



STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
ACHIEVING EXCELLENCE

Treasury Management Update 31st December 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 12th February 2021. This report details treasury management performance up to the 31st December 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:

%	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Bank Rate	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
5yr PWLB rate	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10r PWLB rate	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30

- 2.2. The Bank of England base rate increased from 0.10% to 0.25% in December 2021. Investment returns may therefore see a small increase during the last quarter of the year. Further base rate increases are anticipated over the medium term. PWLB rates are also forecast to increase slowly over the same time period.

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 throughout 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 11% for 4 days during October.

4. Investment Income

- 4.1. Interest earned on investment deposits up to 31st December totalled £20,960. 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 £6,450 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	Average Rate Oct-Dec
Overall	0.14%	0.14%	0.14%
Long-term fixed (>364 days)	n/a	n/a	n/a
Short-term fixed/ notice accounts (<364 days)	0.35%	0.37%	0.32%
Instant access	0.01%	0.01%	0.02%
Bank of England Base Rate	0.10%	0.10%	0.25%

Ascent Joint Venture

- 4.3. The Council has a debenture of £5million paying 2% and loan of £14million paying an average 3.02% with Ascent, the joint venture company established to deliver affordable housing across the District.
- 4.4. These are expected to be returned to the council at the end of January upon the cessation of Ascent Housing LLP: £14million loan and £3.15million impaired debenture.
- 4.5. The investment income budget was based on the original investments continuing for the full year: £100,000 income from the debenture and £422,880 from the loan. Therefore there will be a shortfall against the budget of £12,000 for the debenture and £81,870 for the loan.

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 £18,708,000, as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Interest rate at end of period	Average Maturity
Bank of Scotland	UK	£4,500,000	RED (6 months)	0.15%	Instant access
Santander	UK	£3,100,000	RED (6 months)	0.58%	180 day notice
Aberdeen MMF	UK	£2,600,000	WHITE (12 months)	0.05%	Instant access
NatWest Bank	UK	£2,308,000	BLUE (12 months)	0.01%	Instant access
Santander	UK	£1,400,000	RED (6 months)	0.40%	95 day notice

Federated MMF	UK	£1,300,000	WHITE (12 months)	0.03%	Instant access
Standard Chartered Sustainable	UK	£1,000,000	RED (6 months)	0.08%	6 months fixed
Lloyds Bank	UK	£1,000,000	RED (6 months)	0.05%	95 day notice
Barclays 'Green'	UK	£1,000,000	RED (6 months)	0.10%	65 day notice
Barclays 'Green'	UK	£500,000	RED (6 months)	0.30%	95 day notice
TOTAL		£18,708,000			

MMF = Money Market Fund

5.2. The average balance of funds available for investment for the year up to 31st December was £19.7million. 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 December was £1.7million.

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:

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'.
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'.
TOTAL	£2,500,000	13.36% of total portfolio

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 £15million. £7million of local authority borrowing has matured during the year; none has been refinanced.
- 6.3. A new capital loan (service investment) to Your Housing Limited of £10million is anticipated as part of the capital programme at the end of January 2022. This is expected to be funded in part by capital receipts; external borrowing from the PWLB and the remainder through internal borrowing. Costs associated with this are offset by income resulting in an overall net income of £40,020.
- 6.4. Refinancing and other new borrowing will be kept under review during the year as the capital programme is carried out, alongside views about cash flow and opportunities to take borrowing at cheap levels vs internal borrowing in the low interest income environment.
- 6.5. Average borrowing during the year is anticipated to be £11.9million with interest at 0.89%. There is an overall saving forecast of £89,550 against the borrowing cost budget of £224,580.
- 6.6. 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.
- 6.7. 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.



6.8. 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 2021/22.