BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

15th June 2020

TREASURY MANAGEMENT OUTTURN REPORT FOR THE YEAR ENDED 31ST MARCH 2020

---

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 2019/20 financial year.

The Council manages its cashflow and long-term financing of capital investments in accordance with its annual Treasury Management Strategy. The 2019/20 Strategy was approved by the Council on 27th February 2019 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 2019/20 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.

- To have regard for appropriate guidance where applicable, including 2017 Investment Guidance issued by MHCLG for 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 2019/20

2.1 Loans Raised

The Council's total borrowing powers at 1st April 2019 (the Authorised Limit) stood at £502m. As a result of uncertainty during this financial year due to initially Brexit, the sudden increase in the rate of Public Work Loan Board (PWLB) loans and latterly covid-19, no new long-term borrowing agreements were entered into.

The 2019/20 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

In addition to the temporary borrowing referred to in 2.1 above, a total of £7.9m of long-term borrowing was repaid, of which £1.4m was repaid in three equal instalments in April 2019, September 2019 and March 2020. Two PWLB loans were repaid in March 2020 totalling £2.5m and a further £4m market loan was repaid to Helaba Landesbank in November 2019.

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 2019/20 the Treasury Management Panel approached Commerzbank to refinance the loan portfolio held, but this proved to be financially unviable as a result of the large premiums charged on repaying the loans early.

2.4 Summary

The Council's overall pooled borrowing rate on its long-term debt increased from 4.60% in 2018/19 to 4.61% in 2019/20. This change occurred as a result of the movement in loans referred to in 2.1 and 2.2 above.

When the Housing Revenue Account Subsidy buy-out took place in March 2012, the Council adopted a two pool approach to managing its long-term loans with separate loan pools for the General Fund (GF) and the Housing Revenue Account (HRA). At that time the interest rate on both pools was approximately 4.9%. Since that date the maturity of loans from both pools has resulted in a change in interest rates such that the overall pooled borrowing rate is made up the GF average pooled rate (4.54%) and the HRA average pooled rate (5.46%).

With regard to the HRA, the Council has recently approved a new Council Housing Investment Programme. This utilises borrowing capacity to build new Council homes and enhance existing stock, so the HRA will take out additional loans in the short to medium term.

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 2019/20 financial year are summarised below:

	Loan financing at 1 Apr 2019	Additions	(Reductions)	Loan financing at 31 Mar 2020
	£M	£M	£M	£M
PWLB	61.3	-	(3.9)	57.4
Market Loans	35.0	-	(4.0)	31.0
Temporary Loans	153.0	519.1	(428.1)	244.0
TOTAL Loans	249.3	519.1	(436.0)	332.4
Temporary Investment	(7.8)	(328.0)	314.5	(21.3)
NET External Loans	241.5	191.1	(121.5)	311.1

The revised maturity profile for the total external long-term loans outstanding as at 31st March 2020 is shown in Annex 1 of this report.

3. INVESTMENT TRANSACTIONS 2019/20

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 0.75%. On the 11th March the Bank of England reduced the rate to 0.25% and then again to 0.10% on the 19th March 2020. 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 2020.

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 £56k 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 2019/20

The Treasury Management revenue account for 2019/20 had net expenditure of £9,182k, an improvement of £1,902k over the budget of £11,084k.

A comparison of the Treasury Management revenue account with the budget for 2019/20 is set out in Annex 4.

The debt servicing costs for 2019/20 decreased due to the use of cheaper temporary loans, the deferral of any new long-term borrowing and the recharge of interest on Business Loans.

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 2019/20 are set out within Annex 5 to this Report.

6. RECOMMENDATION

The Executive is asked to approve the report on treasury management activities for the financial year ending 31st March 2020.

Steve Thompson

Director of Resources

18th May 2020