



STAFFORDSHIRE  
*moorlands*  
DISTRICT COUNCIL  
ACHIEVING · EXCELLENCE

## **Treasury Management Update 30th June 2019**

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## 1. Introduction

- 1.1. Treasury Management is defined as “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 1.2. The Council has adopted CIPFA’s revised Code of Practice for Treasury Management which recommends that Members should be updated on Treasury Management activities at least twice a year.
- 1.3. The Audit & Accounts Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Accounts Committee are reported to full Council.
- 1.4. The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Council on 8<sup>th</sup> February 2019. This report details treasury management performance up to the 30<sup>th</sup> June 2019 and projects forward for the remainder of the financial year.

## 2. Economic Forecast – Interest Rates

- 2.1. The Council’s treasury advisers, Link Asset Services (‘Link’), provide the latest bank rate and PWLB (Public Works Loan Board) forecast:

| %                     | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Bank Rate</b>      | 0.75   | 0.75   | 0.75   | 0.75   | 1.00   | 1.00   | 1.25   | 1.25   | 1.50   | 1.50   | 1.50   |
| <b>5yr PWLB rate</b>  | 1.50   | 1.60   | 1.70   | 1.80   | 1.90   | 2.00   | 2.10   | 2.10   | 2.20   | 2.30   | 2.40   |
| <b>10r PWLB rate</b>  | 1.80   | 1.90   | 2.00   | 2.10   | 2.20   | 2.30   | 2.40   | 2.50   | 2.60   | 2.60   | 2.70   |
| <b>25yr PWLB rate</b> | 2.40   | 2.50   | 2.60   | 2.70   | 2.80   | 2.90   | 3.00   | 3.00   | 3.10   | 3.20   | 3.30   |
| <b>50yr PWLB rate</b> | 2.30   | 2.40   | 2.50   | 2.60   | 2.70   | 2.80   | 2.90   | 2.90   | 3.00   | 3.10   | 3.20   |

- 2.2. Link has revised their interest rate forecast to take account of the continuing uncertainties around the exit of the EU and political situations both domestic and international. The forecast increase for the Bank of England base rate to 1.00% has been moved back to the quarter ending September 2020 and the expected general trend increase in PWLB rates is also put back. However, Link acknowledges that unfolding events could prompt movements in rates in either direction at any time.

### 3. Investment Income

- 3.1. Interest earned on investment deposits up to 30<sup>th</sup> June 2019 totalled £19,460. The Council has budgeted to receive £117,580 in investment income in 2019/20. The budget was set with an expectation of higher interest rates than the current environment: 1.00% for the first three quarters of the year and a further potential rate rise to 1.25% at the end of the year. The Bank of England base rate remains at 0.75% at the end of the first quarter and is now not expected to rise until 2020/21. In addition the investment portfolio is reduced due to the continuation of internal borrowing. Therefore a shortfall of £32,000 is forecast on the investment income budget.
- 3.2. The average interest rate achieved on the Council's investments is shown in the table below; this compares favourably to the LIBID rates, the recognised industry benchmark:

| Comparator                         | Average Rate Q1 |
|------------------------------------|-----------------|
| <b>SMDC Average</b>                | <b>0.81%</b>    |
| SMDC long-term fixed (>364 days)   | 1.18%           |
| SMDC short-term fixed (<364 days)  | -               |
| SMDC instant access                | 0.72%           |
| <b>Benchmarks</b>                  |                 |
| *LIBID 7 day rate                  | 0.57%           |
| *LIBID 3 month rate                | 0.68%           |
| *LIBID 6 month rate                | 0.78%           |
| *LIBID 12 month rate               | 0.91%           |
| Base Rate at the end of the period | 0.75%           |

\*LIBID = London Inter Bank Bid Rate

- 3.3. The table below highlights the level of investment activity and the rates obtained in the period from 1<sup>st</sup> April to 30<sup>th</sup> June 2019. Investments are made in line with Link's creditworthiness guidance and the duration limits applied to each colour banding.

| Institution                                                                 | Country of Domicile | Amount                               | Length        | Rate  |
|-----------------------------------------------------------------------------|---------------------|--------------------------------------|---------------|-------|
| Lloyds Bank                                                                 | UK                  | £1,000,000                           | 12 months     | 1.25% |
| Santander                                                                   | UK                  | £1,200,000                           | 95 day notice | 1.00% |
| Reserve Accounts<br><i>(instant access accounts and money market funds)</i> | UK                  | £1,243,598<br><i>(daily average)</i> | Various       | 0.72% |

- 3.4. The rates achieved by the Council vary by institution, by duration of investment and by the timing of when the investment was made. The Council's lending criteria restricts the number of financial institutions that are eligible to be on the lending list, and the amount that can be invested with eligible counterparties (and counterparty groups) at any one time.
- 3.5. The majority of the investment portfolio is held on a short-term basis (<1 year). The Council continues to utilise same day access business accounts, money market funds, fixed term deposits, and certificates of deposits (via the use of custodian, King & Shaxson), which offer competitive rates and access to banks that would not necessarily deal direct with the Authority for the sums invested.

#### *Ascent Joint Venture*

- 3.6. The Council established a Joint Venture with Your Housing Group in October 2010 to provide affordable housing across the District. Each party provided a £5million debenture to the Joint Venture Company, Ascent LLP, the Council receiving interest at 2.0% on debenture monies drawn. In addition, the Council also provided a loan facility of £14million (from a £20million approved facility) with interest payable based on the PWLB rate at the date of each drawdown for the specified period plus a 1.25% risk premium. The current average total interest rate being 3.46%.
- 3.7. A report was approved by Cabinet on 18<sup>th</sup> June 2019 (exempt by the virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972) reviewing the Ascent Business Plan and Delivery Model and proposing a new loan arrangement with Your Housing. In line with the Council's financial regulations, the new loan arrangement was subsequently approved by Council on 10<sup>th</sup> July 2019.
- 3.8. Following this approval, the Council is now working with Your Housing on the dissolution of Ascent, repayment of the original Loan and Debenture from Ascent and the completion of a new loan agreement.
- 3.9. The existing £14million Loan is a priority debtor therefore would be repaid in full. The £5million Debenture owed to the Council and similarly the £5million Debenture owed to Your Housing are of equal priority and are expected to be subject to an impairment estimated at £895,000 which would be shared equally between the two parties, the Council's share being £447,500 (as outlined in the Cabinet report).
- 3.10. The 2019/20 budget was based on the original investments continuing: £100,000 income from the Debenture and £484,270 from the Loan. The current interest income forecast does not assume any variance to this until more is confirmed about the timing of any potential repayments and reinvestments.

#### 4. Investment Portfolio

4.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 30<sup>th</sup> June 2019 totalled £9,087,000, as shown in the table below:

| Financial Institution | Country of Domicile | Amount            | Maximum recommended lending duration | Interest rate at end of period |
|-----------------------|---------------------|-------------------|--------------------------------------|--------------------------------|
| Money Market Funds    | UK                  | £4,600,000        | WHITE (12 months)                    | 0.79%                          |
| Lloyds Bank           | UK                  | £2,000,000        | ORANGE (12 months)                   | 1.18%                          |
| Santander             | UK                  | £1,200,000        | RED (6 months)                       | 1.00%                          |
| NatWest Bank          | UK                  | £737,000          | BLUE (12 months)                     | 0.20%                          |
| Handelsbanken         | UK                  | £550,000          | ORANGE (12 months)                   | 0.65%                          |
| <b>TOTAL</b>          |                     | <b>£9,087,000</b> |                                      |                                |

4.2. The maximum investment term, as recommended by Link, is shown by colour banding in the table below:

| Colour Banding                                          | Maximum Duration of Investment | UK Banks | International Banks |
|---------------------------------------------------------|--------------------------------|----------|---------------------|
| PURPLE                                                  | Up to 2 years                  | £4.0m    | £3.0m               |
| ORANGE                                                  | Up to 12 months                | £3.6m    | £2.4m               |
| RED                                                     | Up to 6 months                 | £3.0m    | £2.0m               |
| GREEN                                                   | Up to 100 days                 | £2.6m    | £1.6m               |
| BLUE (Part & fully nationalised financial institutions) | Up to 1 year                   | £4.0m    | n/a                 |
| BLUE (NatWest)                                          | Up to 1 year                   | £6.0m    | n/a                 |
| Money Market Funds                                      | Up to 1 year                   | £3.6m    | n/a                 |

4.3. Group limits are also applied:

| 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 | 18%                               | £3.6m                      | 23%                          | £4.6m                 |

4.4. The average annual level of funds available for investment up to 30<sup>th</sup> June 2019 was £9.4million. Investments are generally made up of short-term cash and core cash. Short-term cash is dependent on the timing of major payments e.g. precept payments, salaries and creditor payments, and major receipts e.g. receipt of grants and Council Tax direct debits. Core cash is dependent on capital programme commitments.

## 5. Borrowing Position

- 5.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'affordable borrowing limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.
- 5.2. The Council's outstanding borrowing at 30<sup>th</sup> June 2019 totalled £11,000,000 as detailed in the table below:

| Lender                | External Borrowing | Average Interest Rate | Maturity period |
|-----------------------|--------------------|-----------------------|-----------------|
| Local Authority Loans | £11,000,000        | 1.27%                 | Up to 2 years   |

- 5.3. The 'operational boundary' (£29,484,000) and 'authorised limit' (£30,984,000) indicators govern the maximum level of external borrowing to fund the capital programme, plus any short-term liquidity requirements. The current level of borrowing is well within prudential limits.
- 5.4. The 'operational boundary' and 'authorised limit' were set to account for:
- the general fund borrowing requirement;
  - an allowance for borrowing to cover short-term liquidity; and
  - funding the loan to the Joint Venture Company, Ascent.
- 5.5. There has been no 'new' borrowing so far during the year. The total external borrowing of £11million all relates to funding the Ascent loan; £3million of the total £14million Ascent loan balance is therefore internally funded at 30<sup>th</sup> June 2019. The treasury team will continue to monitor the appropriate time to refinance these loans and externally borrow any of this requirement based on the profile of spend and continuing opportunities to 'internally' borrow, considering the movement in interest rates and the cost of carry of any borrowings taken.
- 5.6. The £294,390 budget for borrowing costs was based on externally funding the full Ascent loan balance of £14million and the potential for £2.8million of new loans to be taken mid-year to support the general fund borrowing requirement. An underspend of £50,000 is currently forecast against the budget due to continuing internal borrowing and profiling of the capital programme.

## 6. Prudential Indicators

- 6.1. The Council has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2019/20 and complies with the Council's Treasury Management Practices.