

## **HIGH PEAK BOROUGH COUNCIL**

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

**14th February 2018**

<b>TITLE:</b>	<b>Treasury Management Update: Mid-Year Report 2017/18</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 2017**

#### **1. Reason for the Report**

- 1.1. The purpose of this report is 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 December 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 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 increased to 0.50% on 2nd November 2017.
- The investment income budget is expected to achieve a surplus of £20,000 as interest rates start to increase following the base rate increase.
- The borrowing costs budget for external borrowing is expected to be overspent by a net £37,000 on the general fund; and underspent by £83,000 on the HRA due to savings on external borrowing costs of £46,000 and the £83,000 change in the split between costs allocated to the HRA and general fund.
- 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 £21.9million spread across eight separate institutions as at 31<sup>st</sup> December 2017.
- The Council's total level of debt as at 31<sup>st</sup> August was £72,236,303 (including finance leases) and the average rate of borrowing is 3.80%.
- Confirmation was received in November 2017 that the acquisition of Capita Asset Services by Link Group had formally completed. The new brand name is Link Asset Services.

#### **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, Link Asset Services (formerly Capita Asset Services).

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**

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

'Treasury Management Strategy  
2017/18  
(Audit & Regulatory Committee  
February 2017)

**Location**

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Town Hall, Buxton

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# High Peak Borough Council

*Working for our community*

## **Treasury Management Update 31st December 2017**

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Income
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5. Borrowing Position
6. Prudential Indicators
7. Treasury Management Advisors
8. MiFID II
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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 (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 December 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, Link Asset Services (‘Link’), is shown below:

%	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
5yr PWLB rate	1.60	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10r PWLB rate	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25yr PWLB rate	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50yr PWLB rate	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

- 2.2. Link Asset Services undertook its latest review of interest rates forecasts on 7th November following the quarterly Bank of England Inflation Report and Monetary Policy Committee (MPC) meeting. As expected, the MPC raised Bank Rate by 0.25% to 0.50% on 2nd November 2017. The MPC also gave forward guidance that they expected to raise Bank Rate by 0.25% only twice more in the next two years to reach 1.00% by 2020. This was in line with previous guidance that bank rate would only go up very gradually and to a limited extent.

2.3. The overall balance of risks to economic recovery in the UK is probably currently to the downside due to uncertainties around Brexit; however, given those uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which bank rate could go up.

### 3. Investment Income

3.1. Interest earned on investment deposits up to 31st December 2017 totalled £64,700. 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, however rates have started to increase following the base rate increase. Therefore a surplus of £20,000 is anticipated against the budget.

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 Average</b>	<b>0.44%</b>	<b>0.47%</b>	<b>0.49%</b>
HPBC long-term fixed (>364 days)	-	-	-
HPBC short-term fixed (<364 days)	0.55%	0.56%	0.58%
HPBC instant access	0.35%	0.35%	0.38%
<b>Benchmarks</b>			
*LIBID 7 day rate	0.11%	0.11%	0.28%
*LIBID 3 month rate	0.19%	0.17%	0.35%
*LIBID 6 month rate	0.33%	0.31%	0.44%
*LIBID 12 month rate	0.54%	0.54%	0.64%
Base Rate at the end of the period	0.25%	0.25%	0.50%

\*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 2017. Investments are made in line with Link's creditworthiness guidance and the duration limits applied to each colour banding.

Institution	Country of Domicile	Amount	Length	Rate
Royal Bank of Scotland	UK	£1,000,000	12 months	0.75%
Goldman Sachs	UK	£2,000,000	6 months	0.695%
Lloyds Bank	UK	£1,150,000	6 months	0.65%
Lloyds Bank	UK	£1,000,000	6 months	0.65%
Instant Access Cash (Instant Access Accounts & Money Market Funds)	UK	£3,250,000 (daily average)		0.38%

- 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 December 2017 totalled £21,917,000 as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Bank of Scotland	UK	£4,250,000	<b>ORANGE (12 months)</b>
Goldman Sachs	UK	£4,000,000	<b>RED (6 months)</b>
Santander UK	UK	£4,000,000	<b>RED (6 months)</b>
NatWest Bank	UK	£3,267,000	<b>BLUE (12 months)</b>
Lloyds Bank	UK	£3,150,000	<b>ORANGE (12 months)</b>
Royal Bank of Scotland	UK	£2,000,000	<b>BLUE (12 months)</b>
Nationwide Building Society	UK	£1,000,000	<b>RED (6 months)</b>
Money Market Funds	UK	£250,000	<b>WHITE (12 months)</b>
<b>TOTAL</b>		<b>£21,917,000</b>	

- 4.2. The maximum investment term, as recommended by Link, 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 12 months	£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	£4.9m	n/a
<b>WHITE (Lending to the Government / Local Authorities)</b>	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
<b>BLUE</b>	20%	£5.5m	30%	£8.2m
<b>PURPLE</b>	20%	£5.5m	30%	£8.2m
<b>ORANGE</b>	18%	£4.9m	27%	£7.4m
<b>RED</b>	15%	£4.0m	23%	£6.3m
<b>GREEN</b>	13%	£3.5m	20%	£5.5m

4.4. The average level of funds available for investment up to 31st December 2017 was £18.3million. 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.

4.5. Following a change on 16th November to 'Positive' on the Outlook on the Long Term Rating of Bank of Scotland Plc and Lloyds Bank Plc by Standard & Poors, one of the three major rating agencies, Link now consider these two counterparties to be 'Orange' and therefore now have a maximum suggested duration of investment of 12 months.

## 5. Borrowing Position

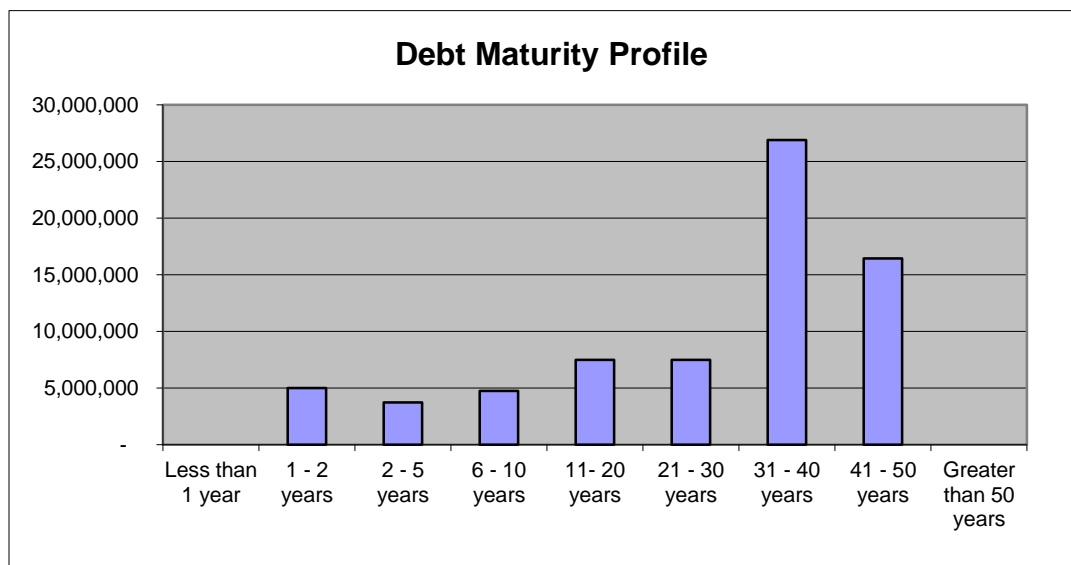
5.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.

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

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

5.3. 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.

- 5.4. The revised capital expenditure budget includes a borrowing requirement of £3.5m (was £4.7m). Due to changes in the profile of the cash flow relating to this expenditure, there has been no requirement for this 'new' borrowing 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.
- 5.5. 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. Overall there is a reduction in the interest costs expenditure forecast for the year of £46,000 due to the delayed external borrowing.
- 5.6. 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 £83,000 more than budgeted; with a corresponding underspend on the HRA. This is due to the repayment of loans during 2016/17, taking the Council into an under-borrowed position, which reduces the overall interest rate chargeable to the HRA compared to the original budget (as it now includes a rate associated with the internal borrowing element, i.e. investment income foregone, which reduces the overall interest rate chargeable).
- 5.7. Therefore the general fund budget for borrowing costs is forecast to be overspent by a net £37,000 and the HRA budget is forecast to be underspent by £83,000.
- 5.8. 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.



- 5.9. 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.
- 5.10. No rescheduling has taken place during 2017/18 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.

## **6. Prudential Indicators**

- 6.1. The Council has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2017/18 and complies with the Council's Treasury Management Practices.

## **7. Treasury Management Advisors**

- 7.1. The council received confirmation in November 2017 that the acquisition of Capita Asset Services, formerly part of Capita plc, by Link Group had formally completed. The new brand name is Link Asset Services. Link is a market leading provider of technology-enabled solutions in the financial and corporate markets, has a reputation for innovation, and a strong and loyal client base.
- 7.2. David Wheelan, formerly of Capita Asset Services, now the Managing Director at Link Market Services, confirms that throughout the acquisition process, Link Group has expressed the importance of business continuity, service excellence and stability; the business will continue to offer the full suite of services and the teams who support the Council will remain in place as the new ownership progresses.

## **8. MiFID II**

- 8.1. As reported at the previous Audit & Regulatory Committee on 27th September 2017, the Council is to opt-up to Elective Professional status under the Markets in Financial Instruments Directive (MiFID II) from 3rd January 2018 in order to allow the Council to continue deal with Money Market Funds and Certificates of Deposit and be treated as a Professional client by the Council's Treasury Management Advisors, Link, and brokers through whom the Council arranges inter-local authority borrowing.
- 8.2. The Council submitted applications to all applicable counterparties before the deadline to confirm intention to opt-up and that the Council meets the relevant qualitative and quantitative criteria to be considered as a Professional client, rather than deemed as a Retail client by default.

8.3. The Council has now received confirmations that it has been accepted as a Professional client from various counterparties, including Link. There are several applications still outstanding as the counterparties have had a considerable task in assessing the significant amount of applications they have had to deal with as this legislative change has affected more than just local authorities. None of the Council's applications have been refused thus far and the lack of response in some instances is not affecting the Council's access to counterparties or appropriate instruments to date.

## **9. Revised CIPFA Codes**

9.1. In December, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. Both these codes will be effective for the 2018/19 financial year; therefore some of the changes will be included in the Treasury Management Strategy Statement 2018/19.