



STAFFORDSHIRE  
*moorlands*  
DISTRICT COUNCIL  
ACHIEVING EXCELLENCE

## **Treasury Management Update 30<sup>th</sup> September 2021**

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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 2021/22 was approved by Council on 12<sup>th</sup> February 2021. This report details treasury management performance up to the 30<sup>th</sup> September 2021 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:

%	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>Bank Rate</b>	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
<b>5yr PWLB rate</b>	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
<b>10r PWLB rate</b>	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
<b>25yr PWLB rate</b>	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
<b>50yr PWLB rate</b>	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

- 2.2. Link’s latest interest rate forecast has brought the Bank of England base rate increase to 0.25% further forward to the quarter ending June 2022, with rises to 0.50% and 0.75% within the medium term. However this is unlikely to affect investment performance in the current year. PWLB rates are forecast to remain relatively constant, with a slow increase. The Council’s current year budgets were set anticipating this economic environment.

## 3. Covid-19 impact on Treasury Management

- 3.1. High volumes of income and expenditure continued to flow through the Council’s instant access accounts in the first half of the year while the Council acted as an agent of central government in the delivery of the various Business

Grant schemes. The counterparty limits in the 2021/22 Treasury Management Strategy Statement were set to be flexible to respond to this situation specifically; since the last report, the current account balance exceeded the limit by 4% for 2 days during August.

#### 4. Investment Income

- 4.1. Interest earned on investment deposits up to 30<sup>th</sup> September totalled £13,460. The Council has budgeted to receive £20,710 in investment income in 2021/22. The budget was set with an expectation of very low interest rates of near zero. A small surplus of £4,000 is anticipated against the budget at end of the year.
- 4.2. The average interest rate achieved on the Council's investments is boosted by the better rates achieved in the Council's notice accounts compared to the instant access average.

Average interest rate period	Average Rate Apr-Jun	Average Rate Jul-Sept
<b>Overall</b>	<b>0.14%</b>	<b>0.14%</b>
Long-term fixed (>364 days)	n/a	n/a
Short-term fixed/ notice accounts (<364 days)	0.35%	0.37%
Instant access	0.01%	0.01%
Bank of England Base Rate	0.10%	0.10%

#### *Ascent Joint Venture*

- 4.3. 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 a forecast average rate of 3.02% across the two £7million rolling 1 year tranches, earning an annual interest income of £422,880.
- 4.4. Any changes to arrangements with Your Housing during the year (outlined in the Cabinet Report 18<sup>th</sup> June 2019) would 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 £21,684,000, 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	£6,784,000*	<b>BLUE (12 months)</b>	0.01%	Instant access
Aberdeen MMF	UK	£4,600,000	<b>WHITE (12 months)</b>	0.01%	Instant access

Santander	UK	£3,100,000	<b>RED (6 months)</b>	0.58%	180 day notice
Federated MMF	UK	£2,300,000	<b>WHITE (12 months)</b>	0.01%	Instant access
Santander	UK	£1,400,000	<b>RED (6 months)</b>	0.40%	95 day notice
Standard Chartered Sustainable	UK	£1,000,000	<b>RED (6 months)</b>	0.08%	6 months fixed
Lloyds Bank	UK	£1,000,000	<b>RED (6 months)</b>	0.05%	95 day notice
Barclays 'Green'	UK	£1,000,000	<b>RED (6 months)</b>	0.10%	65 day notice
Barclays 'Green'	UK	£500,000	<b>RED (6 months)</b>	0.30%	95 day notice
<b>TOTAL</b>		<b>£21,684,000</b>			

MMF = Money Market Fund

\* Higher balances than usual held in the current account at month end due to the timing of income direct debits before month end and outgoing precept payments after.

5.2. The average balance of funds available for investment for the year up to 30<sup>th</sup> September was £19.2million. Both average balances for the year and the total portfolio are larger than usual due to Covid 19 grants being held whilst business grant schemes are administered. The net balance of funds held at the end of September was £2.7million.

### ***Ethical investing***

5.3. The Council currently holds £2,500,000 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:

<b>Product</b>	<b>Amount</b>	<b>ESG merits</b>
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'.
Barclays 'Green' (65 day notice account)	£1,000,000	
Standard Chartered 'Sustainable' Deposit (6 month fixed term)	£1,000,000	Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.
<b>TOTAL</b>	<b>£2,500,000</b>	<b>11.53% of total portfolio</b>

## 6. Capital Programme Update & Borrowing Position

### *Capital Programme Update*

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

	<b>TMSS 2021/22 Estimate</b>	<b>Current Estimate (includes 20/21 carry forwards)</b>
<b>Total Capital Expenditure</b>	<b>£4,689,000</b>	<b>£4,831,000</b>
<b>Funded by:</b>		
Capital Receipts	£25,000	£25,000
External Funding	£1,512,000	£1,520,000
Reserves	£0	£88,000
<b>Net Financing Requirement</b>	<b>£3,152,000</b>	<b>£3,198,000</b>
<b>Capital Financing Requirement</b>		
<b>Opening CFR</b>	<b>£18,163,000</b>	<b>£18,083,000</b>
<i>PLUS Net Financing Requirement</i>	£3,152,000	£3,198,000
<i>LESS Minimum Revenue Provision</i>	(£87,000)	(£86,000)
<b>Closing CFR</b>	<b>£21,228,000</b>	<b>£21,195,000</b>

6.2. The Net Financing Requirement on 2021/22 forecast expenditure is now estimated at £3,198,000: the increase being due to the reprofiling of some programmes from the previous year.

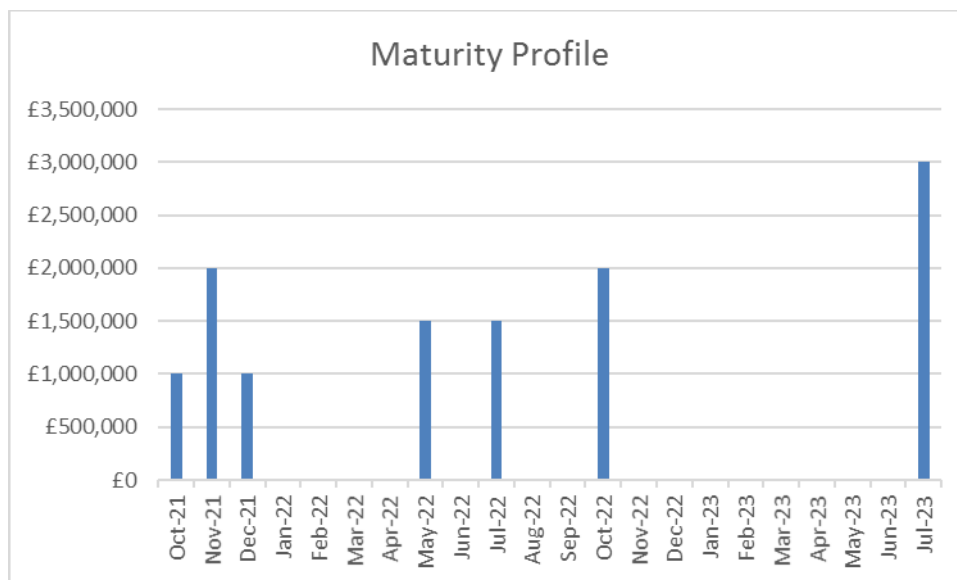
6.3. The Capital Financing Requirement (CFR) is a prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure 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 £15million which fully funded the Ascent Loan balance plus £1million of the general fund capital financing requirement. £7million of local authority borrowing is due to mature during the year, including £2million which matured in May and £1million in August, none of which has yet been refinanced. Refinancing and new borrowing will be kept under review during the year as the capital programme is carried out, and if any changes to the Ascent loan relationship occur, alongside views about cash flow and opportunities to take borrowing at cheap levels vs internal borrowing in the low interest income environment.

- 6.6. The average interest on borrowing is forecast at 0.75% for the year. There is a potential saving forecast of £30,000 against the borrowing cost budget of £224,580.
- 6.7. The 'operational boundary' (£33,049,000) and 'authorised limit' (£34,549,000) 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 could be high. The graph below details the maturity profile of current loans.



- 6.9. 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 2021/22.