

Appendix 6a: BLACKPOOL COUNCIL
REPORT
of the
DIRECTOR OF RESOURCES
to the
EXECUTIVE
on
18 June 2018

TREASURY MANAGEMENT OUTTURN REPORT FOR THE YEAR
ENDED 31 MARCH 2018

1. INTRODUCTION

One of the requirements of CIPFA's (Chartered Institute of Public Finance & Accountancy) 2017 Prudential Code and Treasury Management Codes of Practice is that periodic reports on the Council's treasury management activities are submitted to the Executive. This annual report on performance is for the 2017/18 financial year.

The Council manages its cashflow and long-term financing of capital investments in accordance with its annual Treasury Management Strategy. The 2017/18 Strategy was approved by the Council on 23rd February 2017 and its objectives are as follows:

- to set the framework for managing the Council's investments and cashflows and controlling its banking, money market and capital market transactions
- to plan and secure appropriate borrowing in order to finance the Capital Programme for 2017/18 and the next two years, at the lowest cost to the Council
- to achieve the best rates of return from the investment of temporary surplus cash balances commensurate with risk, subject to the overriding principle of maintaining an acceptable level of security
- to control effectively the risks associated with these transactions
- to comply with appropriate codes and regulations including the International Financial Reporting Standards as they apply to Treasury Management.

In delivering the above objectives the Council will:

- decide its own borrowing limits taking into account its financial situation, long-term plans and in particular what it thinks is affordable now and sustainable in the future
- monitor these limits using performance measures called Prudential indicators. All local authorities must use the same system of performance measurement and risk control. The borrowing limits have been set in accordance with the Council's Medium-term Financial Plan.

2. BORROWING TRANSACTIONS 2017/18

2.1 Loans Raised

The Council's total borrowing powers at 1st April 2017 (the Authorised Limit) stood at £379m. New long-term borrowing of £9.3m was taken in July 2017 at a rate of 1.48% and will be repaid in equal instalments of principal over the next 10 years.

The 2017/18 borrowing requirement for the remainder of the capital programme was deferred until such time that interest rates are judged to be favourable to the Council. This action reduces the Council's exposure to counterparty risk whilst enabling savings to be made in long-term borrowing costs. The Treasury Management Panel's view is that it will continue to monitor interest rates and borrow only when market conditions are favourable.

Temporary borrowing has been required to deal with the normal peaks and troughs of the cashflow, including creditor payments, grant receipts, etc. It has also been required to cover troughs in cashflow due to the delay in taking new long-term borrowing.

2.2 Loans Repaid

During the year £2.2m was repaid in addition to the temporary borrowing referred to in 2.1 above.

Of the £2.2m loans repaid which are referred to above: a £1m loan was repaid when it matured in July 2017 and a £500k loan was repaid when it matured in December 2017, both to the Public Works Loan Board. The remaining repayments relate to loans taken on an equal instalments of principal basis and total £700k.

2.3 Loans Refinanced

From time to time opportunities arise to repay existing loans and replace them with lower cost alternative loans. Where this arises savings in annual interest costs can be achieved which keep the Council's overall borrowing costs as low as possible.

In December 2017 the Council agreed the early repayment of the remaining £18.8m of Local Government Reorganisation Debt which was taken on by the Council when it separated from Lancashire County Council and became a Unitary Authority in 1998. The early repayment was financed using temporary borrowing and will enable the Treasury Management Panel to manage the borrowing more efficiently and effectively within its existing loan portfolio.

2.4 Summary

The Council's overall pooled borrowing rate on its long-term debt decreased from 4.93% in 2016/17 to 4.88% in 2017/18. This change occurred as a result of the movement in loans referred to in 2.2 above.

Temporary borrowing has been required at certain times during the year in order to manage the peaks and troughs in cashflows. The Council's borrowing activities for the 2017/18 financial year are summarised on the next page:

	<u>Loan financing at 1 Apr 2017</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Loan financing at 31 Mar 2018</u>
	£M	£M	£M	£M
PWLB	47.2	9.3	(2.2)	54.3
Market Loans	38.0	-	-	38.0
Temporary Loans	91.5	522.2	(461.7)	152.0
Sub total	176.7	531.5	(463.9)	244.3
Local Government Reorganisation (LGR) Loan	18.8	-	(18.8)	-
TOTAL Loans	195.5	531.5	(482.7)	244.3
Temporary Investment	(10.7)	(400.4)	402.0	(9.1)
NET External Loans	184.8	131.1	(80.7)	235.2

The revised maturity profile for the total external long-term loans outstanding as at 31st March 2018 is shown in Annex 1 of this report.

3. INVESTMENT TRANSACTIONS 2017/18

3.1 Overview

The Bank of England Official Bank Rate - the 'Base Rate', i.e. the general level to which all short-term interest rates are related started the year at 0.25%. On the 2nd November the Bank of England increased the rate to 0.50% and the rate remained at this level for the rest of the year.

Annex 2 shows this interest rate graphically from 1st September 2008 to 31st March 2018.

3.2 Receipts and Payments during the Year

Annex 3 of this Report summarises the Council's cashflows during the year, short-term interest receivable and payable, year-end loans outstanding and investment balances.

3.3 Investment Earnings

Interest which has been earned from temporary investments is included in Annex 3, together with a comparison with the budgeted income for the financial year. Actual investment earnings, included within the short-term net receivable/payable figure, are £21k and these are referred to in Annex 4 within the note on higher cash balances.

3.4 Approved Institutions for Investments

The Treasury Management Panel will continue to manage the Council's treasury and investment affairs in a cautious and prudent manner taking account of changes in the economic climate. The Council's Treasury Management Policy restricts investments to a list of approved institutions. Each institution has its own maximum investment limit and timeframe and the security of funds is the overriding factor.

The list comprises UK-registered banks along with their subsidiaries, the Nationwide and Coventry Building Societies, upper tier local authorities and certain other public sector bodies plus short-term gilts and UK treasury bills. The list continues to be reviewed regularly in the light of changes in credit ratings and market intelligence.

4. REVENUE OUTTURN 2017/18

The Treasury Management revenue account for 2017/18 had net expenditure of £10,134k, an improvement of £105k over the budget of £10,239k.

A comparison of the Treasury Management revenue account with the budget for 2017/18 is set out in Annex 4.

The debt servicing costs for 2017/18 decreased due to the use of cheaper temporary loans and the deferral of any new long-term borrowing.

Low levels of interest available on temporary cash balances coupled with fewer opportunities to restructure the long-term loan portfolio mean that further savings cannot be guaranteed in future years.

5. PRUDENTIAL INDICATORS

The Prudential Indicators and Limits for 2017/18 are set out within Annex 5 to this Report.

6. RECOMMENDATION

The Executive is asked to note the report on treasury management activities for the financial year ending 31 March 2018.

S. THOMPSON
DIRECTOR OF RESOURCES