HIGH PEAK BOROUGH COUNCIL

Report to the Audit & Regulatory Committee

25th July 2018

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

Appendices attached:
Appendix A – Annual Treasury Management Report 2017/18

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 2017/18 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 2017/18 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 2017/18 considers the following areas:

- The Treasury Management Strategy adopted for 2017/18 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 2017/18;
- 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 how and where the Council has invested its money during the year;
- The interest yield for 2017/18; and
- Compliance with prudential indicators, showing the outturn against those Indicators formally adopted in the 2017/18 Treasury Management Strategy.

3.3 The main headlines include:

- Capital expenditure in 2017/18 totalled £6.5 million. This created a borrowing requirement of £2.6 million wholly applicable to General Fund capital expenditure.

- Total debt at 31st March 2018 amounted to £72 million including loans from Public Works Loan Board (PWLB), market loans, local authority loans and finance lease arrangements.

- There were no loan maturities during the year; no new external borrowing took place; nor was there any debt rescheduling.

- Overall borrowing costs were £45,000 underspent against the budget as refinancing of maturing loans from the previous year and new borrowing was anticipated during the year, whereas internal borrowing was used instead. This was split between the General Fund (£30,000 overspend) and HRA (£75,000 underspend).

- The average daily investment during 2017/18 was £18.7 million invested with a total of 10 institutions, yielding £92,249 in investment income. There was a surplus achieved against the investment income budget of £27,529 as rates improved following the return in the Bank of England Base Rate to 0.50% in November 2017.

- The average return achieved by the Council on its investment portfolio for the year was 0.49%, which compares favourably to short-term industry benchmarks.

- Year-end investments totalled £13.7 million all managed by the Council's Treasury Management Team.

- The outturn against the treasury and prudential indicators set within the Treasury Strategy 2017/18 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 2017/18. 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.

ANDREW P STOKES

Executive Director (Transformation) & Chief Finance Officer

Background Papers	**Location**	**Contacts**
'Treasury Management Strategy Statement 2017/18' Audit & Regulatory Committee Feb 17	Finance and Procurement, Town Hall, Buxton	Claire Hazeldene Finance & Procurement Manager Tel. 01538 395400 Ext. 4191
'Treasury Management – Governance and Scrutiny Arrangements' Audit & Regulatory Committee Sept 09		Emily Bennetts Finance Business Partner Tel. 01538 395400 Ext. 4186

APPENDIX A

Annual Treasury Management Report

2017/18

July 2018

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 2017/18. 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 2017/18
- Economy in 2017/18
- The Council's treasury position as at 31st March 2018
- Capital Expenditure and the Overall Borrowing Need
- Borrowing Outturn
- Investment Performance
- Investment Portfolio & Yield
- Compliance with Prudential Indicators

2. The 2017/18 Treasury Management Strategy

2.1 The 2017/18 Treasury Strategy anticipated that there would be no change in Bank Rate during the year while the UK negotiated terms for withdrawal from the EU, though acknowledged that other factors could bring the pace and timing of increases forward.

2.2 Volatility in rates and an overall balance of risks was expected to continue to the downside throughout the year as external influences weigh on the UK.

3. Economic Conditions 2017/18

3.1 The outcome of the EU referendum lead to pessimistic outlooks and economic forecasts which had the consequence of the Bank of England cutting the base rate to 0.25% in August 2016. However, during 2017 there was a major shift in expectations in financial markets of how soon base rate would begin to rise based on economic data throughout the year. The Monetary Policy Committee (MPC) meeting in September 2017 significantly changed the tone of forecasts; from which followed the withdrawal of the emergency rate cut to return base rate to 0.50% in November 2017.

3.2 The more positive tone and forecasts resulted in investment rates improving at the end of the year, with borrowing rates reacting similarly.

4 The Current Treasury Position

4.1 The Council's debt and investment position at the beginning and the end of the 2017/18 financial year was as follows:

	2016/17		2017/18	
	31st March 2017 Principal	**Rate/Return**	**31st March 2018 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%
Local Authority Loans	£5,000,000	2.50%	£5,000,000	2.50%
Finance Lease Liabilities	£410,899	*n/a*	£286,492	*n/a*
Total Debt	**£72,236,303**	**3.80%**	**£72,111,896**	**3.80%**
Investments				
In-House	£13,715,031	0.51%	£13,747,417	0.49%
Total Investments*	**£13,715,031**	**0.51%**	**£13,747,417**	**0.49%**

** includes funds held in the Council's main bank account (NatWest)*

5. The Council's Capital Expenditure & Borrowing Requirement 2017/18

5.1 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.); or
- by external borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

5.2 Capital expenditure constitutes one of the required prudential indicators. The table below shows actual capital expenditure for 2017/18 and how this was financed:

	2017/18 Projected Outturn (£)
General Fund Capital Expenditure	3,347,796
HRA Capital Expenditure	3,124,879
Total	**6,472,675**
Resourced by:	
Capital receipts	715,944
Capital grants & contributions	376,176
Reserve Funding	2,056,762
HRA Contribution	716,705
Unfinanced in year capital expenditure (Underlying Need to Borrow)	**2,607,088**

5.3 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2017/18 unfinanced capital expenditure and prior years' unfinanced capital expenditure which has not yet been paid for.

5.4 The Treasury Strategy 2017/18 anticipated a £4,752,000 underlying borrowing requirement. The table above shows the provisional outturn as £2,607,088. The difference is largely made up of the reprofiling of capital expenditure related to the Asset Management Programme into future years.

5.5 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.

5.6 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. 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.

5.7 The Council's overall CFR is shown below:

	2017/18 Projected Outturn (£)
Opening balance (1st April 2017)	78,783,107
Add unfinanced capital expenditure	2,607,088
Less MRP and repayment of finance leases	(2,084,974)
Closing balance (31st March 2018)	**79,305,221**

5.8 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 2017/18 (plus expected changes to the CFR over 2018/19 and 2019/20). This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

5.9 The table below highlights the Council's borrowing position against the CFR:

	31st March 2018 Outturn £	**31st March 2019 Projected £**	**31st March 2020 Projected £**
Borrowing position	72,111,896	75,106,175	77,598,884
Capital Financing Requirement	79,305,221	80,106,553	80,811,342
Over / (Under) Borrowed	(7,193,325)	(5,000,378)	(3,212,458)

5.10 The Council is in an 'under-borrowed' position of £7,193,325 as at 31st March 2018, therefore is complying with the prudential indicator.

6 Borrowing Outturn

6.1 No new external borrowing was taken during 2017/18; the £2,607,088 borrowing requirement was instead funded using internal resources available at the time.

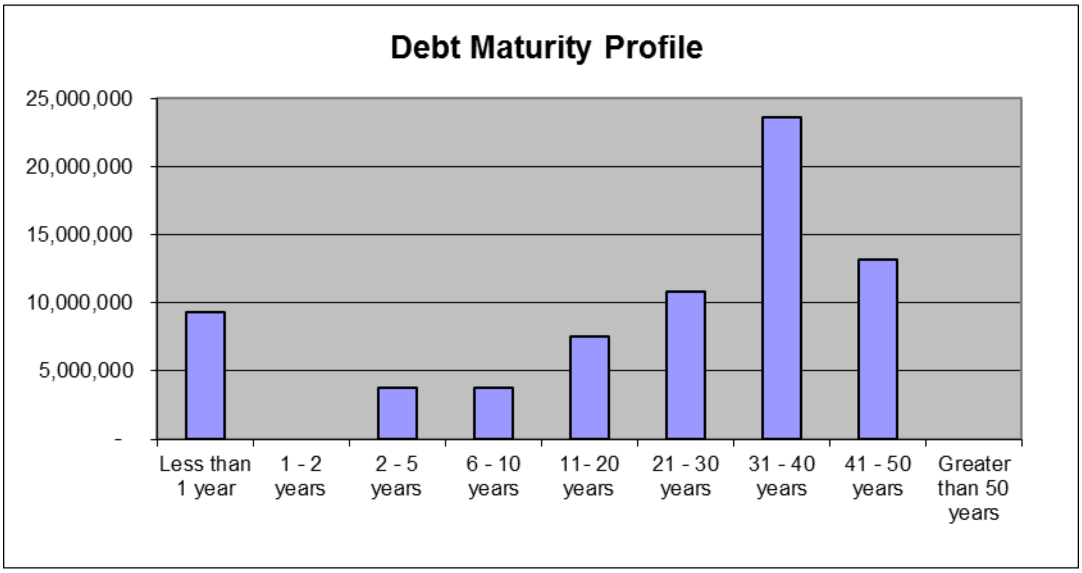
6.2 There were no further maturities of existing loans during 2017/18, though it was anticipated in the Medium Term Financial Plan for 2017/18 that part of the maturities of £9,748,100 which occurred during 2016/17 would be refinanced during 2017/18. However cash reserves continued to be available to fund that balance internally during the year. There were no future maturing loans refinanced during the year.

6.3 Currently the cost of borrowing is greater than the interest income lost through reduced investment opportunities resulting from this internal borrowing. The treasury team continue to monitor this balance for the potential of borrowing interest rates increasing in the future.

6.4 The Council's level of external borrowing (excluding the finance lease arrangement) as at 31st March 2018 totalled £71,825,404 (approximately 70% HRA, 30% General Fund).

6.5 As a result of a smaller overall borrowing requirement in the year and the internal funding described above, the total borrowing costs achieved a saving of £45,000 against the budget. The overall cost is split between the General Fund and HRA under the one pool approach. As the HRA continues to make voluntary MRP of £1.249million and has not increased the underlying need to borrow, its share has reduced, therefore has achieved an underspend of £75,000 against its budget. There is an overspend of £30,000 against the general fund budget of £1,425,225.

6.6 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.

6.7 The graph shows that there are fixed term loans of £5million maturing in 2018/19. Any potential refinancing of these is considered through the Medium Term Financial Plan forecasts.

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.

6.9 No debt rescheduling took place during 2017/18. Link advised that the premium the Council would expect to pay on early redemption would be higher than potential interest savings from debt rescheduling.

7 Investment Performance

7.1 The economic backdrop for the year underpins how the Council has performed with regard to maximising its investment return. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by lower counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

7.2 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.

7.3 The Council achieved an average interest rate of 0.49% 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 2017/18
HPBC Total	**0.44%**	**0.47%**	**0.49%**	**0.55%**	**0.49%**
HPBC Total Long-term (>364 days)	-	-	-	-	**-**
HPBC Total Short-term (<364 days)	0.55%	0.56%	0.58%	0.69%	**0.59%**
HPBC Total Short-term (instant access)	0.35%	0.35%	0.38%	0.47%	**0.40%**
Link Benchmarks					
*LIBID 7 Day Rate	0.11%	0.11%	0.28%	0.36%	**0.21%**
*LIBID 3 Month Rate	0.19%	0.17%	0.35%	0.44%	**0.29%**
*LIBID 6 Month Rate	0.33%	0.31%	0.44%	0.53%	**0.40%**
*LIBID 12 Month Rate	0.54%	0.54%	0.64%	0.74%	**0.61%**
Base Rate at the end of the period	0.25%	0.25%	0.50%	0.50%	**0.50%**

LIBID (London Interbank Bid Rate)

7.4 Most of the investment portfolio was held on a short-term basis (< 1 year) through 2017/18, 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.

7.5 The return on fixed short term investments has fluctuated in during the year, initially dropping from the after effects of the reduction in Base Rate to 0.25% in August 2016, then regaining though increasing rates available after the return of Base Rate to 0.50% in November 2017.

8 Investment Portfolio & Interest Yield

8.1 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 2 years, dependent on cash flows, its interest rate view, the interest rates on offer and durational limits as set out in the Treasury Strategy.

8.2 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.

8.3 Money was invested during the year with 10 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.

8.4 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 2017/18 was £18.7m.

Financial Institution	Country of Domicile	Interest Earned (£s)	Average Daily Investment (£s)	Rate of Return (%)
Santander	UK	24,262	3,988,189	0.61
Money Market Funds	UK	10,086	3,438,904	0.29
Lloyds Bank	UK	17,081	2,982,877	0.57
Goldman Sachs	UK	18,920	2,838,356	0.67
Royal Bank of Scotland	UK	10,034	1,402,740	0.72
Bank of Scotland	UK	5,384	1,370,364	0.39
NatWest Bank	UK	771	1,182,800	0.07
Nationwide Building Society	UK	3,470	1,005,479	0.35
Coventry Building Society	UK	2,088	564,384	0.37
Svenska Handelsbanken	Sweden	153	61,728	0.25
Total		**92,249**	**18,835,821**	**0.49**

8.5 The Council earned £92,249 in investment income in 2017/18. This is a surplus of £27,529 against the interest income budget of £64,720: the outturn fluctuated during the year when fixed investment rates dropped following the reduction in the Bank of England Base Rate in August 2016, but was offset by increases following the return to 0.50% in November 2017.

8.6 Investments held at the 31st March 2018 are highlighted in the table below:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested
Santander	UK	Santander	£4,000,000
Lloyds Bank	UK	Lloyds Banking Group	£3,150,000
Goldman Sachs	UK	Goldman Sachs	£2,000,000
Royal Bank of Scotland	UK	Royal Bank of Scotland	£2,000,000
Money Market Funds	UK	Money Market Fund	£1,800,000
NatWest Bank	UK	Royal Bank of Scotland	£797,000
		Total Principal Invested	**£13,747,000**

8.7 All investments held as at 31st March 2018 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	31st March 2018 Actual
Fixed Rate	£7,150,000
Variable Rate	£6,597,000
TOTAL	**£13,747,000**

8.8 As reported during the year, MiFID II (Markets in Financial Instruments Directive II) was introduced on 3rd January 2018. These regulations govern the relationship between the Council and financial institutions dealing with borrowing, money markets and tradable instruments (CD's) – simple term deposits are not affected. The Council has opted up to 'professional' client status to continue to deal with the institutions as it did before the regulatory change. There has been little or no effect on the Council aside from the initial paperwork process in opting up.

9 Compliance with Treasury Limits

9.1 Treasury Limits and Prudential Indicators were set in the 2017/18 Treasury Management Strategy. The full outturn for the Indicators is shown in Annex B.

ANNEX A

Current Lending Limits

UK Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance)
Purple	**£5.5m**	**Up to 2 years**	**20%**
Orange	**£4.9m**	**Up to 1 year**	**18%**
Red	**£4.0m**	**Up to 6 months**	**15%**
Green	**£3.5m**	**Up to 100 days**	**13%**
Yellow**	**£5.5m**	**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	**£4.0m**	**Up to 2 years**	**15%**
Orange	**£3.3m**	**Up to 1 year**	**12%**
Red	**£2.7m**	**Up to 6 months**	**10%**
Green	**£2.2m**	**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	**£5.5m**	**Up to 1 year**	**20%**
NatWest (the Council's main bank account)	**£8.2m**	**Up to 1 year**	**30%**

Group Limits

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*
Orange	*18%*	*£4.9m*	*27%*	*£7.4m*
Red	*15%*	*£4.0m*	*23%*	*£6.3m*
Green	*13%*	*£3.5m*	*20%*	*£5.5m*

Money Market Funds

£4.9m for up to 1 year per fund (£6.3m maximum overall)

ANNEX B

PRUDENTIAL INDICATORS	2017/18	2017/18
	Strategy	Provisional Outturn
	£'000	£'000
Capital Expenditure		
General Fund	5,865	3,348
HRA	3,936	3,125
Total	**9,801**	**6,473**
Ratio of financing costs to net revenue stream		
General Fund	**16%**	**13%**
HRA	**15%**	**14%**
Gross borrowing requirement		
Total Gross Borrowing (31st March)	78,863	72,112*
2017/18 borrowing requirement	**4,752**	**2,607**
*includes £286,000 of Finance Lease liabilities		
Capital Financing Requirement as at 31 March		
General Fund	25,779	23,446
HRA	55,859	55,859
TOTAL	**81,638**	**79,305**
Annual change in Capital Financing Requirement		
General Fund	3,913	1,771
HRA	(1,249)	(1,249)
Total	**2,664**	**522**
Decreases resulting from MRP payments being greater than financing requirement		
Incremental impact of capital investment decisions on Council Tax Band D equivalent		
Actual compared to Feb 17 Budget Strategy	£1.23	(£0.13)
Reduction in impact due to lower than budgeted capital expenditure and under borrowed position, funded by internal borrowing		
Incremental impact of capital investment decisions on Housing Rent per week		
Actual compared to Feb 17 Budget Strategy	(£0.01p)	(£0.05p)
Reduction in impact due to lower than budgeted capital spend – reduced impact on investment balances		

TREASURY MANAGEMENT INDICATORS	2017/18 Strategy £'000	2017/18 Provisional Outturn £'000
Authorised Limit for external debt	Limit	Actual
Borrowing	88,211	71,825
other long term liabilities	286	286
TOTAL	**88,497**	**72,111**
Operational Boundary for external debt	Limit	Actual
borrowing	85,711	71,825
other long term liabilities	286	286
TOTAL	**85,997**	**72,111**
Upper limit for fixed interest rate exposure	Limit	Actual
Borrowing	83,531	71,825
Investments	26,000	11,150
Upper limit for variable rate exposure	Limit	Actual
Borrowing	23,607	0
Investments	25,300	18,646
Actual based on highest balance during the year		
	Limit	Actual
Upper limit for total principal sums invested for over 364 days	4,000	0

Maturity structure of fixed rate borrowing during 2017/18	Upper limit in 2017/18 Strategy	2017/18 Actual Maturity Profile (as at 31st March 2018)
under 12 months *	30%	13%
12 months and within 2 years	30%	0%
2 years and within 5 years	40%	5%
5 years and within 10 years	60%	5%
10 years and above	90%	77%

* 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.