

HIGH PEAK BOROUGH COUNCIL

Report to the Audit & Regulatory Committee

25th July 2018

TITLE:	Treasury Management Update: Mid-Year Report 2018/19
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

Appendices Attached:

Appendix A - Treasury Management Mid-Year Update Report – 30th June 2018

1. Reason for the Report

- 1.1. To allow the robust scrutiny of the Council's treasury management performance in 2018/19 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 committee note the current treasury management position (as at 30th June 2018).

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 2018/19;
- The current investment portfolio;
- The borrowing portfolio with projected borrowing costs for 2018/19 and debt rescheduling options; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2018/19.

3.3. The main headlines include:

- The Bank of England base rate remains unchanged at 0.50%.
- The investment income budget of £139,940 is expected to be on target based on current levels, pending the outcome of future base rate rises.
- A saving of £21,670 overall is forecast on the borrowing costs budget, split £11,950 to the general fund and £9,720 to the HRA, due to reduced MRP on the general fund and improved investment income for the HRA.
- The average return on investments achieved by the Council during the period to 1st April to 30th June was 0.61%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £14.8 million spread across eight separate institutions as at 30th June 2018.
- The Council's total level of debt as at 30th June was £72,111,896 (including finance leases) and the average rate of borrowing is 3.76%.

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 2018/19 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.

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
2018/19
(Audit & Regulatory Committee
February 2018, Revised at Council
May 2018)

Location

Finance & Performance,
Town Hall, Buxton

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High Peak Borough Council

Working for our community

Treasury Management Update 30th June 2018

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Income
4. Investment Portfolio
5. Borrowing Position
6. Prudential Indicators

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 2018/19 was approved by Council on 20th February 2018 and revised on 3rd May 2018 to incorporate changes to the capital programme. This report details treasury management performance up to the 30th June 2018 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:

%	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	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
5yr PWLB rate	2.00	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
10r PWLB rate	2.40	2.50	2.60	2.60	2.70	2.80	2.80	2.90	2.90	3.00	3.00
25yr PWLB rate	2.80	2.90	3.00	3.10	3.20	3.30	3.30	3.40	3.40	3.50	3.50
50yr PWLB rate	2.50	2.60	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20

- 2.2. During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around and the MPC left rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather had been just one contributor. Since May, opinion has again turned to suggest that an August Bank Rate increase is a possibility.

2.3. However, there remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it is still far too early to be confident about how strong growth and inflationary pressures will be over the next two years, and therefore the pace of any rate increases.

3. Investment Income

3.1. Interest earned on investment deposits up to 30th June 2018 totalled £26,218. The Council has budgeted to receive £139,940 in investment income in 2018/19. The budget was set with the potential for one rate rise of 0.25% during 2018/19. Pending the outcome of this, current investment income levels are on target to meet 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
HPBC Average	0.61%
HPBC long-term fixed (>364 days)	-
HPBC short-term fixed (<364 days)	0.79%
HPBC instant access	0.46%
Benchmarks	
*LIBID 7 day rate	0.36%
*LIBID 3 month rate	0.55%
*LIBID 6 month rate	0.67%
*LIBID 12 month rate	0.84%
Base Rate at the end of the period	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 April to 30th June 2018. 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
Cooperatieve Rabobank	Netherlands	£1,000,000	12 months	1.03%
Coventry Building Society	UK	£1,000,000	6 months	0.71%
Goldman Sachs	UK	£2,000,000	6 months	0.825%
Lloyds Bank	UK	£1,150,000	6 months	0.75%
Lloyds Bank	UK	£1,000,000	12 months	1.00%
Instant Access Cash (Instant Access Accounts & Money Market Funds)	UK	£2,333,670 (daily average)		0.61%

- 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 30th June 2018 totalled £14,794,000:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Santander UK	UK	£4,200,000	RED (6 months)
Lloyds Bank	UK	£3,150,000	ORANGE (12 months)
Goldman Sachs	UK	£2,000,000	RED (6 months)
Money Market Funds	UK	£2,000,000	WHITE (12 months)
Cooperatieve Rabobank UA	Netherlands	£1,000,000	ORANGE (12 months)
Coventry Building Society	UK	£1,000,000	RED (6 months)
NatWest Markets (NRFB) (previously Royal Bank of Scotland)	UK	£1,000,000	No Colour (was BLUE (12 months))
NatWest Bank	UK	£444,000	BLUE (12 months)
TOTAL		£14,794,000	

- 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
PURPLE	Up to 2 years	£6.0m	£4.5m
ORANGE	Up to 12 months	£5.4m	£3.6m
RED	Up to 6 months	£4.5m	£3.0m
GREEN	Up to 100 days	£3.9m	£2.4m
BLUE (Part & fully nationalised financial institutions)	Up to 1 year	£6.0m	n/a
BLUE (NatWest)	Up to 1 year	£9.0m	n/a
Money Market Funds	Up to 1 year	£5.4m	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%	£6.0m	30%	£9.0m
PURPLE	20%	£6.0m	30%	£9.0m
ORANGE	18%	£5.4m	27%	£8.1m
RED	15%	£4.5m	23%	£6.9m
GREEN	13%	£3.9m	20%	£6.0m
Money Market Funds	18%	£5.4m	23%	£6.9m

- 4.4. The average level of funds available for investment up to 30th June 2018 was £17million. 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. The largest UK banks are currently undergoing a process called ‘ring-fencing’ under which they are required by UK law to separate core retail banking services from their investment and international banking activities by 1st January 2019. Ring-fencing is a regulatory initiative created in response to the global financial crisis. The result of this is for these banks to create a ring-fenced and non-ring-fenced entity and each bank has made different decisions about which financial products and activities belong in each. The newly created entities are rated by the major rating agencies in the same way existing entities already are.
- 4.6. Only one product or investment of the Council has been affected by this ring-fencing process. A 12 month CD (Certificate of Deposit) of £1,000,000 was purchased from the Royal Bank of Scotland through King & Shaxson on 26th October 2017 with interest paid at 0.75%. The Royal Bank of

Scotland was colour coded Blue (12 months) under the Link colour coded creditworthiness scheme. Through ring-fencing, this investment now sits with the newly created NatWest Markets plc which is a non-ring-fenced bank. Under the Link's model this institution does not have a colour therefore no new investments would be undertaken. As this particular investment is a CD it can be sold on the secondary market, though there may be a premium attached to this. The treasury team have discussed this with our advisors at Link who have said there is no urgency to divest of this product at the current time. This will continue to be monitored until the product matures on 25th October 2018.

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 30th June 2018 is £72,111,896, 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	£286,492	n/a	Up to 4 years
Total	£72,111,896	3.76%	

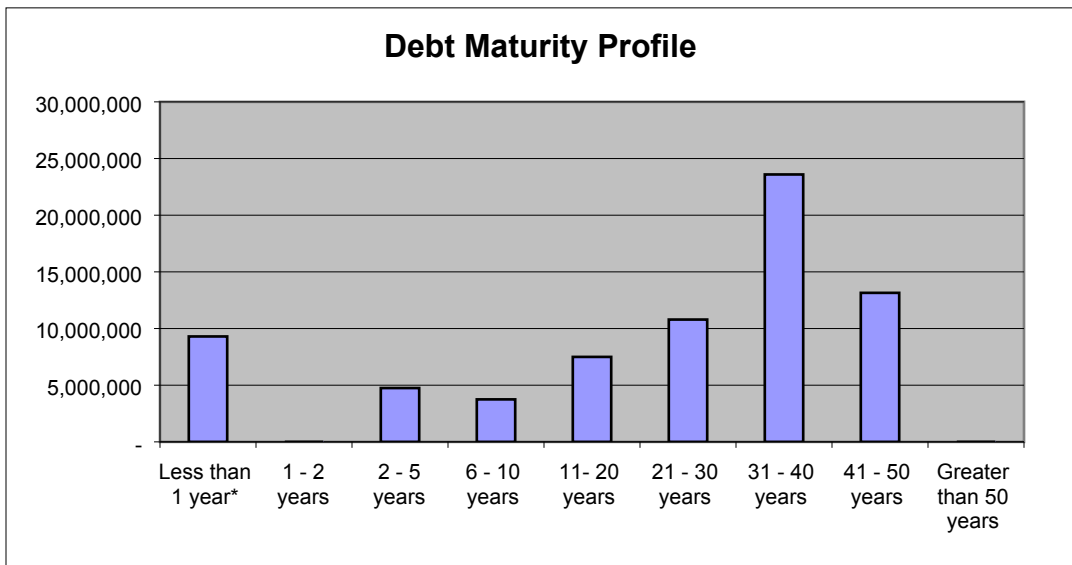
5.3. The 'operational boundary' (£87,783,000) and 'authorised limit' (£90,283,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.

5.4. The £286,492 balance on finance leases which forms part of the external debt relates to a number of vehicles which were originally acquired and funded via finance lease arrangements. The decision was approved to terminate this arrangement and purchase the vehicles from the lease company. This transaction took place on the last working day of June. The accounting arrangements for this and the write down of the finance lease balance will be determined in the year.

5.5. 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 £1,694,500 to the general fund and £1,891,470 to the HRA in 2018/19.

- 5.6. The budget for borrowing costs was based on the existing external debt and new external debt from the 2017/18 and 2018/19 general fund borrowing requirements plus the refinancing of a portion of the maturing debt in December 2018.
- 5.7. The revised capital expenditure programme for 2018/19 now forecasts a borrowing requirement of £4.9 million, for which external borrowing is anticipated mid-year.
- 5.8. There has been no 'new' borrowing so far during the year, nor have any loans been refinanced. The next maturing loans of £5million occur in December 2018. No new debt was taken in 2017/18 and the borrowing requirement from that year continues to be internally funded. The savings related to this internal borrowing are expected to offset the increase in borrowing costs relating to the revised capital expenditure programme and consequent borrowing requirement for 2018/19.
- 5.9. Overall there is a reduction in the borrowing costs expenditure forecast for the year of £21,670: split £11,950 to the general fund and £9,720 to the HRA. The underspend for the general fund relates to reduced MRP payment for the year as a result of a smaller borrowing requirement than forecast in 2017/18; the HRA is forecast to receive an improved investment income proportion on the basis of its reserves available for investment and the improving average interest rate – this is netted off the HRA's proportional borrowing costs.
- 5.10. 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.
- 5.11. 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 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.

5.12. 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.

5.13. No rescheduling has taken place during 2018/19 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 2018/19 and complies with the Council's Treasury Management Practices.