

APPENDIX A



STAFFORDSHIRE  
*moorlands*  
DISTRICT COUNCIL  
ACHIEVING EXCELLENCE

# Annual Treasury Management Report

## 2018/19

July 2019

## **1 Introduction and Background**

- 1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the outturn against prudential and treasury indicators for 2018/19. This report meets the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 1.3 This report covers:
- Strategy for 2018/19
  - Economy in 2018/19
  - The Council's treasury position as at 31st March 2019
  - Capital expenditure and the overall borrowing need
  - Borrowing outturn
  - Investment performance
  - Investment portfolio & yield
  - Compliance with prudential & treasury indicators

## **2 2018/19 Treasury Management Strategy & Economic Conditions**

- 2.1 The expectation for interest rates within the treasury management strategy for 2018/19 included a rise in the Bank of England base rate from 0.50% to 0.75%. Originally expected in May, the rate rise took place a little later in August 2018. In anticipation of the rate increase there was a gently rising trend in investment interest rates available in the market which the Council was able to take advantage of as much of its portfolio was being held in instant access accounts or short term investments.
- 2.2 There was no expectation of a further rate rise after August as the UK was entering a time of major uncertainty particularly surrounding Brexit which was due to happen in March 2019. Therefore investment returns have relatively static since.
- 2.3 Borrowing interest rates with the Public Works Loans Board (PWLB) peaked during October 2018 then generally were on a downward trend with most borrowing terms available reaching a year-low in March.

### 3 The Current Treasury Position

3.1 The Council's debt and investment position at the beginning and the end of the 2018/19 financial year was as follows:

	2017/18		2018/19	
	31st March 2018 Principal	Rate / Return	31st March 2019 Principal	Rate / Return
<b>External Borrowing</b>				
Fixed Rate Funding	£12,000,000	1.52%	£11,000,000	1.49%
Variable Rate Funding	£0	-	£0	-
Finance Lease Liabilities	£853,919	n/a	£0	-
<b>Total Debt</b>	<b>£12,853,919</b>	<b>1.52%</b>	<b>£11,000,000</b>	<b>1.49%</b>
<b>Investments</b>				
In-House	£5,612,771	0.38%	£7,611,662	0.72%*
Debenture – Ascent LLP	£5,000,000	2.00%	£5,000,000	2.00%
Loan Facility – Ascent LLP	£14,000,000	3.28%	£14,000,000	3.14%
<b>Total Investments</b>	<b>£24,612,771</b>	<b>2.36%</b>	<b>£26,611,662</b>	<b>2.23%</b>

\*Average investment interest rate in March

### 4 The Council's Capital Expenditure & Borrowing Requirement 2018/19

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be financed:

- through the application of capital or revenue resources (including capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- by borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

4.2 Capital expenditure constitutes one of the required prudential indicators. The table below shows actual capital expenditure for 2018/19 and how this was financed:

	2018/19 Outturn
<b>Total General Fund Capital Expenditure</b>	<b>£2,227,334</b>
<i>Resourced by:</i>	
Capital reserve funding	£573,436
Capital grants & contributions	£1,008,467
<b>Unfinanced capital expenditure (Underlying Need to Borrow)</b>	<b>£645,431</b>

4.3 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2018/19 unfinanced capital expenditure and prior years' unfinanced capital expenditure which has not yet been paid for.

4.4 As the table above shows 2018/19 capital expenditure was funded in large part by capital grants and reserves, the remainder has created a borrowing requirement of £645,431.

- 4.5 The Treasury Management team plans the Council's cash position to ensure sufficient cash is available to meet capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Public Works Loan Board or the money markets), or utilising temporary cash resources within the Council.
- 4.6 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment of the cumulative borrowing need.
- 4.7 The Council's 2018/19 MRP Policy was approved as part of the Treasury Management Strategy Statement 2018/19 in February 2018.
- 4.8 MRP is applied to unfinanced general fund capital expenditure. However, as the initial term of the loan to Ascent is for a short-term period of 5 years, at which point the loaned funds are repayable in full, there is no MRP requirement for borrowing undertaken in respect of the Ascent loan.

- 4.9 The Council's overall CFR is shown below:

	<b>2018/19 Projected Outturn (£)</b>
<b>Opening balance (1<sup>st</sup> April 2018)</b>	16,471,688
Plus 2018/19 borrowing requirement	645,431
Less MRP	(33,472)
Less finance lease repayments*	(853,918)
<b>Closing balance (31<sup>st</sup> March 2019)</b>	<b>16,229,729</b>

\* All finance leases repaid in full during 2018/19

- 4.10 Borrowing activity is constrained by Prudential Indicators for borrowing and the CFR, and by the Authorised Limit. In order to ensure that borrowing levels are prudent over the medium term, external borrowing must only be for a capital purpose – essentially this means that the Council is not borrowing to support revenue expenditure. External borrowing should not therefore, except in the short-term, exceed the CFR for 2018/19 (plus expected changes to the CFR over 2019/20 and 2020/21). This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

4.11 The table below highlights the Council's borrowing position against the CFR:

	<b>31 March 2019 Projected (£)</b>	<b>31 March 2020 Forecast (£)</b>	<b>31 March 2021 Forecast (£)</b>
<b>Borrowing position</b>	11,000,000	16,531,861	20,150,371
<b>Capital Financing Requirement</b>	16,229,729	18,069,779	21,604,180
<b>Over / (under) borrowed</b>	(5,229,729)	(1,537,918)	(1,453,809)

4.12 The CFR as at the end of 2018/19 relates to the borrowing undertaken to fund the Ascent loan and general fund borrowing requirements in 2014/15, 2017/18 and 2018/19 (for other capital schemes). As at 31st March 2019, the Authority was in an under-borrowed position of £5,229,729 therefore has complied with the prudential indicator.

## **5 Borrowing Outturn**

5.1 There was no 'new' borrowing undertaken during 2018/19. However there were two maturing loans which were partially refinanced: maturities in October/ November of £2million with the Police & Crime Commissioner for West Yorkshire at 0.60%; and £3million with London Borough of Tower Hamlets at 0.65% were refinanced in part in January / February by £1million with Western Isles Council at 1.00% for period of 9 months; £2million with Lincolnshire County Council at 1.10% for a period of 1 year; and £1million with Vale of Glamorgan Council at 0.95% for a period of 6 months.

5.2 The borrowing costs outturn was £83,230 underspent against the 2018/19 budget of £272,760. The budget had originally anticipated £2.2million of new loans to be taken mid-year to support a general fund borrowing requirement and the full Ascent Loan balance of £14million. The outturn of the general fund borrowing requirement was lower at £645,431 and £3million of Ascent Loan was funded through internal borrowing, using reserves. This is a net advantage to the Council as the savings on the cost of borrowing outweigh the income foregone through reduced investment balances.

5.3 The practice of avoiding new borrowing by utilising spare cash balances has served well over recent years in terms of making net savings on financing costs. However, this is kept under constant review, especially with an expectation of rate rises, to avoid higher borrowing costs in the future.

## **6 Investment Performance**

6.1 The economic backdrop for the year underpins how the Council has performed with regard to maximising its investment return. Continued uncertainty in the long aftermath of the 2008 financial crisis promotes a cautious approach, whereby investments would continue to be dominated by lower counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.2 The investment performance of the Treasury Management function is dependent upon a number of factors, including the size of available investment balances; the market interest rates available; the timing of capital spend; the restrictions placed on the Council by its approved Lending List.

- 6.3 The Council achieved an overall average interest rate of 0.64% on its investment portfolio. This compared favourably with short-term market benchmarks as shown in the table below:

Comparator	Average Rate Q1	Average Rate Q2	Average Rate Q3	Average Rate Q4	Average 2017/18
<b>SMDC Total</b>	<b>0.57%</b>	<b>0.66%</b>	<b>0.63%</b>	<b>0.69%</b>	<b>0.64%</b>
SMDC Total Long-term (>364 days)	0.85%	0.85%	0.85%	0.98%	<b>0.88%</b>
SMDC Total Short-term (<364 days)	-	-	-	-	-
SMDC Total Short-term (instant access)	0.54%	0.64%	0.60%	0.65%	<b>0.61%</b>
<b>Link Benchmarks</b>					
*LIBID 7 Day Rate	0.36%	0.51%	0.58%	0.57%	<b>0.51%</b>
*LIBID 3 Month Rate	0.55%	0.66%	0.74%	0.75%	<b>0.68%</b>
*LIBID 6 Month Rate	0.67%	0.76%	0.85%	0.88%	<b>0.79%</b>
*LIBID 12 Month Rate	0.84%	0.91%	1.00%	1.10%	<b>0.94%</b>
Base Rate at end of period	<b>0.50%</b>	<b>0.75%</b>	<b>0.75%</b>	<b>0.75%</b>	<b>0.75%</b>

*\*LIBID (London Interbank Bid Rate)*

- 6.4 The investment portfolio was held on a short-term basis (< 1 year) through 2018/19, in line with professional advice issued by Link. The Council continues to take advantage of the market rates on offer to public bodies by part-nationalised banks.
- 6.5 The return on investments has improved slightly throughout the year as available investment rates gently increased following the base rate rise to 0.75% in August 2018.

## 7 Investment Portfolio & Interest Yield

- 7.1 The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. The Council currently invests for a range of periods from overnight up to 2 years, dependent on cash flows, its interest rate view, the interest rates on offer and durational limits as set out in the Treasury Strategy.
- 7.2 The lending list is constructed based on credit ratings provided by the three main credit agencies supplemented by additional market data, using the Link Creditworthiness analysis.
- 7.3 Money was invested with 6 institutions during the year. All investments were placed in line with the Council's approved lending limits (see Annex A for current lending limits) and Treasury Management Strategy.

7.4 The table below summarises the institutions that the Council invested funds with during the financial year. It also indicates the average daily investment, interest earned and the associated average interest rates. Interest rates vary depending on the length and timing of investments. The investment funds include those held short-term in the Council's instant access business reserve accounts. The average daily investment during 2018/19 was £8.9million.

Financial Institution	Country of Domicile	Interest Earned (£)	Average Daily Investment (£)	Rate of Return (%)
Money Market Funds	UK	22,533	3,467,808	0.65
Santander	UK	12,651	1,512,669	0.84
NatWest Bank Plc	UK	2,687	1,331,556	0.20
Bank of Scotland	UK	6,835	1,083,503	0.63
Lloyds Bank Plc	UK	8,808	1,000,000	0.88
Handelsbanken Plc	UK	3,195	491,943	0.65
<b>Total</b>		<b>56,709</b>	<b>8,887,479</b>	<b>0.64</b>

7.5 The Council earned £56,709 in investment income in 2018/19. There is a shortfall of £16,880 against the interest income budget for 2018/19 largely due to the continuing and increased internal borrowing which reduces the level of funds available for investment.

7.6 Investments held at the 31st March 2019 are shown in the table below:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested (£)
Money Market Funds	UK	Money Market Funds	£4,600,000
NatWest Bank Plc	UK	Royal Bank of Scotland Group	£1,561,662
Lloyds Bank Plc	UK	Lloyds Banking Group	£1,000,000
Bank of Scotland Plc	UK	Royal Bank of Scotland Group	£450,000
<b>Total Principal Invested</b>			<b>£7,611,662</b>

7.7 Investments held as at 31st March 2019 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	31 <sup>st</sup> March 2019 Actual
Fixed Rate	£1,000,000
Variable Rate	£6,611,662
<b>TOTAL</b>	<b>£7,611,662</b>

- 7.8 In addition to the instant access and short-term fixed investments held, the Council committed to providing a £5million debenture and £20million loan facility to Ascent LLP (the joint venture company set up to deliver affordable housing across the District). The table below details the balances held and interest rates charged on each drawdown and the associated interest earned in 2018/19:

<b>Debenture to Ascent LLP</b>	<b>£</b>	<b>Interest Rate</b>
<b>Balance at 1<sup>st</sup> April 2018</b>	<b>5,000,000</b>	
<i>Fully drawn</i>	-	
<b>Balance at 31st March 2019</b>	<b>5,000,000</b>	2.00%
<b>Interest earned in 2018/19</b>	<b>100,000</b>	

<b>Loan to Ascent LLP</b>	<b>£</b>	<b>Interest Rate</b>
<b>Balance at 1<sup>st</sup> April 2018</b>	<b>14,000,000</b>	
No drawdowns in the year	0	
<b>Balance at 31st March 2019</b>	<b>14,000,000</b>	3.14%*
<b>Interest earned in 2018/19</b>	<b>440,130</b>	

\* Interest rates include a 1.25% risk premium

- 7.9 The interest received on the Ascent Debenture was on target against the budget; on the loan there was a small shortfall of £6,500 as Tranche 1 (£7million) was refinanced again during the year, in October 2018, at a new rate. Interest on the loan is set at the 5 year PWLB rate at the start date plus 1.25% risk premium. This PWLB rate was slightly lower at 1.80% on refinancing than the estimated rate at budget setting.

## **8 Compliance with Treasury Limits**

- 8.1 Treasury Limits and Prudential Indicators were set within the Treasury Management Strategy 2018/19. The outturn for the Indicators is shown in Annex B.
- 8.2 The Council has not borrowed more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.
- 8.3 There has been no rescheduling of debt during the year.

## ANNEX A Current Lending Limits

### UK Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Purple	£4.0m	Up to 2 years	20%
Orange	£3.6m	Up to 1 year	18%
Red	£3.0m	Up to 6 months	15%
Green	£2.6m	Up to 100 days	13%
Yellow**	£4.0m	Up to 5 years	20%
No Colour	n/a	Not to be used	n/a

### International Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance)
Purple	£3.0m	Up to 2 years	15%
Orange	£2.4m	Up to 1 year	12%
Red	£2.0m	Up to 6 months	10%
Green	£1.6m	Up to 100 days	8%
No Colour		Not to be used	

### Nationalised Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Blue	£4.0m	Up to 1 year	20%
NatWest (the Council's main bank account)	£6.0m	Up to 1 year	30%

### Group Limits

Category	Portfolio (% of highest balance*)	Individual Principal Limit	Portfolio % increased by 50%	Group Principal Limit
Blue	20%	£4.0m	30%	£6.0m
Purple	20%	£4.0m	30%	£6.0m
Orange	18%	£3.6m	27%	£5.4m
Red	15%	£3.0m	23%	£4.6m
Green	13%	£2.6m	20%	£4.0m

### Money Market Funds

£3.6m for up to 1 year per fund (£4.6m max overall)

## ANNEX B

PRUDENTIAL INDICATORS	2018/19	2018/19
	Original	Provisional Outturn
	£'000	£'000
<b>Capital Expenditure</b>	5,695	2,227
<b>Ratio of financing costs to net revenue stream</b>	0.54%	(3.03%)
Financing costs are a net income at the end of the year owing to the reduction in finance lease principal following repayment/cessation of agreements		
<b>Gross borrowing requirement</b>		
Total Gross Borrowing (31 <sup>st</sup> March)	16,950	11,000
Borrowing Requirement	2,945	645
Variance in gross borrowing due to internally borrowing £3m on Ascent Loan and £3m general fund borrowing requirement Variance in borrowing requirement due to delayed purchase of vehicles		
<b>Capital Financing Requirement as at 31 March</b>	18,913	16,230
<b>Annual change in Capital Financing Requirement</b>	2,563	(242)*
<i>*MRP and full repayment of Finance Leases exceeds general fund borrowing requirement</i>		

TREASURY MANAGEMENT INDICATORS	2018/19	2018/19
	Original	Provisional Outturn
	£'000	£'000
<b>Authorised Limit for external debt</b>	Strategy	Actual
Borrowing	25,107	11,000
other long term liabilities	0	0
<b>TOTAL</b>	<b>25,107</b>	<b>11,000</b>
<b>Operational Boundary for external debt</b>		
Borrowing	23,607	11,000
other long term liabilities	0	0
<b>TOTAL</b>	<b>23,607</b>	<b>11,000</b>
<b>Upper limit for total principal sums invested for over 365 days</b>	3,500	0

Maturity structure of fixed rate borrowing during 2018/19	Upper limit in 2018/19 Strategy	2018/19 Actual Maturity Profile
under 12 months	100%	77%
12 months and within 2 years	100%	23%
2 years and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%