# Information Digest

**To: Audit & Accounts Committee**

**Date: 3rd July 2020**

## *Treasury Management Update*

**Appendices Attached – Appendix A – Treasury Management Mid-Year Update Report to 31st May 2020**

**Councillor Sybil Ralphs**
**Leader**

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## 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 2020/21 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 Members note the current Treasury Management position as at 31st May 2020.

## 3. Executive Summary

3.1. The CIPFA Code of Practice on Treasury Management was adopted by the Council in February 2010. This Council fully complies with its requirements, one of which is to produce at least one mid-year operational report.

3.2. This report comprises the following:

- The latest interest rate forecast;
- Investment income earned to date and projected for 2020/21;
- The current investment portfolio;
- The current and projected borrowing requirements with projected borrowing costs for 2020/21; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2020/21.

3.3. The main headlines include:

- The Bank of England base rate has reduced to 0.10% in March 2020 with no expectation for any increase in the medium term.
- The Covid-19 pandemic and resulting economic crisis is considered in terms of the impact on treasury management, in particular the cash flows.
- A shortfall of £22,100 is forecast against the investment income budget due to reducing interest rates and continuing internal borrowing.
- Income on the Ascent debenture and loan is forecast on target pending changes for the Ascent Delivery model and any new loan arrangement.
- The borrowing costs budget to support the existing Ascent loan balance and a potential general fund borrowing requirement is currently forecast to be £97,000 under budget owing to lower interest rates and the use of internal borrowing.

- The average return on investments was 0.46% during the period 1st April 31st May. This compares favourably to short-term industry benchmarks.

- The Council's investment portfolio totalled £14.6million spread across six separate institutions as at 31st May 2020.

- The Council's current level of debt is £13million at an average annual borrowing rate of 0.80%.

## 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 all of the Council's main priorities.

## 5. Alternative Options

5.1. This report sets out the Treasury Management position for Staffordshire Moorlands District Council for 2020/21 to date and the projected outturn. As such it is a statement of fact and there are no options.

**Claire Hazeldene**
**Interim Executive Director & Chief Finance Officer**

**Web Links and Background Papers**

'Treasury Management – Governance & Scrutiny Arrangements' (Audit & Accounts Committee September 2009)

'Treasury Management Strategy Statement 2020/21' (Audit & Accounts Committee February 2020)

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**Appendix A**

# Treasury Management Update
# 31st May 2020

1. Introduction
2. Economic Forecast – Interest Rates
3. Covid-19 Impact on Treasury Management
4. Investment Income
5. Investment Portfolio
6. Borrowing Position
7. Prudential Indicators

## 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 2020/21 was approved by Council on 14th February 2020. This report details treasury management performance up to the 31st May 2020 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:

| % | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|---|---|---|---|---|---|---|---|---|
| **Bank Rate** | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| **5yr PWLB rate** | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 |
| **10r PWLB rate** | 2.10 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 |
| **25yr PWLB rate** | 2.50 | 2.50 | 2.50 | 2.60 | 2.60 | 2.60 | 2.70 | 2.70 |
| **50yr PWLB rate** | 2.30 | 2.30 | 2.30 | 2.40 | 2.40 | 2.40 | 2.50 | 2.50 |

2.2. Link’s interest rate forecast has been updated following the Bank of England base rate cut from 0.75% to 0.25% on 11th March and again to 0.10% on 19th March 2020. The forecast was made at the end of March 2020 and took into account the known situation with regard to coronavirus at the time and its potential impact on economies around the world. Link has pragmatically reduced the forecast to two years ahead to acknowledge the exceptional level of uncertainty at the current time.

## 3. Covid-19 impact on Treasury Management

3.1. As a period of lockdown was implemented in March 2020 due the Coronavirus pandemic, there were immediate concerns about the Council's cash flow over the coming year(s) due to the resulting economic crisis affecting the Council's main sources of income including Council Tax, Business Rate and fees and charges.

3.2. Cash flow will be affected by deferrals of payment plans, shifting the cash flow to later in the year than is usual; increase in recipients of Local Council Tax Reduction Scheme as more residents become eligible, reducing the Council's income; increase in instances of non-payment, and an increase in business rates reliefs, which is replaced by the equivalent income from the government via a grant, but could change the cash flow profile of these amounts. It is also impacted by a reduction in general fees and charges – some of which have reduced during the lockdown period – such as car parking fees.

3.3. Liquidity is a primary concern in Treasury Management, subordinate only to security, therefore a decision was made that all fixed investments should be returned to instant access accounts upon maturity and no new fixed investments would be taken until a clearer understanding of the cash flow situation had been gained.

3.4. Conversely, on 1st April the Council received £25million from Central Government to distribute under the Business Grants Scheme. This cash flow level is significantly greater than the Council's normal levels, therefore it was necessary to increase all the Counterparty limits set in the Treasury Management Strategy Statement for 2020/21 in order to accommodate these balances in the short term as the scheme was administered and payments could be made. The increase in these limits is show in detail at section 5.

3.5. Central government also allowed Councils to delay payments of the Business Rates share which eased cash flow in the first quarter, but will unwind as we progress throughout the year.

## 4. Investment Income

4.1. Interest earned on investment deposits up to 31st May 2020 totalled £15,900. The Council has budgeted to receive £88,510 in investment income in 2020/21. The budget was set with an expectation of higher interest rates than the current environment: 0.75% for the first three quarters of the year and a further potential rate rise to 1.00% at the end of the year.

4.2. The Bank of England base rate reductions in March have resulted in cuts to all of the instant access accounts. If a decision is made to include fixed investments in the portfolio again, the yield opportunities are also significantly reduced, therefore may not improve income receipts. The investment portfolio is also reduced due to the continuation of internal borrowing, though this still represents a net saving in lieu of the external borrowing costs. Therefore a shortfall of £22,100 is forecast on the investment income budget.

4.3. 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 Apr-May |
|---|---|
| **SMDC Average** | **0.46%** |
| SMDC long-term fixed (>364 days) | 1.02% |
| SMDC short-term fixed (<364 days) | 0.44% |
| SMDC instant access | 0.43% |
| ***Benchmarks*** | |
| **LIBID 7 day rate* | *0.00%* |
| **LIBID 3 month rate* | *0.30%* |
| **LIBID 6 month rate* | *0.43%* |
| **LIBID 12 month rate* | *0.59%* |
| Base Rate at the end of the period | 0.10% |

**LIBID = London Inter Bank Bid Rate*

*Ascent Joint Venture*

4.4. The Council continues to provide two facilities to the joint venture company Ascent Housing LLP: the Debenture of £5million earns interest at 2%. This £100,000 income is on target against the budget; interest on the Loan of £14million is forecast at an average rate of 3.91% across the two £7million rolling 1 year tranches, earning interest income of £546,910. This is assumed to be on target until more is known about any changes to arrangements with Your Housing during the year (outlined in the Cabinet Report 18th June 2019) and/or the forecast of interest rates on the tranche roll dates in October and November.

4.5. The existing £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 are of equal priority and are expected to be subject to an impairment.

## 5. Investment Portfolio

5.1. 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 May 2020 totalled £14,556,000, as shown in the table below:

| Financial Institution | Country of Domicile | Amount | Maximum recommended lending duration | Interest rate at end of period | Average Maturity |
|---|---|---|---|---|---|
| Santander | UK | £5,000,000 | **RED (6 months)** | 0.40% | Instant Access |
| Handelsbanken | UK | £3,700,000 | **ORANGE (12 months)** | 0.35% | Instant access |
| Aberdeen MMF | UK | £2,200,000 | **WHITE (12 months)** | 0.39% | Instant access |
| Federated MMF | UK | £1,400,000 | **WHITE (12 months)** | 0.37% | Instant access |
| NatWest Bank | UK | £1,256,000 | **BLUE (12 months)** | 0.30% | Instant access |
| Lloyds Bank | UK | £1,000,000 | **ORANGE (12 months)** | 1.05% | 364 days |
| **TOTAL** | | **£14,556,000** | | | |

*NB: MMF = Money Market Fund*

5.2. The average annual level of funds available for investment up to 31st May 2020 was £19.7million.

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

| | | Per TMSS 2020/21 | | Extraordinary counterparty limit increase: Covid-19 |
|---|---|---|---|---|
| **Colour Banding** | **Maximum Duration of Investment** | **UK Banks** | **International Banks** | **UK Banks** |
| **PURPLE** | Up to 2 years | £4.6m | £3.4m | £9.2m |
| **ORANGE** | Up to 12 months | £4.1m | £2.7m | £8.2m |
| **RED** | Up to 6 months | £3.4m | £2.3m | £6.8m |
| **GREEN** | Up to 100 days | £2.9m | £1.8m | £5.8m |
| | | | | |
| **BLUE (Part nationalised financial institutions)** | Up to 1 year | £4.6m | n/a | £9.2m |
| **BLUE (NatWest)** | Up to 1 year | £6.9m | n/a | £13.8m |
| | | | | |
| **Money Market Funds** | Up to 1 year | £4.6m | n/a | £9.2m |

5.4. Group limits are also applied:

| Portfolio % increased by 50% | Per TMSS 2020/21 | Extraordinary counterparty limit increase: Covid-19 |
|---|---|---|
| **Category** | **Group Principal Limit** | **Group Principal Limit** |
| **BLUE** | £6.9m | £13.8m |
| **PURPLE** | £6.9m | £13.8m |
| **ORANGE** | £6.2m | £12.4m |
| **RED** | £5.2m | £10.4m |
| **GREEN** | £4.6m | £9.2m |
| **Money Market Funds** | £6.9m | £13.8m |

## 6. Borrowing Position

6.1. 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.

6.2. The Council's outstanding borrowing totalled £13,000,000 all with other Local Authorities:

| Lender | External Borrowing | Current Average Interest Rate | Remaining Maturity period |
|---|---|---|---|
| **Local Authority Loans** | £13,000,000 | 0.80% | Up to 3 years |

6.3. The ‘operational boundary’ (£32,675,000) and ‘authorised limit’ (£34,175,000) 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.

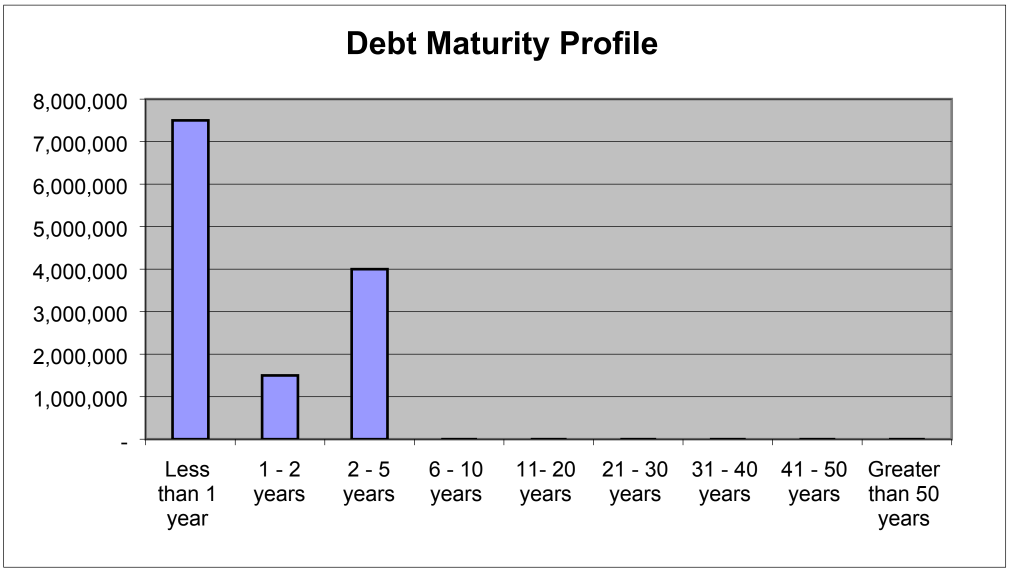
6.4. There has been no ‘new’ borrowing so far during the year. Maturity and refinancing activity is summarised in the table below:

| Amount | Lender | Interest Rate | Term | Month |
|---|---|---|---|---|
| **Maturing Loans** | | | | |
| £1,500,000 | Guildford Borough Council | 1.78% | 5 years | May |
| **£1,500,000** | *Total maturities* | | | |
| | | | | |
| Refinancing* | | | | |
| £2,000,000 | Wigan Council | 0.68% | 6 months | May |
| £1,500,000 | Guildford Borough Council | 1.30% | 2 years | May |
| **£3,500,000** | *Total refinancing* | | | |
| | | | | |
| **Refinancing in advance** | | | | |
| Maturity | | | | |
| **£2,000,000** | Broxbourne Borough Council | 0.88% | 6 months | July |
| Refinancing* | | | | |
| **£3,000,000** | Oxfordshire County Council | 1.25% | 3 years | July |
| | | | | |
| **£3,000,000** | ***Net refinancing increase*** **Includes refinancing from previous year maturities* | | | |

6.5. There is a further £7.5million of external debt maturing during the year between November and January. It is anticipated that the full amount will be refinanced on a short term basis, pending the outcome of the Your Housing loan arrangements. The treasury team will monitor interest rate movements and opportunities with a view to securing loans at the appropriate time and level and remove refinancing uncertainty.

6.6. The £332,730 budget for borrowing costs was based on externally funding the full Ascent loan balance of £14million and the potential for £4.2million of new loans to be taken mid-year to support the general fund borrowing requirement. £1million of the Ascent loan balance continues to be internally funded. This has decreased from the £4million internally funded at year end to add some certainty to the cashflow and debt portfolio and take advantage of low rates on offer. There is no external borrowing for other general fund projects which remain internally funded. Therefore an underspend of £97,000 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.

6.7. Attention must also be given to the maturity profile of the loans to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below details the maturity profile of current loans.




6.8. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, along with Link, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

6.9. No rescheduling has taken place during 2020/21 to date. The Council will work with Link to identify any potential debt rescheduling options – taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings.

## 7. Prudential Indicators

7.1. The Council has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2020/21 and complies with the Council's Treasury Management Practices.