

APPENDIX A



STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
ACHIEVING EXCELLENCE

Annual Treasury Management Report

2020/21

June 2021

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 2020/21. 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 & Economy for 2020/21
 - The Council's treasury position as at 31st March 2021
 - Capital expenditure and the overall borrowing need
 - Borrowing outturn
 - Investment performance & portfolio, including Ethical investing
 - Compliance with prudential & treasury indicators

2 2020/21 Treasury Management Strategy & Economic Conditions

- 2.1 Interest rate expectations applied to the treasury management strategy for 2020/21 were from an environment before the Covid-19 crisis had become apparent. Forecasts were based on the assumption of a Brexit deal being agreed between Parliament and the EU by December 2020 and included a rise in the Bank of England base rate to 1.00% by the end of the financial year. This did not take place and the base rate 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 As a result, investment opportunities and yields decreased dramatically during the year with some accounts paying 0%. Borrowing interest rates, particularly with other local authorities, decreased partly in line with these decreases and partly because of the increased levels of cash flows throughout local authorities due to monies received from Central Government to be issued to local businesses in the form of grants where they were impacted by Covid-19.
- 2.3 Whilst the Council was in receipt of these cash flows from Central Government, 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 schemes were administered and payments could be made. This occurred at various points in the year as new grants schemes were released. Where 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 Annex A.

- 2.4 In October 2019 the Public Works Loan Board (PWLB) increased its borrowing interest rates by 1% without warning. This was effectively reversed in November 2020 following the PWLB consultation results. A restriction is now in place on PWLB borrowing whereby Council's cannot borrow from this source if their capital programme contains any commercial activity.

3 The Current Treasury Position

- 3.1 The Council's debt and investment position at the end of the 2020/21 financial year with the previous year as a comparison is shown in the table:

	2019/20		2020/21	
	31st March 2020 Principal	Average interest rate	31st March 2021 Principal	Average interest rate
Total Debt:				
External Borrowing, fixed rate	£10,000,000	1.57%	£15,000,000	0.88%
Investments				
In-House	£9,729,806	0.75%	£18,399,000*	0.22%
Debenture – Ascent LLP	£5,000,000	2.00%	£5,000,000	2.00%
Loan Facility – Ascent LLP	£14,000,000	3.52%	£14,000,000	3.60%
Total Investments	£28,729,806	2.32%	£37,399,000	1.72%

* Investment balances are higher due to balances held as an Agent awarding Business Grants on behalf of Central Government

4 The Council's Capital Expenditure & Borrowing Requirement 2020/21

- 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 2020/21 and how this was financed:

	2020/21 Projected Outturn
Total General Fund Capital Expenditure	£3,097,305
<i>Resourced by:</i>	
External contributions	£949,143
Capital reserves & earmarked reserves	£741,355
Capital receipts	£93,000
Unfinanced capital expenditure (Underlying Need to Borrow)	£1,313,807

- 4.3 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2020/21 unfinanced capital expenditure and prior years' unfinanced capital expenditure which has not yet been paid for.
- 4.4 As the table above shows 2020/21 capital expenditure was partly funded by external contributions and reserves as well as some capital receipts; the remainder has created a borrowing requirement of £1,313,807, which increases the CFR.
- 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 2020/21 MRP Policy was approved as part of the Treasury Management Strategy Statement 2020/21 in February 2020.
- 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, there is no MRP requirement for borrowing undertaken in respect of the Ascent loan.
- 4.9 The Council's overall CFR is shown below:

	2020/21 Projected Outturn (£)
Opening balance (1st April 2020)	16,828,071
Plus 2020/21 borrowing requirement	1,313,807
Less MRP	(59,275)
Closing balance (31st March 2021)	18,082,603

- 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 2020/21 (plus expected changes to the CFR over 2021/22 and 2022/23). 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 2021 Provisional (£)	31 March 2022 Forecast (£)	31 March 2023 Forecast (£)
Borrowing position	15,000,000	17,044,350	18,850,970
Capital Financing Requirement	18,082,603	20,949,233	22,281,498
Over / (under) borrowed	(3,082,603)	(3,952,183)	(3,476,858)

4.12 The CFR as at the end of 2020/21 relates to the borrowing undertaken to fund the Ascent loan and general fund borrowing requirements since 2014/15 for other capital schemes. As at 31st March 2021, the Authority was in an under-borrowed position of £3,082,603 therefore has complied with the prudential indicator.

5 Borrowing Outturn

5.1 External borrowing activity during 2020/21 is summarised in the table below:

Amount	Lender	Interest Rate	Term	Month	Month
Matured Loans				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* (commenced and matured within the year)	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	
£12,000,000	Total				
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				
£10,000,000	External borrowing 1 st April 2020				
(£12,000,000)	Matured loans				
£17,000,000	Refinanced loans				
£15,000,000	External borrowing 31 st March 2021				

5.2 The average external borrowing for the year was £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.

- 5.3 The overall borrowing costs for the year were £196,934; there was an underspend of £135,796 against the budget of £332,730. The budget 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. This borrowing requirement reduced and interest rates on offer were lower than anticipated at budget setting.
- 5.4 In addition, some of the borrowing requirement is internally funded. The practice of avoiding external 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. The Council's external debt has increased during the year from £10,000,000 to £15,000,000. This approach ensured that cash flow was available for liquidity as required due to the uncertainty surrounding Covid 19 expenditure and reduced income; and also took advantage of the extremely cheap funding available during the year from other local authorities.

6 Investment Performance & Portfolio

- 6.1 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.
- 6.2 The Council achieved an overall average interest rate of 0.22% 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 2020/21
SMDC Total	0.40%	0.25%	0.17%	0.11%	0.22%
SMDC Total Long-term (>364 days)	1.05%	1.05%	1.05%	1.05%	1.05%
SMDC Total Short-term (<364 days)	1.00%	0.52%	0.40%	0.31%	0.39%
SMDC Total Short-term (instant access)	0.36%	0.14%	0.04%	0.02%	0.14%
Link Benchmarks					
*LIBID 7 Day Rate	<0.00%	<0.00%	<0.00%	<0.00%	<0.00%
*LIBID 3 Month Rate	0.26%	<0.00%	<0.00%	<0.00%	0.01%
*LIBID 6 Month Rate	0.40%	0.02%	<0.00%	<0.00%	0.07%
*LIBID 12 Month Rate	0.56%	0.14%	<0.00%	<0.00%	0.17%
Base Rate at end of period	0.10%	0.10%	0.10%	0.10%	

*LIBID (London Interbank Bid Rate)

- 6.3 The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. 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 (see Annex A for current lending limits).

6.4 Money was invested with 7 institutions during the year. All investments were placed in line with the Council's approved lending limits. 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 accounts. The average daily investment during 2020/21 was £19.7million.

Financial Institution	Country of Domicile	Duration	Interest Earned (£)	Average Daily Investment (£)	Rate of Return (%)
Money Market Funds	UK	Instant access	7,736	6,284,466	0.12
Handelsbanken	UK	Instant access	9,535	4,342,266	0.22
NatWest Bank	UK	Instant access	2,092	4,212,512	0.05
Santander	UK	95 day notice	13,571	2,998,437	0.45
Lloyds Bank	UK	95 day notice & 1 year fixed	9,891	1,449,559	0.68
Barclays (ESG linked)	UK	65-95 day notice	975	360,274	0.27
Bank of Scotland	UK	Instant access	0	72,423	0.00
Total			43,800	19,719,937	0.22

6.5 The average maturity of investment during the year was necessarily short to allow for uncertainties over cashflow during the Covid-19 situation where there was risk to income streams and changes in the timing of cashflows. The larger investment amounts during the year were a result of monies received by the Council from Central Government to be redistributed under the various Business Grant schemes. To provide some context as to the magnitude of the cash flow impact, the income and expenditure flowing through the Council's accounts in 2020/21 relating to these grants was c.£42million. The funds needed to be kept available as instant access.

6.6 The budget was set with an expectation of interest rate rises during the year up to 1.00%. Yields were therefore lower than anticipated when the Bank of England base rate was cut to 0.10% in March 2020. 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 £47,588 (including £3,788 from local loans); against the budget of £88,510, this represents a shortfall of £40,922.

6.7 Investments held at the 31st March 2021 are shown in the table below. All investments are for a period of one year or less and subject to variable interest rates:

Financial Institution	Country of domicile	Group / Parent	Principal Amount Invested (£)
Money Market Funds	UK	Money Market Funds	£6,900,000
NatWest Bank Plc	UK	Royal Bank of Scotland Group	£5,599,000
Santander	UK	Santander UK	£3,400,000
Barclays (ESG linked)	UK	Barclays	£1,500,000
Lloyds Bank Plc	UK	Lloyds Banking Group	£1,000,000
Total Principal Invested			£18,399,000

Ethical Investing

- 6.8 The table above includes £1,500,000 in financial investments with Environmental, Social and Governance (ESG) links, sometimes known as Ethical Investing and encompassing the Climate Change agenda:

Product	Amount	ESG merits
Barclays 'Green' (95 day notice account)	£1,500,000	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	£1,500,000	8.15% of total portfolio

Other investments

- 6.9 In addition to the investments held with financial institutions, the Council is providing a £5million debenture and up to £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 the associated interest earned in 2020/21:

Debenture to Ascent LLP	£	Interest Rate
Balance at 1st April 2020	5,000,000	
<i>Fully drawn</i>	-	
Balance at 31st March 2021	5,000,000	2.00%
Interest earned in 2020/21	100,000	

Loan to Ascent LLP	£	Interest Rate
Balance at 1st April 2020	14,000,000	
No drawdowns in the year	0	
Balance at 31st March 2021	14,000,000	3.60%*
Interest earned in 2020/21	503,973	

* Interest rates include a 1.25% risk premium

- 6.10 The interest received on the Ascent Debenture was on target against the budget; there was a shortfall of £41,417 on the loan as the rolling 1 year tranches were refinanced in October and November at £7million each at slightly lower rates (linked to the PWLB rates on the day) than anticipated in the budget.
- 6.11 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.

7 Compliance with Treasury Limits

- 7.1 Treasury Limits and Prudential Indicators were set within the Treasury Management Strategy 2020/21. The outturn for the Indicators is shown in Annex B.
- 7.2 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.
- 7.3 There has been no rescheduling of debt during the year.

Current Lending Limits

		Approved TMSS 2020/21		Extraordinary counterparty limit increase applied during Covid-19 excess cash balances
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 (£17.7m 15-18 Jan only)
Money Market Funds	Up to 1 year	£4.6m	n/a	£9.2m

Group Limits

Portfolio % increased by 50%	Approved TMSS 2020/21	Extraordinary counterparty limit increase applied during to 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

ANNEX B

PRUDENTIAL INDICATORS	2020/21	2020/21
	Budget/ TMSS	Provisional Outturn
	£'000	£'000
Capital Expenditure	6,005	3,097
Change in capital programme since budget setting in February 2020 to reprofile spend to future years including the Fleet programme and Asset Management programme and updated projections on the Disabled Facilities Grants programme.		
Ratio of financing costs/ (net income) to net revenue stream	(4.11%)	(3.17%)
Increased Business Rates Retention Funding recorded in the year due to large s31 grants for Extended Retail Relief reduces ratio of financing costs/ (net income). However the funding will be retained in an earmarked reserve to offset the resulting collection fund deficit to be distributed in future years. Removing this from the ratio calculation would result in a provisional outturn of (4.62%) which is due to a reduction in borrowing costs.		
Gross borrowing requirement		
Total Gross Borrowing (31 st March)	16,249	15,000
Borrowing Requirement	4,249	1,314
Capital Financing Requirement as at 31 March	21,181	18,083
Annual change in Capital Financing Requirement	4,186	1,255
Borrowing requirement and CFR reduced in line with reduction in Capital Expenditure		

TREASURY MANAGEMENT INDICATORS	2020/21	2020/21
	TMSS	Provisional Outturn
	£'000	£'000
Authorised Limit for external debt	Strategy	Actual
Borrowing	34,175	15,000
Other long term liabilities	0	0
TOTAL	34,175	15,000
Operational Boundary for external debt		
Borrowing	32,675	15,000
other long term liabilities	0	0
TOTAL	32,675	15,000
Upper limit for total principal sums invested for over 365 days	3,500	0

Maturity structure of fixed rate borrowing during 2020/21	Upper limit in 2020/21 Strategy	Actual Maturity Profile 2020/21 (at 31st March 2021)
under 12 months	100%	47%
12 months and within 2 years	100%	33%
2 years and within 5 years	100%	20%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of variable rate borrowing during 2020/21	Upper limit in 2020/21 Strategy	Actual Maturity Profile 2020/21 (at 31st March 2021)
under 12 months	100%	0%
12 months and within 2 years	50%	0%
2 years and within 5 years	00%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%