

REPORT TO	ON
Governance Committee	26 November 2019



TITLE	REPORT OF
Treasury Management Activity Mid-year review 2019/20	Interim Section 151 Officer

Is this report confidential?	No
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PURPOSE OF THE REPORT

1. To report on Treasury Management performance in financial year 2019/20 to the end of September.

RECOMMENDATIONS

2. That the report be noted.

EXECUTIVE SUMMARY

3. During the first six months of 2019/20, the Council had an average daily cash balance of £39.9m and earned interest of £182k, a return of 0.91%. The investment balance at the end of September was £44.6m.
4. On 9 October 2019, the Public Works Loans Board (PWLB) announced an increase of 1% in the margin of its lending rates above gilt yields. The effect of this is to significantly increase the potential cost of future borrowing. It also raises the possibility of sources of borrowing other than the PWLB being a more affordable option in the future.
5. The forecast rise in the Bank of England base rate has been further deferred and is not now expected until the final quarter of 2020. This is only necessary for reports of longer than 4 sides – otherwise delete the heading.

CORPORATE OUTCOMES

6. The report relates to the following corporate priorities: *(tick all those applicable):*

Excellence, Investment and Financial Sustainability	✓
Health, Wellbeing and Safety	
Place, Homes and Environment	

Projects relating to People in the Corporate Plan:

Our People and Communities	
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BACKGROUND TO THE REPORT

7. The Annual Investment Strategy for 2019/20 was included in the Treasury Strategy 2019/20 to 2022/23, which was approved by Council on 27 February 2019. The report emphasised that the Council's investment priorities will be Security first, portfolio Liquidity second, and only then return (Yield).
8. The Treasury Management Annual Report 2019/20 was presented to Governance Committee on 24 September 2019. The report indicated that an average return on investments of 0.91% had been achieved, which exceeded the target rate of 0.66%, being seven day LIBID plus 15%.
9. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

TREASURY ACTIVITY

10. Investment activity up to the end of September 2019 is summarised in the following table.

Table 1 - Investment Activity	Average Daily Investment £000	Earnings to 30 September 2019 £	Average Rate %
Debt Management Office	0	0	0.00
Other fixed term deposits	18,467	91,708	0.99
Notice Accounts	9,000	47,730	1.06
Call accounts	2,152	6,482	0.60
Money Market Funds	10,238	36,111	0.70
Total	39,857	182,031	0.91

11. The DMO's Debt Management Account Deposit Facility (DMADF) was not used in the first half of the financial year.
12. The average daily investment of £39.857m continues to be well above the £10m minimum balance invested for the Council to qualify as a professional investor under MiFID II requirements.
13. A full list of investment counterparties and their associated limits is shown at Appendix A.

14. A full list of investments as at 30 September 2019 is presented as Appendix B. All investments were within the maximum limits per counterparty permitted by the approved Investment Strategy for 2019/20.
15. The investment durations per bank or building society suggested by Link Asset Services as at November 2019 are presented in Appendix C. The Council receives weekly updates, and suggested durations are checked online at the time of placing any term deposits with banks or building societies. The limit per institution is as approved by Council on 27 February 2019.
16. The average interest earned of 0.91% exceeds the target of 0.66% (being the average LIBID 7-day rate plus 15%). It also exceeds the Link Asset Services suggested earnings rate of 0.75% for 2019/20 (see Table 3 below).
17. The comparison to the interest receivable budget is as follows:

Table 2 - Interest Receivable Budget	Budget for 2019/20	Actual to 30 September 2019	Forecast for year
	£000	£000	£000
Interest earned	220	182	320
Total	220	182	320

18. No long-term borrowing has been taken to the date of preparing this report. The funding of the 2019/20 Capital Programme requires an element of long-term borrowing and the cost of financing this has been included in the revenue budget for the year. Savings in interest payable may be achieved by delaying external borrowing, or using the Council's cash balances as an alternative to taking external loans from the Public Works Loan Board (PWLB) or other source. Interest earned on cash balances would reduce as a consequence, but the Council would lose interest receivable at approximately 0.85% to 1.00%, but avoid the relatively higher cost of paying interest to an external lender. For example, the rate on a 40-year annuity loan from the PWLB on 1 November was 3.15%.
19. On 9 October 2019, without any prior notice or indication that such a move might be expected, the Public Works Loans Board (PWLB) announced an increase of 1% in the margin of its lending rates above gilt yields. Although the rates available from day-to-day will continue to vary, as they did before the announcement, in short this means that the rate payable on any future borrowings from the PWLB will be 1% higher than it would otherwise have been. As an example, on 8 October the interest rate on a new 40-year annuity in loan was 1.95% and on the 9 October the rate was 2.97%. From this it can be seen that the result is a rise of half or more in the costs of new PWLB loans, with significant implications for future spending and financing plans. One possibility that it raises is that more competitive rates may now be available in the commercial market. Early indications are that this is only likely to be viable for amounts of £25-30m and more, but the option will be considered before any further new borrowings are entered into. It is also possible that the Municipal Bonds Agency will be offering loans to local authorities in the future. The Council's approved Borrowing Strategy does not specify choice of lender and so no amendment is required.

TREASURY CONSULTANTS ADVICE

20. Appendix D presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2019/20.
21. In addition, a detailed comparison of interest rate forecasts is presented as Appendix E. Bank rate and PWLB borrowing rate forecasts are given from the December quarter of 2019 through to the March quarter of 2022.
22. The next increase in Bank Rate from 0.75% to 1.00% is now expected in the December quarter of 2020. When this year's Treasury Strategy was prepared, it was expected that Base Rate would reach 1.00% in the quarter just ended in September 2019.
23. Link's suggested budgeted investment earning rates for investments up to about three months duration in each financial year are as follows:

	Revised November 2019	Revised August 2019	Original February 2019
2019/20	0.75%	0.75%	1.00%
2020/21	1.00%	1.00%	1.25%
2021/22	1.00%	1.00%	1.75%
2022/23	1.50%	1.50%	2.00%
2023/24	1.50%	1.50%	2.25%
2024/25	1.75%	1.75%	2.50%
Later years	2.25%	2.25%	2.50%

24. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2019, and Link's update in August 2019. The suggested earnings rates have fallen from 1.00% to 0.75% in this financial year. This target was exceeded in the first half of 2019/20, with the average to 30 September 2018 being 0.91%. The average is currently expected to remain above the target for the remainder of the financial year.
25. In the forecast interest rates shown at Appendix E, PWLB borrowing rates are currently significantly higher than was expected when the Treasury Strategy for 2019/20 onwards was prepared. This is because of the increase of 1% in the margin of PWLB rates above gilt yields, as referred to above, although the difference in the forecast is less than the full 1%, because of variations in other underlying factors, principally the ongoing deferral of any rise in base rate. Overall, the forecast indicates a pattern of gradually rising rates, but this remains subject to the usual range of risk factors in respect of inflation, monetary policy decisions and domestic and international economic performance and particularly to the continuing uncertainties around the outcome of the Brexit process.

CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

26. No consultation has been undertaken in preparing this report.

AIR QUALITY IMPLICATIONS

27. The report has no air quality implications.

COMMENTS OF THE STATUTORY FINANCE OFFICER

28. The report meets the requirement of the Treasury Management Code of Practice that the Treasury Strategy and activity should be reviewed half-yearly and so is a key element in the reporting under Council's financial management and administration framework.

COMMENTS OF THE MONITORING OFFICER

29. The Monitoring Officer has no concerns or issues with what is proposed in this report.

OTHER IMPLICATIONS:

<p>► Risk</p> <p>► Equality & Diversity</p>	<p>The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.</p>
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BACKGROUND DOCUMENTS

Treasury Strategy 2018/19 to 2022/23 (Council 27/2/19)

APPENDICES (or There are no appendices to this report)

- Appendix A Investment Counterparties
- Appendix B List of Investments as at 30 September 2019
- Appendix C Suggested Investment Durations as at November 2019
- Appendix D Economics and Interest Rates – Treasury Advisors' advice
- Appendix E Comparison of Interest Rates Forecasts

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