

STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Report to Audit & Accounts Committee

3rd July 2020

TITLE:	Annual Treasury Management Report 2019/20
PORTFOLIO HOLDER:	Councillor Sybil Ralphs – Leader
CONTACT OFFICER:	Keith Pointon – Interim Head of Finance Emily Bennetts – Finance Business Partner
WARDS:	Non-Specific

Appendix A (attached) - Annual Treasury Management Report 2019/20

1. Reason for the Report

- 1.1. The purpose of the report is to allow the robust scrutiny of the Council's Treasury Management performance in 2019/20 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and generally accepted good practice.

2. Recommendation

- 2.1. That the Annual Treasury Management Report 2019/20 is recommended to **Council** for approval.

3. Executive Summary

- 3.1. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities for 2019/20.
- 3.2. The Annual Treasury Management Report for 2019/20 considers the following areas:
 - The Treasury Management Strategy adopted in 2019/20 and the economic environment during the year;
 - The current treasury position, highlighting the Council's borrowing and lending position at the year end;
 - The Council's capital expenditure, overall borrowing need and borrowing outturn during 2019/20;
 - Performance measurements, which look at the return achieved during the year by the Council on its overall investments;

- The Council's investment portfolio, which sets out for Members how and where the Council has invested its money during the year;
- The interest yield for 2019/20; and
- Compliance with Prudential Indicators, showing the outturn against those Indicators formally adopted in the 2019/20 Treasury Management Strategy Statement.

3.3. The Executive Director & Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

3.4. The main headlines include:

- Capital expenditure in 2019/20 totalled £2.7million. Capital expenditure was funded in a large part via capital grants and reserves, the remainder has created a borrowing requirement of £645,000.
- Total external debt at 31st March 2020 amounted to £10million, which all relates to loans from other Local Authorities. There was an underspend of £91,000 against borrowing costs as the budget included an expectation that borrowing would be required to fund general fund capital activities and the Ascent Loan balance would be fully funded through external borrowing. Instead the new general fund borrowing requirement of £645,000 along with £4million of the Ascent Loan balance is funded through internal borrowing.
- The average daily investment during 2019/20 was £8.9million invested with a total of 6 institutions, yielding £90,950 in investment income. There was a shortfall against the investment income budget of £26,630 owing to the continuing and increased internal borrowing and the low interest rate environment.
- The average return achieved by the Council on its investment portfolio for the year was 0.75% which compares favourably to short-term industry benchmarks.
- £592,996 interest income was earned from the debenture and loan balances held with Ascent. The debenture interest was on target against the budget. There was a small surplus of £8,730 against the loan budget as the rate on the day of the refinanced tranches was slightly higher than estimated at budget setting.
- Year-end investments totalled £28.7million (including £19million held with Ascent), all internally managed by the Council's Treasury Management Team.
- The outturn against treasury and prudential indicators as set within the Treasury Strategy 2019/20 is shown in Annex B.

4. How this report links to Corporate Priorities

- 4.1. An effective Treasury Management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin the Council's main priorities.

5. Options

- 5.1. This report sets out the Treasury Management position for Staffordshire Moorlands District Council for 2019/20. As such it is a statement of fact and there are no options to consider.

6. Implications

- 6.1. Community Safety - (Crime and Disorder Act 1998)

None

- 6.2. Workforce

None

- 6.3. Equality and Diversity/Equality Impact Assessment

This report has been prepared in accordance with the Council's Diversity and Equality Policies.

- 6.4. Financial Considerations

Included throughout the report

- 6.5. Legal

None

- 6.6. Sustainability

None

- 6.7. Internal and External Consultation

None

- 6.8. Risk Assessment

There are a number of inherent financial risks associated with Treasury Management activity, not least the potential for loss of interest and/ or deposits. For this reason, the Council engages the services of external Treasury Management advisors, Link Asset Services ('Link').

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. That Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

CLAIRE HAZELDENE
Interim Executive Director & Chief Finance Officer

Background Papers

'Treasury Management –
Governance and Scrutiny
Arrangements'
Audit & Accounts Committee Sept 09

'Treasury Management Strategy
2019/20'
Audit & Accounts Committee Feb 19

Location

Finance and Procurement,
Moorlands House, Leek

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APPENDIX A



STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
ACHIEVING EXCELLENCE

Annual Treasury Management Report

2019/20

June 2020

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 2019/20. 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 2019/20
 - Economy in 2019/20
 - The Council's treasury position as at 31st March 2020
 - Capital expenditure and the overall borrowing need
 - Borrowing outturn
 - Investment performance
 - Investment portfolio & yield
 - Compliance with prudential & treasury indicators

2 2019/20 Treasury Management Strategy & Economic Conditions

- 2.1 The expectation for interest rates within the treasury management strategy for 2019/20 was based on the assumption of a Brexit deal being agreed between Parliament and the EU in the first quarter of 2019 and included a rise in the Bank of England base rate from 0.75% to 1.00% in quarter 1 and a further increase to 1.25% in quarter 4. None of these rises took place; the base rate remained at 0.75% for the majority of the year, then decreased to 0.25% on 11th March 2020 and again to 0.10% on 19th March in response to the Covid-19 crisis.
- 2.2 The hold on base rate at 0.75% meant that investment opportunities and yields were not as high as anticipated. The reduction in base rate in March will be felt in further reduced investment yields in 2020/21.
- 2.3 In October 2019 the Public Works Loan Board (PWLB) increased its borrowing interest rates by 1% without warning. However, this actually brought the borrowing rates closer to what had been anticipated in the strategy. It also meant the the Local Authority lending market became more competitive again and offers were available for longer periods, up to 2 or 3 years, whereas they terms on offer had reduced closer to a year in recent times.
- 2.4 A consultation on PWLB borrowing was announced in March which may result in changes to borrowing rates for certain types of projects including discounts on borrowing for social housing infrastructure and restrictions around commercial activities. The outcome of the consultation is anticipated around September 2020.

3 The Current Treasury Position

3.1 The Council's debt and investment position at the beginning and the end of the 2019/20 financial year was as follows:

	2018/19		2019/20	
	31st March 2019 Principal	Rate / Return	31st March 2020 Principal	Rate / Return
Total Debt:				
External Borrowing, fixed rate	£11,000,000	1.49%	£10,000,000	1.57%
Investments				
In-House	£7,611,662	0.72%*	£9,729,806	0.69%*
Debenture – Ascent LLP	£5,000,000	2.00%	£5,000,000	2.00%
Loan Facility – Ascent LLP	£14,000,000	3.14%	£14,000,000	3.52%
Total Investments	£26,611,662	2.23%	£26,611,662	2.30%

*Average investment interest rate in March

4 The Council's Capital Expenditure & Borrowing Requirement 2019/20

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 2019/20 and how this was financed:

	2019/20 Outturn
Total General Fund Capital Expenditure	£2,699,787
<i>Resourced by:</i>	
Capital reserve funding	£1,384,389
Capital grants & contributions	£670,676
Unfinanced capital expenditure (Underlying Need to Borrow)	£644,722

4.3 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2019/20 unfinanced capital expenditure and prior years' unfinanced capital expenditure which has not yet been paid for.

4.4 As the table above shows 2019/20 capital expenditure was funded in large part by capital grants and reserves, the remainder has created a borrowing requirement of £644,722.

- 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 2019/20 MRP Policy was approved as part of the Treasury Management Strategy Statement 2019/20 in February 2019.
- 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:

	2019/20 Projected Outturn (£)
Opening balance (1st April 2019)	16,229,729
Plus 2019/20 borrowing requirement	644,722
Less MRP	(46,380)
Closing balance (31st March 2020)	16,828,071

- 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 2019/20 (plus expected changes to the CFR over 2020/21 and 2021/22). 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:

	31 March 2020 Projected (£)	31 March 2021 Forecast (£)	31 March 2022 Forecast (£)
Borrowing position	10,000,000	16,249,240	18,146,350
Capital Financing Requirement	16,828,071	21,018,036	22,588,856
Over / (under) borrowed	(6,828,071)	(4,768,796)	(4,442,506)

- 4.12 The CFR as at the end of 2019/20 relates to the borrowing undertaken to fund the Ascent loan and general fund borrowing requirements in 2014/15, and 2017/18 to 2019/20 (for other capital schemes). As at 31st March 2020, the Authority was in an under-borrowed position of £6,828,071 therefore has complied with the prudential indicator.

5 Borrowing Outturn

- 5.1 There was no 'new' borrowing undertaken during 2019/20. 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
£2,000,000	Lincolnshire County Council	1.10%	1 year	January
£1,000,000	Milton Keynes Council	1.75%	5 years	February
£1,000,000	Milton Keynes Council	1.75%	5 years	March
£8,500,000	<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
£2,000,000	Hyndburn Borough Council	0.92%	1 year	January
£2,000,000	Broxbourne Borough Council	0.88%	6 months	January
£7,500,000	<i>Total refinancing</i>			

- 5.2 The borrowing costs outturn was £91,000 underspent against the 2019/20 budget of £294,390. The budget had originally anticipated £2.8million 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 £644,722 and between £3million and £4million 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. 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 0.75% 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 2019/20
SMDC Total	0.81%	0.76%	0.75%	0.72%	0.75%
SMDC Total Long-term (>364 days)	1.18%	1.18%	1.18%	1.16%	1.17%
SMDC Total Short-term (<364 days)	1.00%	1.00%	1.00%	1.00%	1.00%
SMDC Total Short-term (instant access)	0.66%	0.63%	0.62%	0.60%	0.63%
Link Benchmarks					
*LIBID 7 Day Rate	0.57%	0.56%	0.57%	0.43%	0.53%
*LIBID 3 Month Rate	0.68%	0.64%	0.64%	0.55%	0.63%
*LIBID 6 Month Rate	0.78%	0.69%	0.74%	0.61%	0.70%
*LIBID 12 Month Rate	0.91%	0.75%	0.83%	0.69%	0.80%
Base Rate at end of period	0.75%	0.75%	0.75%	0.10%	

**LIBID (London Interbank Bid Rate)*

- 6.4 The investment portfolio was held on a short-term basis (up to 1 year) through 2019/20, 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.

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 1 year, 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 2019/20 was £11.96million.

Financial Institution	Country of Domicile	Interest Earned (£)	Average Daily Investment (£)	Rate of Return (%)
Money Market Funds	UK	31,720	4,349,041	0.73
Lloyds Bank Plc	UK	23,466	2,002,740	1.17
Bank of Scotland	UK	9,732	1,530,597	0.64
NatWest Bank Plc	UK	3,913	1,435,868	0.27
Santander	UK	12,077	1,207,763	1.00
Handelsbanken Plc	UK	9,322	1,434,077	0.65
Total		90,230	11,960,086	0.75

7.5 The budget was set with an expectation of interest rate rises during the year up to 1.25%. For the majority of the year the Bank of England base rate remained at 0.75% and therefore investment yields were lower than anticipated. In addition the Council's use of internal borrowing to fund the borrowing requirement means that the investment portfolio is also reduced. The investment income for the year was £90,950 (including £720 from local loans), which is £26,630 under the budget for the year of £117,580.

7.6 Investments held at the 31st March 2020 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	£2,129,806
Santander	UK	Santander UK	£1,200,000
Lloyds Bank Plc	UK	Lloyds Banking Group	£1,000,000
Handelsbanken	UK	Handelsbanken UK	£800,000
Total Principal Invested			£9,729,806

7.7 Investments held as at 31st March 2020 are for a period of one year or less. The exposure to fixed and variable interest rates is shown below:

	31 st March 2020 Actual
Fixed Rate	£2,200,000
Variable Rate	£7,529,806
TOTAL	£9,729,806

- 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 2019/20:

Debenture to Ascent LLP	£	Interest Rate
Balance at 1st April 2019	5,000,000	
<i>Fully drawn</i>	-	
Balance at 31st March 2020	5,000,000	2.00%
Interest earned in 2019/20	100,000	

Loan to Ascent LLP	£	Interest Rate
Balance at 1st April 2019	14,000,000	
No drawdowns in the year	0	
Balance at 31st March 2020	14,000,000	3.52%*
Interest earned in 2019/20	492,996	

* 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 surplus of £8,730 as the rolling 1 year tranches were refinanced in October and November at £7million each at slightly higher rates (linked to the PWLB rates on the day) than anticipated in the budget.
- 7.10 The £14million Loan is a priority debtor therefore would be repaid in full should the loan mature. The £5million Debenture owed to the Council and similarly the £5million Debenture owed to Your Housing by Ascent are of equal priority and are expected to be subject to an impairment.

8 Compliance with Treasury Limits

- 8.1 Treasury Limits and Prudential Indicators were set within the Treasury Management Strategy 2019/20. 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	2019/20	2019/20
	Original	Provisional Outturn
	£'000	£'000
Capital Expenditure:		
General Fund	4,705	2,605
Commercial activities (industrial unit sites)	80	65
Reduction in general fund capital expenditure owing to ...		
Ratio of financing costs to net revenue stream	(4.22%)	(5.06%)
Increased net income on financing costs during the year due to the lower cost of continuing internal borrowing		
Gross borrowing requirement		
Total Gross Borrowing (31 st March)	16,785	10,000
Borrowing Requirement	1,886	645
Variance in gross borrowing due to internally borrowing £4m on Ascent Loan and £2.8m general fund borrowing requirement Variance in borrowing requirement due to reprofiled programmes		
Capital Financing Requirement as at 31 March	18,318	16,828
Annual change in Capital Financing Requirement		
	1,835	598

TREASURY MANAGEMENT INDICATORS	2019/20	2019/20
	Original	Provisional Outturn
	£'000	£'000
Authorised Limit for external debt	Strategy	Actual
Borrowing	30,984	10,000
Other long term liabilities	0	0
TOTAL	30,984	10,000
Operational Boundary for external debt		
Borrowing	29,484	10,000
other long term liabilities	0	0
TOTAL	29,484	10,000
Upper limit for total principal sums invested for over 365 days	3,500	0

Maturity structure of fixed rate borrowing during 2019/20	Upper limit in 2019/20 Strategy	2019/20 Actual Maturity Profile
under 12 months	100%	75%
12 months and within 2 years	100%	25%
2 years and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of variable rate borrowing during 2019/20	Upper limit in 2019/20 Strategy	2019/20 Actual Maturity Profile
under 12 months	100%	0%
12 months and within 2 years	100%	0%
2 years and within 5 years	50%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%