STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Copy of Report to the Audit & Accounts Committee

29th September 2016

TITLE:	**Treasury Management - Update Report**
PORTFOLIO HOLDER:	**Councillor Sybil Ralphs – Leader**
CONTACT OFFICER:	**Claire Hazeldene – Finance & Procurement Manager** **Emily Bennetts – Finance Business Partner**
WARDS:	**Non-Specific**

Appendix Attached:
Appendix A - Treasury Management Mid-Year Update Report – 31st August 2016

1. Reason for the Report

1.1. The purpose of the report is to allow the robust scrutiny of the Council's treasury management performance in 2016/17 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 and generally accepted good practice.

2. Recommendation

2.1. That the committee note the current treasury management position as at 31st August 2016.

3. Executive Summary

3.1. The CIPFA Code of Practice on Treasury Management 2009 was adopted by the Council in February 2010. This Council fully complies with its requirements, one of which is to produce at least one mid-year operational report.

3.2. This report comprises the following:

- The latest interest rate forecast;
- Investment income earned to date and projected for 2016/17;
- The current investment portfolio;
- The capital programme update and current and projected borrowing requirements with projected borrowing costs for 2016/17; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2016/17.

3.3. The main headlines include:

- The Bank of England base rate reduced from 0.50% to 0.25% following the Monetary Policy Committee (MPC) meeting of 4th August. There is a suggestion that Bank Rate will be cut further to 0.10% in the quarter ending December 2016 and the first increase thereafter is forecast for the end of June 2018.
- A shortfall of £17,000 is anticipated on the investment income budget following the reduction in the Bank of England base rate.
- The Ascent loan and debenture income budgets are expected to be on target. No drawdowns of the Ascent Loan are anticipated during the year.
- The borrowing costs budget to support the existing Ascent loan balance and some potential general fund borrowing requirements is currently forecast to be on target.
- The average return on investments was 0.47% during the period 1st July to 31st August. This compares favourably to short-term industry benchmarks.
- The Council's investment portfolio totalled £10.7 million spread across six separate institutions as at 31st August 2016.
- The Council's current level of debt is £15.6 million (£14 million external borrowing and £1.6 million finance lease arrangements).

4. How this report links to Corporate Priorities

4.1. An effective Treasury Management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

5. Options and Analysis

5.1. This report sets out the Treasury Management position for Staffordshire Moorlands District Council for 2016/17 to date and the projected outturn. As such it is a statement of fact and there are no options.

6. Implications

6.1. Community Safety - (Crime and Disorder Act 1998)
None

6.2. Workforce
None

6.3. Equality and Diversity/Equality Impact Assessment
This report has been prepared in accordance with the Council's Equality and Diversity policies.

6.4. Financial Considerations
Financial considerations are embedded throughout the report.

6.5. Legal
None

6.6. Sustainability
None

6.7. Internal and External Consultation
None

6.8. Risk Assessment
There are a number of inherent financial risks associated with Treasury Management activity, not least the potential for loss of interest and/or deposits. For this reason, the Council engages the services of external Treasury Management advisors (Capita Treasury Services).

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. That Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

ANDREW P STOKES
Executive Director (Transformation) & Chief Finance Officer

Background Papers	**Location**	**Contacts**
'Treasury Management – Governance and Scrutiny Arrangements' (Audit & Accounts Committee Sep 09)	Finance and Performance, Moorlands House, Leek	Claire Hazeldene Finance & Procurement Manager Tel. 01538 395400 Ext. 4191
'Treasury Management Strategy 2016/17' (Audit & Accounts Committee Feb 16)		Emily Bennetts Finance Business Partner Tel. 01538 395400 Ext. 4186

APPENDIX A

Treasury Management Update
31st August 2016

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 (2009) which recommends that Members should be briefed 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 2016/17 was approved by Council on 24th February 2016. This report details treasury management performance up to the 31st August 2016 and projects forward for the remainder of the financial year.

2. Economic Forecast – Interest Rates

2.1. The latest base rate and PWLB (Public Works Loan Board) forecast from the Council's treasury advisers, Capita Asset Services ('Capita'), is shown below:

	Now	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank Rate	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.50
5yr PWLB rate	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.30
10r PWLB rate	1.60	1.50	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80
25yr PWLB rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60
50yr PWLB rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.40

2.2. Capita have updated their interest rate forceasts to take account of the MPC (Monetary Policy Committee) meeting of 4th August which cut Bank Rate from 0.50% to 0.25%. They have included the likelihood that a further cut to near zero at 0.10% will take place if data comes in as forecast, but do not project the possibility of negative rates.

2.3. The tentative forecast is for increases in Bank Rate in May 2018 to 0.25% and to 0.50% in May 2019, but these will very much depend on how strongly, and how soon, the UK economy makes a gradual recovery and so start a process of very gradual increases in Bank Rate over a prolonged period. The mix of extreme political and economic uncertainties over this time period continue to make it very likely that these forecasts will be subject to significant updating as events evolve.

3. Investment Income

3.1. Interest earned on investment deposits up to 31st August 2016 totalled £20,259. The Council has budgeted to receive £56,690 in investment income in 2016/17. The interest which can be earned on investments for the remainder of the year has been adversely affected by the reduction in the Base Rate at the Bank of England to 0.25% on 4th August. Therefore it is anticipated that there will be a shortfall of £17,000 on this budget at the end of the year.

3.2. Average interest rates achieved on the Council's investments are shown in the table below; these compare favourably to the LIBID rates, the recognised industry benchmark rates:

Comparator	Average Rate Q1	Average Rate Jul-Aug
SMDC Total	**0.46%**	**0.47%**
SMDC Total Long-term (>364 days)	0.93%	-
SMDC Total Short-term fixed (<364 days)	0.66%	0.68%
SMDC Total Short-term (instant access)	0.40%	0.38%
Benchmarks (Capita)		
*LIBID 7 Day Rate	0.36%	0.25%
*LIBID 3 Month Rate	0.46%	0.33%
*LIBID 6 Month Rate	0.60%	0.44%
*LIBID 12 Month Rate	0.87%	0.66%
Current Base Rate	*0.50%*	*0.25%*

**LIBID = London Inter Bank Bid Rate*

3.3. The table below highlights the level of investment activity and the rates obtained in the period from 1st July to 31st August 2016. Investments are made in line with Capita's creditworthiness guidance and the duration limits applied to each colour banding.

Institution	Country of Domicile	Amount	Length	Rate
Lloyds Bank Plc	UK	£800,000	3 months	0.65%
Swedbank AB	Sweden	£1,000,000	6 months	0.44%
Lloyds Bank Plc	UK	£500,000	3 Months	0.50%
Reserve Accounts *(instant access accounts and money market funds)*	UK	£1,326,000 *(daily average)*	Various	0.38%

3.4. The rates achieved by the Council vary by institution, by duration of investment and by the timing of when the investment was made. The Council's lending criteria restricts the number of financial institutions that are eligible to be on the lending list, and the amount that can be invested with eligible counterparties (and counterparty groups) at any one time.

3.5. The majority of the investment portfolio is held on a short-term basis (less than 1 year). The Council continues to utilise same day access business accounts, fixed term deposits and certificates of deposits (via the use of custodian, King & Shaxson) which offer competitive rates and access to banks that would not necessarily deal direct with the Authority for the sums invested.

Ascent Joint Venture

3.6. The Council has entered into a Joint Venture with Your Housing to provide affordable housing across the District. Each party committed to providing a £5 million Debenture to the Joint Venture Company, Ascent LLP, which pays an interest rate of 2.0% on Debenture monies drawn. The principal funds are ultimately repayable to the Council within 25 years. The full £5 million had been transferred by the end of 2014/15. Therefore, the budgeted £100,000 interest income from this Debenture is on target for the year.

3.7. The Council also agreed to provide a loan facility of £20 million, with interest payable based on the PWLB rate at the date of each drawdown for the specified period plus a 1.25% risk premium. The initial loan is for a period of 5 years with an option to refinance on maturity.

3.8. As at 31st March 2016, £14 million had been drawn. It is not anticipated that any of the remaining £6 million will be drawn in 2016/17; no drawdowns have taken place so far during the year. The budget of £490,100 was set with these assumptions; therefore the interest income from the loan is on target.

4. Investment Portfolio

4.1. 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 August 2016 totalled £10,708,000, as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration
Money Market Funds	UK	£3,600,000	**WHITE (12 months)**
Santander UK Ltd	UK	£2,200,000	**RED (6 months)**
NatWest Bank Plc	UK	£1,608,000	**BLUE (12 months)**
Lloyds Bank Plc	UK	£1,300,000	**RED (6 months)**
Nationwide Building Society	UK	£1,000,000	**RED (6 months)**
Swedbank AB	Sweden	£1,000,000	**ORANGE (12 months)**
TOTAL		**£10,708,000**	

4.2. The maximum investment term, as recommended by Capita, is shown by colour banding in the table below:

Colour Banding	Maximum Duration of Investment	UK Banks	International Banks
PURPLE	Up to 2 Years	£3.6m	£2.7m
ORANGE	Up to 1 Year	£3.2m	£2.1m
RED	Up to 6 Months	£2.7m	£1.8m
GREEN	Up to 100 Days	£2.3m	£1.4m
BLUE (Part & fully nationalised financial institutions)	Up to 1 Year	£3.6m	n/a
BLUE (NatWest)	Up to 1 Year	£5.4m	n/a
Money Market Funds	Up to 1 Year	£2.7m	n/a
WHITE (Lending to the Government / Local Authorities)	Up to 1 Year	n/a	n/a
	Over 1 Year	£3.5m	n/a

4.3. Group limits are also applied, restricting the total amount that can be invested on a fixed basis per the colour category above, increasing by a percentage (10% blue, 8% red; 7% green) if at least the additional amount is held on an instant access basis.

4.4. The average level of funds that have been available for investment up to 31st August 2016 was £10.1million. Investments are generally made up of short-term cash and core cash. Short-term cash is dependent on the timing of major payments e.g. precept payments, salaries and creditor payments, and major receipts e.g. receipt of grants and Council Tax direct debits. Core cash is dependent on capital programme commitments.

5. **Capital Programme Update and Borrowing Position**

Capital Programme Update

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

	Original Estimate	Revised Estimate
Total Capital Expenditure	**£2,399,000**	**£2,644,000**
General Capital Programme	£2,399,000	£2,644,000
Loan - Ascent LLP	-	-
Funded by:		
Capital Receipts	-	-
External Funding	£840,000	£869,000
2016/17 Net Financing Requirement	**£1,559,000**	**£1,775,000**
Capital Financing Requirement		
Opening CFR	**£16,715,000**	**£16,635,000**
PLUS Net Financing Requirement	£1,559,000	£1,775,000
LESS Minimum Revenue Provision	(£440,000)	(£424,000)
Closing CFR	**£17,834,000**	**£17,986,000***

** Includes £1,215,000 Finance Leases*

5.2. The Net Financing Requirement on 2016/17 spend is now estimated at £1,775,000: £75,000 of the increase is due to the accelerated implementation of the on-going ICT Strategy in its current phase, ‘Infrastructure Upgrade and Microsoft Compliance’; and £141,000 relates to carried forward General Fund capital schemes.

5.3. 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. The closing CFR is in line with the Capital Financing Requirement set in the Treasury Strategy Statement. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

Borrowing Position

5.4. 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 Treasury Management

Strategy Statement.

5.5. The Council's outstanding borrowing at 31st August 2016 totalled £15,618,000 as detailed in the table below:

Lender	External Borrowing	Average Interest Rate	Maturity period
Local Authority Loans	£14,000,000	1.60%	< 5 years
Finance Leases	£1,618,000	n/a	3 to 6 years
Total	**£15,618,000**	**1.60%**	

5.6. The 'operational boundary' (£22,157,000) and 'authorised limit' (£23,657,000) indicators govern the maximum level of external borrowing to fund the capital programme, plus any short-term liquidity requirements. The current level of borrowing is well within prudential limits.

5.7. The 'operational boundary' and 'authorised limit' were set to account for:
- the general fund borrowing requirement
- outstanding finance lease payments;
- an allowance for borrowing to cover short-term liquidity; and
- funding the loan to the Joint Venture Company, Ascent.

5.8. Since 2013/14 a number of vehicles were acquired and have been funded via a finance lease arrangement – the current balance outstanding is £1,618,000.

5.9. There has been no 'new borrowing' so far during the year. The total external borrowing remains at £14million, which all relates to funding the Ascent loan.

5.10. The £259,000 budget for borrowing costs was based on the existing Ascent loan balance and the potential for £1.5million of new loans to be taken to support the general fund borrowing requirement. At this stage, the budget is forecast to be on target. This will be monitored during the year and is dependent on the actual borrowing requirement on the general capital programme and the interest rates charged at the time of borrowing.

6. Prudential Indicators

6.1. The prudential and treasury indicators (as set in the Treasury Management Strategy 2016/17) have not been breached during the year.