



STAFFORDSHIRE  
*moorlands*  
DISTRICT COUNCIL  
ACHIEVING EXCELLENCE

## **Treasury Management Update 30<sup>th</sup> September 2020**

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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 2020/21 was approved by Council on 14<sup>th</sup> February 2020. This report details treasury management performance up to the 30<sup>th</sup> September 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:

%	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
<b>Bank Rate</b>	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
<b>5yr PWLB rate</b>	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
<b>10r PWLB rate</b>	2.10	2.10	2.10	2.01	2.10	2.20	2.20	2.20	2.30	2.30	2.30
<b>25yr PWLB rate</b>	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
<b>50yr PWLB rate</b>	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

- 2.2. Link’s interest rate forecast has the Bank of England base rate continuing at 0.10% for the short- to medium-term; and PWLB rates continuing at the current levels.
- 2.3. Uncertainties surround the future Bank of England base rate in the potential for negative interest rates. Link has not included these in the forecast, but their average earnings forecast shows that Councils can expect an average return of near 0%. The PWLB consultation is due to be reported on imminently and the outcome of this may impact the borrowing rates on offer.

## 3. Covid-19 impact on Treasury Management

- 3.1. The impact of Covid-19 on the Council's cash flows is being carefully monitored: the timing of some cash flows is changed in comparison to usual trends with deferrals of payment plans for Council Tax and Business Rates; some grant payments having an earlier payment profile; some cash flows have been reduced, such as car parking income; and the grant schemes which the Council is delivering has the effect of unusual cash inflows followed by the outflows over a period; all of which results in a very different cash flow profile.
- 3.2. 'Liquidity' of cash flows being a primary concern in Treasury Management, subordinate only to 'Security', it was decided in the first quarter that no new fixed term investments would be made. As the cash flow forecast has developed during the last 6 months the Council has made investments in 95 day notice accounts which offer a good level of liquidity with slightly improved 'Yields' compared to instant access accounts.
- 3.3. Whilst the Council was in receipt of the £25million grant from Central Government to distribute under the Business Grants Scheme, 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. When cash balances had returned to more normal levels, the treasury management team reverted to the original approved Counterparty Limits. This is shown in more detail at section 5.
- 3.4. Some of the Council's borrowing requirement which was previously supported by internal borrowing (i.e. temporarily from the Council's reserves, which depressed the investment portfolio but made savings overall on borrowing costs) has now been externalised through borrowing from other Local Authorities. The borrowing costs in the Local Authority market are currently very low and the external debt supports liquidity on the Council's cash flows.

#### **4. Investment Income**

- 4.1. Interest earned on investment deposits up to 30<sup>th</sup> September totalled £28,710. 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. During the year interest rates on accounts have fallen significantly, initially following the Bank of England base rate reductions in March to 0.10%, then compounded by market sentiment pricing in potential negative rates. This is illustrated in the table below with the reduction in average interest rates from quarter 1 to quarter 2. Therefore, a shortfall of £48,720 is forecast on the investment income budget.

- 4.3. The average interest rate achieved on the Council's investments compared to industry benchmark rates shows the Council is still performing relatively well:

Comparator	Average Rate Q1	Average Rate Q2
<b>SMDC Average</b>	<b>0.40%</b>	<b>0.25%</b>
SMDC long-term fixed (>364 days)	1.05%	1.05%
SMDC short-term fixed (<364 days)	1.00%	0.52%
SMDC instant access	0.36%	0.14%
<b>Benchmarks</b>		
*LIBID 7 day rate	0.00%	0.00%
*LIBID 3 month rate	0.26%	0.00%
*LIBID 6 month rate	0.40%	0.02%
*LIBID 12 month rate	0.56%	0.14%
Base Rate at the end of the period	0.10%	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%, the associated £100,000 income is on target against the budget; interest on the Loan of £14million is forecast at an average rate of 3.61% across the two £7million rolling 1 year tranches, earning interest income of £504,978. This represents a shortfall of £40,410 against the budget due to lower PWLB rates on the tranche roll dates than expected at budget setting stage.
- 4.5. Any changes to arrangements with Your Housing during the year (outlined in the Cabinet Report 18<sup>th</sup> June 2019) may also impact this income. 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 30<sup>th</sup> September totalled £16,259,000, as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Interest rate at end of period	Average Maturity
Aberdeen MMF	UK	£4,600,000	WHITE (12 months)	0.09%	Instant access
Handelsbanken	UK	£4,100,000	ORANGE (12 months)	0.10%	Instant access
Santander	UK	£3,400,000	RED (6 months)	0.60%	95 day notice
Federated MMF	UK	£1,200,000	WHITE (12 months)	0.06%	Instant access
Lloyds Bank	UK	£1,000,000	RED (6 months) (formerly Orange) *	1.05%	364 days
Lloyds Bank	UK	£1,000,000	RED (6 months) (formerly Orange) *	0.20%	95 day notice
Barclays 'Green'	UK	£500,000	RED (6 months)	0.30%	95 day notice
NatWest Bank	UK	£459,000	BLUE (12 months)	0.01%	Instant access
<b>TOTAL</b>		<b>£16,259,000</b>			

NB: MMF = Money Market Fund

\* Lloyds reduced to RED (6 months) on 21<sup>st</sup> October following downgrade by Moody's

5.2. The average annual level of funds available for investment up to 30<sup>th</sup> September 2020 was £17.1million.

5.3. New 95 day notice accounts have been opened with Barclays and Lloyds Bank in order to obtain an improved yield compared to money market funds and instant access accounts available, but with an acceptable period of liquidity in these uncertain times.

- The Barclays account is linked to Barclays' Green Bond Purchasing Programme which covers "a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction". In the 2020-21 TMSS there was reference to Ethical Investing under Environmental, Social and Governance (ESG) considerations; and the Councils would consider investment opportunities with ESG links provided that the Security, Liquidity, Yield (SLY) criteria are met. Barclays is categorised by Link as a 'Red' counterparty and therefore meets the Council's primary treasury management criterion of 'Security'; the 95 day notice period is acceptable and therefore meets the second criterion of 'Liquidity'; and the account pays the same rate as the 'normal' or 'non-green' deposit with this institution (0.30% reducing to 0.10% if notice is given), therefore meets the third criterion 'Yield'. With all these factors considered, the opportunity was taken to invest in this 'green' deposit.

- The Lloyds Bank 95 day notice account pays 0.20% with no reduction in interest rate during the notice period. This account pays the same as a 12 month fixed deposit currently, so offers much better liquidity for the same yield, with a strongly rated counterparty.

5.4. The maximum investment term, as recommended by Link, is shown by colour banding in the table below with the TMSS approved counterparty limits. Due to unexpected cash balances in the Council's accounts relating to Covid grants at the start of the year, treasury management was operated with extended counterparty limits between 1<sup>st</sup> April and 31<sup>st</sup> August. As cash balances returned to more normal levels, these limits reverted to the approved TMSS levels on 1<sup>st</sup> September:

Colour Banding	Maximum Duration of Investment	Approved TMSS 2020/21		Extraordinary counterparty limit increase applied from 1 <sup>st</sup> April to 31 <sup>st</sup> August due to Covid-19 excess cash balances
		UK Banks	International Banks	UK Banks
<b>PURPLE</b>	Up to 2 years	£4.6m	£3.4m	£9.2m
<b>ORANGE</b>	Up to 12 months	£4.1m	£2.7m	£8.2m
<b>RED</b>	Up to 6 months	£3.4m	£2.3m	£6.8m
<b>GREEN</b>	Up to 100 days	£2.9m	£1.8m	£5.8m
<b>BLUE (Part nationalised financial institutions)</b>	Up to 1 year	£4.6m	n/a	£9.2m
<b>BLUE (NatWest)</b>	Up to 1 year	£6.9m	n/a	£13.8m
<b>Money Market Funds</b>	Up to 1 year	£4.6m	n/a	£9.2m

5.5. Group limits are also applied where counterparties are in the same group as each other:

Portfolio % increased by 50%	Approved TMSS 2020/21	Extraordinary counterparty limit increase applied from 1 <sup>st</sup> April to 31 <sup>st</sup> August due to Covid-19 excess cash balances
Category	Group Principal Limit	Group Principal Limit
<b>BLUE</b>	£6.9m	£13.8m
<b>PURPLE</b>	£6.9m	£13.8m
<b>ORANGE</b>	£6.2m	£12.4m
<b>RED</b>	£5.2m	£10.4m
<b>GREEN</b>	£4.6m	£9.2m
<b>Money Market Funds</b>	£6.9m	£13.8m

### *UK Sovereign Rating and Counterparty Duration*

- 5.6. The Ratings agency Moody's downgraded the UK's credit rating on Friday 16<sup>th</sup> October to Aa3 from Aa2, the third downgrade in eight years. This does not directly affect the Council's investment strategy or activity as the TMSS states that 'when investing in institutions *outside* the UK, only banks and building societies located in countries with a minimum sovereign rating of 'AAA' will be used', i.e. a change to the UK sovereign rating has no immediate impact.
- 5.7. However, the ratings and outlooks of UK banks include an assessment of the willingness and capacity of a government to support banks in case of need. The lower UK sovereign debt rating has therefore reduced the uplift in some banks' ratings. Banks affected currently in use by the Council were Bank of Scotland, Lloyds Bank, Santander and NatWest. The only resulting changes to the suggested durations on Link's counterparty list were Bank of Scotland and Lloyds reducing to Red (6 months) from Orange (12 months), which also had the effect of reducing the counterparty limit to £3.4million (£4.6m Group) from £4.1million (£6.2million Group) previously.
- 5.8. The Council has an existing 12 month fixed term investment with Lloyds Bank. As this is a fixed term deposit, there is no option to terminate before the maturity date on 12<sup>th</sup> February 2021, but as this is less than six months away, there is no concern; the Council also has a 95 day notice account with Lloyds, but again this is within the new maximum duration limit; and the amounts held with these counterparties do not exceed the new (reduced) counterparty limits, so no action was required. It is also important to stress that these changes were solely because of the action on the UK sovereign rating, not a reflection of deteriorating conditions at the banks themselves.
- 5.9. Any future downgrades of other counterparties are likely to have minimal impact on the Council's investment activity as the majority of the current investment portfolio is instant access or 95 days in duration which fits in the lowest 'Green' creditworthiness duration limit of 100 days. All institutions used by the Council are currently 'Red' or higher.

### *Other investment opportunities*

- 5.10. The treasury team continually monitors the investment opportunities available to the Council including instant access accounts; notice accounts; money market funds; fixed term deposits and Certificates of Deposit. These are all with rated institutions (banks, building societies, money market funds). Another option is to invest the Council's funds in the intra-local authority market. This type of investment is included in the Council's TMSS for investments for up to 12 months at the 'yellow' (up to 5 years) counterparty limit (currently £4.6m) as a specified investment; and up to 5 years at the >365 day limit (currently £3.5m) as a non-specified investment. The 'yellow' counterparty limit is in line with Link's view, as all local authorities are deemed to be AAA rated, secure and ultimately backed by government.

- 5.11. As interest rates on more traditional investments continue to fall, the intra-local authority market offers some good yields particularly to the longer end, but it is worth being prepared to enter this market in any case to provide a wider counterparty spread as conversations continue about the threat of negative rates.
- 5.12. In order to make an investment, the treasury team would contact one of the Council's brokers and make them aware of the amount of investment, duration and yield the Council would like to obtain; they then match this up with other local authority counterparts who need to borrow funds. There is no charge for this brokerage service when lending funds.
- 5.13. In the current climate, with Covid uncertainty and the impact on the Council's financial position and cash flows, the treasury team propose to consider investment opportunities with any local authority of less than 1 year when funds are available and these present a better yield than available elsewhere. The treasury team has discussed this with Link and they are comfortable with this approach, reiterating that all local authorities are secure and supported by government.

## 6. Capital Programme Update & Borrowing Position

### *Capital Programme Update*

- 6.1. The table below provides current projections for capital expenditure and funding:

	<b>TMSS 2020/21 Estimate</b>	<b>Current Estimate (includes 19/20 carry forwards)</b>
<b>Total Capital Expenditure</b>	<b>£6,005,000</b>	<b>£2,906,000</b>
<b><i>Funded by:</i></b>		
Capital Receipts	£93,000	£50,000
External Funding	£1,227,000	£520,000
Reserves	£436,000	£621,000
<b>2020/21 Net Financing Requirement</b>	<b>£4,249,000</b>	<b>£1,715,000</b>
<b>Capital Financing Requirement</b>		
<b>Opening CFR</b>	<b>£16,995,000</b>	<b>£16,828,000</b>
<i>PLUS Net Financing Requirement</i>	£4,249,000	£1,715,000
<i>LESS Minimum Revenue Provision</i>	(£63,000)	(£59,000)
<b>Closing CFR</b>	<b>£21,181,000</b>	<b>£18,484,000</b>

- 6.2. The Net Financing Requirement on 2020/21 spend is now estimated at £1,715,000: the reduction is mainly due to expected fleet procurement delivery dates now expected in 2021-22 and other programmes being delayed due to the effects of the Covid 19 situation.
- 6.3. The Capital Financing Requirement (CFR) is a prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow to finance capital expenditure and is derived by aggregating specified items for the Council's balance sheet. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

## Borrowing Position

6.4. 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 TMSS.

6.5. The Council's external borrowing at the start of the year was £10million with £4million internal borrowing on the Ascent Loan and the balance of the general fund capital financing requirement. By the end of the year external borrowing is forecast to be £16million: £14million relating to the Ascent Loan and £2million to the general fund capital financing requirement. This approach ensures that cash flow is available for liquidity as required due to the uncertainty surrounding Covid 19 expenditure and reduced income. It also takes advantage of the extremely cheap funding available during the year from other local authorities.

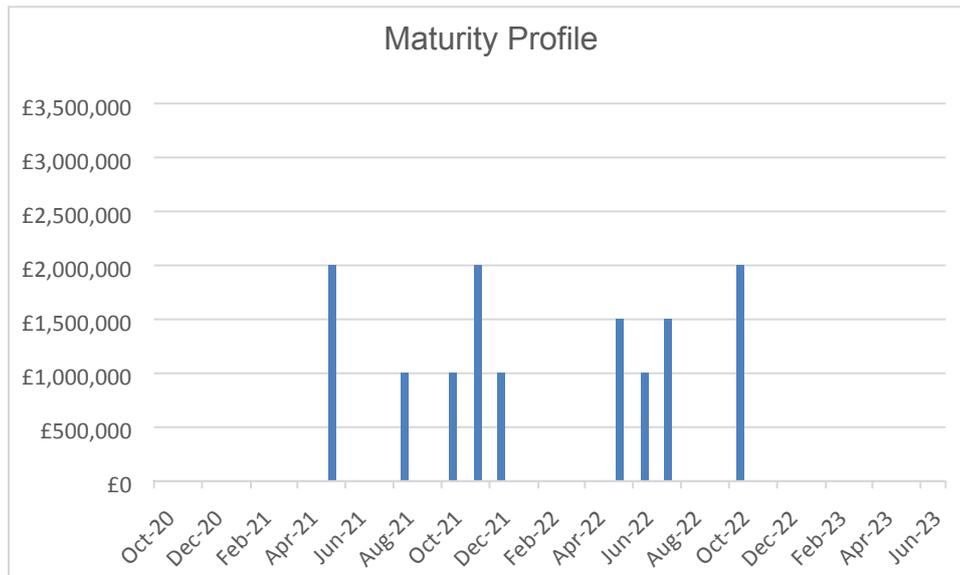
6.6. External borrowing activity so far and anticipated during the year is summarised in the table below:

Amount	Lender	Interest Rate	Term	Month	Month
<b>Matured Loans (Q1&amp;2)</b>				<b>Maturing</b>	
£1,500,000	Guildford Borough Council	1.78%	5 years	May	
£2,000,000	Broxbourne Borough Council	0.88%	6 months	July	
£1,000,000	Police & Crime Commissioner for West Midlands	2.05%	5 years	August	
<b>£4,500,000</b>	<b>Total</b>				
<b>Pending Maturities (Q3&amp;4)</b>					
£2,000,000	Wigan Council	0.68%	6 months	November	
£1,500,000	Brighton & Hove Council	0.99%	1 year	November	
£2,000,000	Gloucestershire County Council	0.95%	1 year	November	
£2,000,000	Hyndburn Borough Council	0.92%	1 year	January	
<b>£7,500,000</b>	<b>Total</b>				
<b>Refinanced Loans (inc. maturities from previous years)</b>				<b>Starting</b>	<b>Arranged</b>
£2,000,000	Wigan Council	0.68%	6 months	May	May
£1,500,000	Guildford Borough Council	1.30%	2 years	May	May
£3,000,000	Oxfordshire County Council	1.25%	3 years	July	June
£1,000,000	Police & Crime Commissioner for West Midlands	0.40%	1 year	August	August
£1,000,000	Mid Devon District Council	0.22%	1 year	October	September
£2,000,000	St Helens Council	0.85%	2 years	October	August
£2,000,000	Bridgend County Brough Council	0.15%	6 months	November	October
£2,000,000	Lichfield District Council	0.25%	1 year	November	September
£1,000,000	Ryedale District Council	0.25%	1 year	December	September
£1,500,000	Devon & Somerset Fire & Rescue Service	0.50%	18 months	January	November
<b>£16,500,000</b>	<b>Total</b>				
<b>Refinancing to be arranged/ potential new loan</b>					
£1,000,000	Local Authority	c.0.60%	18 months	c. January	
<b>£6,000,000</b>	<b>Net increase in external borrowing</b>				

6.7. 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.

- 6.8. The maturity profile of the loans is considered when undertaking external borrowing 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.



- 6.9. The average external borrowing for the year is forecast to be £13,832,000 with maturity periods from 6 months to 3 years at an average interest rate of 0.88%, all with other local authorities.
- 6.10. 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, which has now reduced to £1.7million. Therefore, an underspend of £132,830 is 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.
- 6.11. The treasury team, along with Link, monitors opportunities to reschedule debt, i.e. reorganise 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, in order to manage risk and achieve overall financial benefit to the Council taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings. No debt rescheduling has taken place during the year.

## 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 with the

extension to counterparty limits during high covid-19 cashflows explained above and complies with the Council's Treasury Management Practices.