an under-borrowed position.

5.10. This reduces the overall interest rate chargeable to the HRA than was originally budgeted (as it now includes a rate associated with the internal borrowing element, i.e. investment income foregone, which reduces the overall interest rate chargeable).

5.11. However, the forecast is based on the assumption that the General Fund borrowing requirement is £4.9m and new borrowing will be undertaken – this will be monitored throughout the year.

5.12. 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.



5.13. 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.

5.14. No rescheduling has taken place during 2017/18 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 2017/18) have not been breached during the year.

7. Treasury Management Advisors

7.1. Capita plc announced on 23rd June 2017 that it had exchanged contracts with Link Group for the sale of the division Capita Asset Services, the Council's Treasury Management advisors. Link Group are a market leading provider of financial administration solutions with significant presence throughout Australasia, Asia, Africa, the Middle East and Europe. Capita Asset Services also hold market leading positions across all parts of its business, with a presence in complementary jurisdictions in the UK, Europe and Jersey.

7.2. The Council has been assured that future plans are all underpinned by Capita Asset Services' ongoing commitment to client service and further investment into their infrastructure, and that there will be no disruption to our service levels or support.

7.3. Updates will continue to be given as the exchange moves through to formal completion which is expected later this year following regulatory approvals. There have been no further formal updates from Capita to date, but the latest expectation is for the sale to complete in October 2017 and has been assured again that, for our purposes, business continues as normal.

8. MiFID II

8.1. The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (share, bonds, units in collective investment schemes and derivatives), and venues where those instruments are traded. The new MiFID II environment is set to commence on 3rd January 2018.

8.2. Under the new regime, Local Authorities will be deemed "Retail" clients by default. They will have the option to "opt-up" to "Professional" client status, or remain as "Retail".

8.3. In order to opt-up, Local Authorities will need to meet Qualitative and Quantitative test criteria:

- The Qualitative criteria is set by each counterparty (e.g. financial institution, broker) that the Council wishes to trade with;
- The Quantitative criteria is:

    1. A Local Authority has to have an investment portfolio of at least £10million. This is understood to be at the point of requesting to opt up;

       And either

    2. 10 transactions per quarter in a relevant market in the past 4 quarters;

       Or

    3. At least 1 year of experience in a professional position in financial markets which requires knowledge of transactions or services envisaged.

8.4. This change affects the Council’s dealings with Money Market Funds and Certificates of Deposit – simple term deposits are not covered by MiFID II. However, the brokers we use to access borrowing through other Local Authorities and some simple term deposits would also be affected as they could not deal with the Council as a Retail Client, only if we are able to opt-up as a Professional Client.

8.5. The Council’s average balance of investments usually exceeds £10million, peaking around mid-month, so it seems likely that we will be able to achieve the first quantitative criteria.

8.6. Of the ‘either/ or’ quantitative criteria, the Council would only just be able to achieve criteria 2 looking at past history of transactions (money market/ instant access account transactions and fixed term investments and could fall short; however it is expected that institutions would accept the Council as achieving criteria 3.

8.7. It is expected that application to opt-up to Professional status will be on an institution-by-institution basis and that each application will be slightly different, in form and in terms of what the qualitative criteria may be. The council has not received any invitations to apply to opt-up to date, but is in contact with the various parties on this matter, so will assess each application individually on receipt.

8.8. The current consideration is that the Council will apply to opt-up wherever possible to continue to have access to the full range of counterparties that can currently be accessed for investments, including money market funds, activities through brokers and the Certificate of Deposit custody account to maintain a low counterparty risk through a spread portfolio.

8.9. Updates on applications to opt-up to Professional status under MiFID II will be brought to this committee as they are available.