BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

5 NOVEMBER 2018

TREASURY MANAGEMENT HALF-YEARLY PROGRESS REPORT TO 30 SEPTEMBER 2018

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1. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised codes of practice for Treasury Management and Capital Finance in December 2017. Recognising that implementation of the codes requirements may require a longer lead in period CIPFA issued a statement allowing local authorities to treat 2018/19 as a transitional year and asking them to adopt the new codes of practice in full for 2019/20 financial year. This report follows the requirements of CIPFA's earlier codes of practice which are considered to be both appropriate and prudent for the current financial year.

The Council has adopted CIPFA's Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition). A feature of the Code is that periodic reports on treasury management activities are prepared. This report relates to treasury management activities for the six months to 30th September 2018 and its content is reflective of the scale of the Council's current capital programme.

2. BORROWING TRANSACTIONS

2.1 Overview

The Bank of England Official Bank Rate (ie. the 'base rate' short-term interest rate to which all interest rates are related) stood at 0.50% on 1st April 2018 (0.25% on 1st April 2017). The rate increased to 0.75% on the 2nd August 2018. As of 30th September 2017 the rate remains at 0.75%.

Annex 1 shows movements in the base rate from November 2007 to September 2018 in order to display the recent trend.

Annex 2 shows movements in the borrowing rates available since September 2007 for Public Works Loan Board (PWLB) long-term (20-25 year rates), PWLB one year and variable one month rates.

The uncertainty brought about following the UK vote to leave the European Union and economic fears over the impact of inflation on the UK economy has continued to depress the financial markets during the last 12 months. As a result the cost of short-term borrowing continues at historically low levels. The market expectation is that the bank base rate will increase gradually during the next 12 months but will still remain below the level which existed prior to the 2008 financial crisis.

2.2 **Loans Raised**

The long-term borrowing requirements for the 2018/19 capital programme have been 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 there will be no need to take any new long-term borrowing to finance the capital programme in the next six months.

Temporary borrowing has been required to deal with the normal peaks and troughs of the cash flow, including creditor payments, grant receipts, etc. It has also been used to finance any shortfalls in cash flow caused by capital expenditure. The temporary financing of capital expenditure is prudent while short-term interest rates remain low and has the advantage of minimising temporary investments and the associated counterparty risk.

In August 2018 £8m was borrowed from the Public Works Loan Board to replace part of the temporary borrowing being used to finance capital expenditure. The loan was taken on a Maturity basis over 10 years at 2.21%. Further borrowing of £27.1m may be taken from the Public Works Loan Board to support lending from the Business Loans Fund later in the year.

2.3 **Loans Repaid**

Loans repaid include the repayment of £462k in respect of the Business Loans Fund and the temporary borrowing referred to in 2.2 above. No further repayments are anticipated during the next 6 months.

2.4 **Summary**

The Council's borrowing activities for the first half-year of the financial year are summarised below:

Source of funding:	Borrowings 1st April '18 £000s	Loans raised £000s	Loans repaid £000s	Borrowings 30th Sep '18 £000s
PWLB	54,225	8,000	(462)	61,763
Market Loans	38,000	-	-	38,000
Sub-total	**92,225**	**8,000**	**(462)**	**99,763**
Temporary Loans	152,000	99,000	(120,500)	130,500
Total borrowings *(excluding PFI Schemes and finance leases)*	**244,225**	**107,000**	**(120,962)**	**230,263**

Annex 3 to this report shows the maturity profile for the £99.8m of long-term external loans (ie. the PWLB and market debt only from the above table) outstanding at the end of September 2018. The maturity profile is in line with the Council's approved strategy.

3. TRANSACTIONS FOR THE FIRST HALF OF 2018/19

3.1 **Level of Investments**

Annex 4 to this report sets out an analysis of the Council's receipts and payments during the first half of the financial year. The Council's temporary investments stood at £6.8m on 30th September 2018. This compares with temporary investments valued at £5.35m on 30th September 2017. Temporary surplus funds are invested in accordance with the Treasury Management Strategy's requirements regarding security, liquidity and yield.

3.2 **Investment Earnings**

The Council takes advantage of peaks and troughs in receipts and payments by investing surplus funds over appropriate timescales within the context of the Council's overall cash flows. The actual investment interest earned to 30th September was £30.5k. Annex 5 shows a monthly analysis of interest receipts compared to budget.

3.3 **Approved Investment Institutions**

In order to manage prudently any surplus funds as set out within the Treasury Management Strategy the Council restricts its temporary investments to an authorised list of institutions. According to the creditworthiness of each institution, an appropriate investment ceiling has been set with each as well as a maximum investment period. The credit ratings are monitored on a regular basis and checks are made via the internet and other media sources for signs of banks and building societies in difficulty. Council officers continue to use their contacts in the money market and speak regularly with other members of the Manchester Treasury Group to obtain market intelligence.

The Treasury Management Panel includes the Director of Resources, Chief Accountant, and representatives from Corporate Finance and Blackpool Coastal Housing and meets regularly throughout the year to review the list of approved investment institutions.

For banks the approved list is based on credit ratings issued by Fitch (single A categories or above, or the equivalent from other ratings agencies). The list also includes the more stable building societies, banded according to total asset size.

The proportion of temporary investments placed in the period 1st April 2018 to 30th September 2018 across the various categories of approved institutions is set out in the table below:

Type of institution invested with:	Amount £000s	*% of total*
UK banks	105,000	*81.9%*
Other Local Authorities	12,000	*9.4%*
Debt Management Office - deposit facility	11,100	*8.7%*
Total temporary investments placed	**128,100**	***100.0%***

These values show the total of all new investments made during the six months. Due to the recycling nature of investing and lending, these values are not the absolute value of our portfolio of temporary investments as at 30th September 2018, which was £6.8m.

Annex 4 to this Report shows how the investing and maturing of temporary investments fits in with the rest of the Council's bank transactions.

3.4 **Group Companies and Partners**

During the past six months we have continued to provide advice and assistance to some of our group companies and partners. In particular we have offered advice to Blackpool Housing Company about how best to manage peaks and troughs of working capital. The Council transfers funds to Blackpool Housing Company only when they are needed to cover property acquisition and development costs, £2.28m was paid over by the 30th September 2018. The Council also provided £2.96m in loans to Blackpool Transport Services for the purchase of replacement buses.

4. TREASURY MANAGEMENT BUDGET MONITORING 2018/19

The month 6 financial performance monitoring report, shows a favourable forecast outturn for Treasury Management in 2018/19 of £(143)k. The main components of this favourable position are as follows:

	£'000s
Interest on Business Loans Fund lending	1,185
Lower financing costs on long term debt	(891)
Temporary interest on short term loans	(437)
Net (favourable)/adverse outturn forecast	**(143)**

5. PRUDENTIAL CODE FOR CAPITAL FINANCE

5.1 Where capital expenditure has been incurred which is financed by debt assumed under the *Prudential Code For Capital Finance In Local Authorities*, budget has been vired from the service area incurring the spend. This budget is used to pay for the additional capital financing costs which are incurred within Treasury Management as a consequence of the capital spend. In the case of Leisure Assets an actual charge for financing costs has been made to the scheme. The cost to the Council of employing its capital in these schemes arises from both the interest cost of the investment and from the subsequent need to repay the principal.

Cost savings or revenue increases within the services as a result of the capital investment will have been previously identified within a business case in order to demonstrate that these schemes are self-funding or better.

5.2 Prudential Indicators

At its meeting of 28th February 2018 the Council adopted the framework set out within *CIPFA's Prudential Code For Capital Finance In Local Authorities (2011 edition).*

The Code requires that monitoring of our performance against the performance indicators (the Prudential Indicators) is reported to the appropriate decision-making body.

Annex 6 to this report shows the Prudential Indicators from 1st April 2018 to 30th September 2018, separately identifying the affordability indicators, the indicators of prudence and the treasury management indicators.

The format of these indicators is set out in the CIPFA Code of Practice.

Performance in the first half of 2018/19 is in line with expectations.

5.3 **Capital Schemes Funded by Prudential Borrowing**

Annex 7 to this report shows the headroom to the authorised (borrowing) limit and operational boundary, and identifies the expenditure on schemes which are prudentially funded by year.

6. RECOMMENDATION

The Executive is asked to note the report concerning treasury management activities for the first half of the 2018/19 financial year.

Steve Thompson

Director of Resources

5th November 2018