BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

20 JANUARY 2020

TREASURY MANAGEMENT HALF-YEARLY PROGRESS REPORT TO 30 SEPTEMBER 2019

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1. INTRODUCTION

The Council has adopted CIPFA's Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017 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 30 September 2019 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 0.75% on 1 April 2019 (0.50% on 1 April 2018) and remains at 0.75% to date.

Annex 1 shows movements in the base rate from November 2007 to September 2019 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. Due to the lack of clarity over Brexit, the market is extremely uncertain on the forecast of the base rate, predicting a decrease in the event of a "no deal" but maintaining and gradually increasing if a deal is agreed. However, it is still expected to remain below the level which existed prior to the 2008 financial crisis.

2.2 **Loans Raised**

The long-term borrowing requirements for the 2019/20 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.

2.3 **Loans Repaid**

Loans repaid include the repayment of a £1,776k PWLB loan, which was repaid 1st April 2019, two repayments of an Equal Instalments of Principal (EIP) PWLB loan totalling £923k and the temporary borrowing referred to in 2.2 above. Two further longer term loan repayments are anticipated during the next 6 months including £1,171k PWLB loan and a £4,000k market loan repayment.

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 '19 £000s	Loans raised £000s	Loans repaid £000s	Borrowings 30th Sep '19 £000s
PWLB	61,301	-	(2,699)	58,603
Market Loans	35,000	-	-	35,000
Sub-total	**96,301**	**-**	**(2,699)**	**93,603**
Temporary Loans	153,000	239,620	(231,320)	161,300
Total borrowings *(excluding PFI Schemes and finance leases)*	**249,302**	**239,620**	**(234,019)**	**254,903**

Annex 3 to this report shows the maturity profile for the £93.6m of long-term external loans (ie. the PWLB and market debt only from the above table) outstanding at the end of

September 2019. The maturity profile is in line with the Council's approved strategy.

3. TRANSACTIONS FOR THE FIRST HALF OF 2019/20

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 £9.1m on 30 September 2019. This compares with temporary investments valued at £6.8m on 30 September 2018. 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 30 September 2019 was £33.2k. 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 who meet 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 1 April 2019 to 30 September 2019 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	116,820	*74.7%*
Other Local Authorities	5,000	*3.2%*
Debt Management Office - deposit facility	34,470	*22.1%*
Total temporary investments placed	**156,290**	***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 30 September 2019, which was £9.1m.

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. The Council transfers funds to Blackpool Housing Company only when they are needed to cover property acquisition and development costs, £3m was paid over by the 30 September 2019. The Council also provided £2.78m in loans to Blackpool Transport Services for the purchase of replacement buses and a £500k loan to Blackpool Airport Operations.

4. TREASURY MANAGEMENT BUDGET MONITORING 2019/20

The month 6 financial performance monitoring report, shows a favourable forecast outturn for Treasury Management in 2019/20 of £(729)k. The main components of this favourable position are as follows:

	£'000s
Interest on Business Loans Fund lending	723
Lower financing costs on long term debt	(1,406)
Temporary interest on short term investments	(46)
Net (favourable)/adverse outturn forecast	**(729)**

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 4 February 2019 the Council adopted the framework set out within *CIPFA's Prudential Code For Capital Finance In Local Authorities (2017 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 2019 to 30th September 2019, 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 2019/20 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 2019/20 financial year.

Steve Thompson

Director of Resources

20 January 2020