



STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
ACHIEVING EXCELLENCE

Treasury Management Update 31st December 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 14th February 2020. This report details treasury management performance up to the 31st December 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:

%	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB rate	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00
10r PWLB rate	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30
25yr PWLB rate	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80
50yr PWLB rate	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60

- 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 average Council investment returns of near 0%.
- 2.3. The PWLB consultation was released at the end of November 2020 and, as was widely anticipated, rates were reduced by 1%, a reversal of the overnight 1% increase that was imposed in October 2019, along with a restriction that Councils cannot borrow from the PWLB if they have purchase any assets which are primarily debt for yield.

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 from March/ April 2020. 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. This occurred again from November 2020. Whilst cash balances were 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 31st December totalled £37,920. 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 to quarter. Therefore, a shortfall of £45,990 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	Average Rate Q3
SMDC Average	0.40%	0.25%	0.16%
SMDC long-term fixed (>364 days)	1.05%	1.05%	1.05%
SMDC short-term fixed (<364 days)	1.00%	0.52%	0.39%
SMDC instant access	0.36%	0.14%	0.04%
Benchmarks			
*LIBID 7 day rate	<0.00%	<0.00%	<0.00%
*LIBID 3 month rate	0.26%	<0.00%	<0.00%
*LIBID 6 month rate	0.40%	0.02%	<0.00%
*LIBID 12 month rate	0.56%	0.14%	<0.00%
Base Rate at the end of the period	0.10%	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 earned at an average rate of 3.60% across the two £7million rolling 1 year tranches, earning interest income of £503,970. This represents a shortfall of £41,420 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 18th 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 31st December totalled £23,974,000, 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	£7,074,000	BLUE (12 months)	0.01%	Instant access
Aberdeen MMF	UK	£4,600,000	WHITE (12 months)	0.01%	Instant access
Handelsbanken	UK	£4,100,000	ORANGE (12 months)	0.10%	Instant access
Santander	UK	£3,400,000	RED (6 months)	0.40%	95 day notice
Federated MMF	UK	£2,300,000	WHITE (12 months)	0.01%	Instant access
Lloyds Bank	UK	£1,000,000	RED (6 months) <i>(formerly Orange) *</i>	1.05%	364 days
Lloyds Bank	UK	£1,000,000	RED (6 months)	0.10%	95 day notice
Barclays 'Green'	UK	£500,000	RED (6 months)	0.30%	95 day notice
TOTAL		£23,974,000			

NB: MMF = Money Market Fund

* Lloyds reduced to RED (6 months) on 21st October following downgrade by Moody's

5.2. The average balance of funds available for investment for the year up to 31st December was £18.8million. Both average balances for the year and the total portfolio at the end of December 2020 are larger than usual due to Covid 19 grants being held whilst business grant schemes are administered.

Ethical investing

5.3. The Council currently holds £500,000 in financial investments with Environmental, Social and Governance (ESG) links, sometimes known as Ethical Investing and encompassing the Climate Change agenda. These are included in the investment portfolio table above, but are also highlighted here:

Product	Amount	ESG merits
Barclays 'Green' (95 day notice account)	£500,000	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'.
TOTAL	£500,000	2.09% of total portfolio

Counterparty limits

- 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 funding for Covid business grant schemes throughout the year, treasury management was operated with extended counterparty limits (increased by 100%) from April to August; and again from mid-November. In addition the NatWest counterparty limit (the Council's current account) was increased by 157% for four days to accommodate cash balances when a large receipt of grant funding coincided with balances on hand to pay the major preceptors. Whilst cash balances returned to more normal levels, the approved TMSS levels were adhered to:

Colour Banding	Maximum Duration of Investment	Approved TMSS 2020/21		Extraordinary counterparty limit increase applied during Covid-19 excess cash balances
		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 (£17.7m 15-18 Nov only)
Money Market Funds	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 during Covid-19 excess cash balances
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

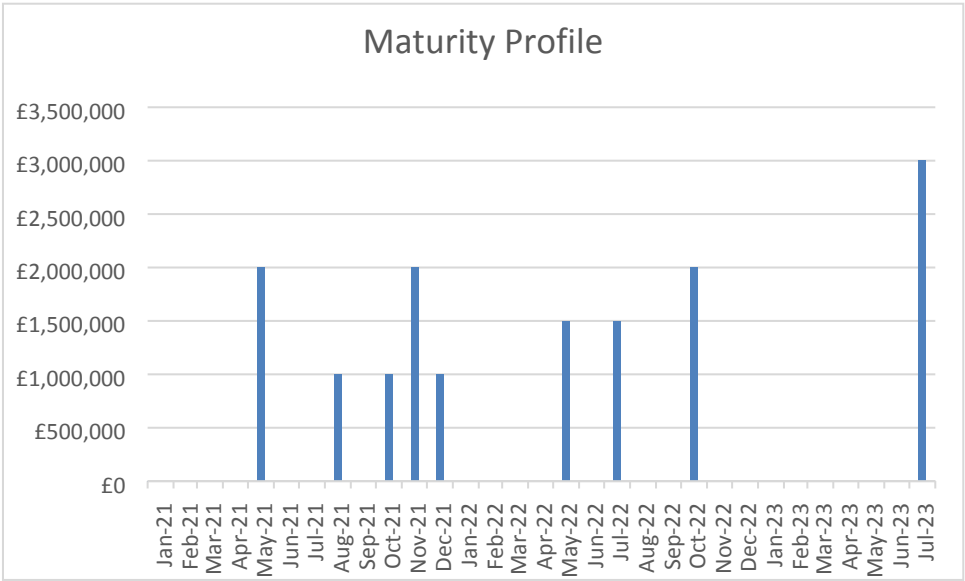
6.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'affordable borrowing limits' as part of the prudential indicators within the approved TMSS.

6.2. 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 £15million: £14million relating to the Ascent Loan and £1million 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.

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

Amount	Lender	Interest Rate	Term	Month	Month
Matured Loans (Q1-3)				Maturing	
£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	
£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	
£10,000,000	Total				
Pending Maturity (Q4)					
£2,000,000	Hyndburn Borough Council	0.92%	1 year	January	
Refinanced Loans (inc. maturities from previous years)				Starting	Arranged
£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
£17,000,000	Total				
£5,000,000	Net increase in external borrowing				

- 6.4. 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.
- 6.5. 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.



- 6.6. The average external borrowing for the year is forecast to be £13,538,000 with maturity periods from 6 months to 3 years at an average interest rate of 0.88%, all with other local authorities.
- 6.7. 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 £135,790 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.
- 6.8. 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 complies with the Council's Treasury Management Practices and 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.