



STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
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Treasury Management Update 31st December 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 8th February 2019. This report details treasury management performance up to the 31st December 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:

%	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
5yr PWLB rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10r PWLB rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

- 2.2. Link’s interest rate forecast takes account of the continuing uncertainties around the exit of the EU and political situations both domestic and international. The next increase for the Bank of England base rate to 1.00% is forecast for the quarter ending March 2021 with no further increase beyond this until June 2022. Link continues to acknowledge 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 31st December 2019 totalled £66,290. 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% and is now not expected to rise until 2021. In addition the investment portfolio is reduced due to the continuation of internal borrowing. Therefore a shortfall of £28,000 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	Average Rate Q2	Average Rate Q3
SMDC Average	0.81%	0.78%	0.75%
SMDC long-term fixed (>364 days)	1.18%	1.18%	1.18%
SMDC short-term fixed (<364 days)	-	-	-
SMDC instant access	0.72%	0.69%	0.67%
Benchmarks			
*LIBID 7 day rate	0.57%	0.56%	0.57%
*LIBID 3 month rate	0.68%	0.64%	0.64%
*LIBID 6 month rate	0.78%	0.69%	0.74%
*LIBID 12 month rate	0.91%	0.75%	0.83%
Base Rate at the end of the period	0.75%	0.75%	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 1st October to 31st December 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
No fixed investments during the period				
Reserve Accounts <i>(instant access accounts and money market funds)</i>	UK	£2,776,361 <i>(daily average)</i>	Various	0.67%

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 uses 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 average total interest rate for the year is 3.53%.
- 3.7. A report was approved by Cabinet on 18th 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 10th 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 income budget was based on the original investments continuing: £100,000 income from the Debenture and £484,270 from the Loan. Based on the existing arrangements being in place until at least the end of the current financial year, a surplus income of £9,310 is forecast due to the new rates applied to the refinanced tranches on 11th October, 3.83% (was 3.05%) and 21st November, 3.90% (was average 3.47%). This forecast is subject to change should new arrangements be in place before the end of the year.

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 31st December 2019 totalled £13,773,000, as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Interest rate at end of period	Average Maturity
NatWest Bank	UK	£3,873,000	BLUE (12 months)	0.30%	Instant access
Federated MMF	UK	£2,700,000	WHITE (12 months)	0.73%	Instant access
Handelsbanken	UK	£2,100,000	ORANGE (12 months)	0.65%	Instant access
Lloyds Bank	UK	£2,000,000	ORANGE (12 months)	1.18%	364 days
Aberdeen MMF	UK	£1,900,000	WHITE (12 months)	0.73%	Instant access
Santander	UK	£1,200,000	RED (6 months)	1.00%	95 day notice
TOTAL		£13,773,000			

NB: MMF = Money Market Fund

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 31st December 2019 was £11.4million. 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 31st December 2019 totalled £10,000,000 all with other Local Authorities:

Lender	External Borrowing	Current Average Interest Rate	Remaining Maturity period
Local Authority Loans	£10,000,000	1.50%	Up to 1 year

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. They were set through the Treasury Management Strategy Statement to account for the general fund borrowing requirement; an allowance for borrowing to cover short-term liquidity; and funding of the loan to the Joint Venture Company, Ascent. The current level of borrowing is well within prudential limits.

5.4. There has been no 'new' borrowing so far during the year. Maturity and refinancing activity is summarised in the table below:

Amount	Lender	Interest Rate	Term	Month
Maturing Loans				
£1,000,000	Vale of Glamorgan Council	0.95%	6 months	August
£1,000,000	Western Isles Council	1.00%	9 months	October
£1,500,000	Milton Keynes Council	2.00%	5 years	November
£1,000,000	Gloucestershire City Council	1.95%	4.9 years	December
£4,500,000	<i>Total maturities</i>			
Refinancing				
£1,500,000	Brighton & Hove City Council	0.99%	1 year	November
£2,000,000	Gloucestershire City Council	0.95%	1 year	December
£3,500,000	<i>Total refinancing</i>			

- 5.5. There are three further maturities taking place during the fourth quarter of the year, a total of £4million. It is anticipated that the full amount will be refinanced on a short term basis, pending the outcome of the Your Housing loan arrangements.
- 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. Between £3million and £4million of the Ascent loan balance has been internally funded during the year and there has been no external borrowing for other general fund projects either because of re-profiling or internal funding, therefore an underspend of £83,000 is currently forecast against the budget. The treasury team will continue to monitor refinancing, internal and new external borrowing requirements and opportunities considering the movement in interest rates and the cost of carry of any borrowings taken.

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.