

Report of	Meeting	Date
Chief Executive	Governance Committee	20 November 2019

## TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2019/20

### PURPOSE OF REPORT

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

### RECOMMENDATION(S)

- That the report be noted.

### EXECUTIVE SUMMARY OF REPORT

- During the first six months of 2019/20, the Council had an average daily cash balance of £9.75m and earned interest of £32.6k, a return of 0.67%. The investment balance at the end of September was £5.5m.
- New long-term borrowing of £39.5m has been undertaken.
- During the second quarter of 2019/20 the Council undertook a major asset purchase and this had a significant impact on the pattern of activities.
  - The average daily cash balance was approximately 50% higher than would have normally been the case and temporary amendments to the approved Counterparty list were necessary to accommodate this.
  - Substantial new borrowing was entered into.
  - A revised set of Prudential Indicators for 2019/20 was approved, to incorporate the implications for the capital programme and borrowing limits.
- 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.
- 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.

<b>Confidential report</b> Please bold as appropriate	Yes	No
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## CORPORATE PRIORITIES

8. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

## BACKGROUND

9. At its meeting on 26 February 2019, Council approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2019/20 to 2021/22; the Treasury Management Strategy and Treasury Indicators for 2019/20; the Annual Investment Strategy 2019/20; and the Annual Minimum Revenue Provision (MRP) Policy for 2019/20.
10. The Treasury Management Annual Report for 2018/19 was presented to Governance Committee of 24 July 2019.
11. 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

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

<b>Table 1 - Investment Activity</b>	<b>Average Daily Investment £000</b>	<b>Earnings to 30 September 2019 £</b>	<b>Average Rate %</b>
Fixed Term Deposits	590	1,479	0.5
Call Accounts	2,652	8,186	0.62
Money Market Funds	6,513	22,946	0.7
<b>Total</b>	<b>9,755</b>	<b>32,611</b>	<b>0.67</b>

The average balance over the first six months of the year has been higher than would normally be the case (the comparative figure for 2018/19 was £6.2m), because of the additional amounts temporarily held when borrowing was entered into ready to fund the purchase of a major asset. No sums have been invested as fixed term deposits. This is because the cash balances which are generally held are available only for short periods, and therefore need to be held in highly liquid accounts, which pay lower rates of interest than term deposits. Although the activity associated with the purchase of the major asset briefly produced much higher daily balances, which peaked at over £40m, these were similarly only available for a very limited time and so not suitable to be invested as fixed term deposits.

A full list of investments as at 30 September 2019 is shown below.

<b>Table 2 - Investments as at 30 September 2019</b>				
<b>Counterparty</b>	<b>Type</b>	<b>Amount £</b>	<b>Invested date</b>	<b>Maturity date</b>
BlackRock	MMF	3,000,000	Various	On call
Fedrated	MMF	1,000,000	Various	On call
Barclays BPA	Call account	1,493,190	Various	On call
<b>Total</b>		<b>5,493,190</b>		

The amounts of daily balances held returned to normal levels at the beginning of September and so the above figure is very similar to that at the end of September 2018, which was £5.766m.

13. To qualify as a professional investor under MiFID II requirements, the council needs to invest at least £10m, as well as meeting other requirements. The £10m threshold was exceeded on several days in April and May in the course of normal activities, before rising, as a result of the borrowing activity in respect of the major asset purchase, to over £32m in the second week of August and staying above this level, peaking at over £43m, for approximately three weeks.
14. In order to accommodate the need to manage the exceptionally high balances held between mid-August and the beginning of September, on 23 July 2019 Council approved a temporary revision to the approved investment counterparty list. This was a temporary variation only, with it being stipulated that the limits would, on the completion of the major asset purchase, revert to those approved by Council on 26 February 2019, as part of the 2019/20 Treasury Management Strategy. Those original limits are now back in place and are shown at Appendix A1. The details of the temporary limits are set out at Appendix A2.
15. The average interest earned of 0.67% slightly exceeds the target of 0.66% (being the average LIBID 7-day rate plus 15%). However, to date the average interest earned has not exceeded the Link Asset Services suggested earnings rate of 0.75% for 2019/20 (see Table 3 below). This is because the Link rate is based on 3-month term deposits, whereas this council's deposits have been placed only in call accounts and money market funds. It is unlikely that Link's suggested earnings rate will be achieved during 2019/20.
16. New long-term borrowing of £39.5m has been undertaken in the first six months of 2019/20. This is again in connection with the major asset purchase. In order to incorporate the purchase and its borrowing requirements, a revised set of Prudential Indicators for 2019/20 was approved by Council on 23 July 2019. This was a permanent change and the new indicators are set out in Appendix B. These replace those contained in the original 2019/20 Treasury Management Strategy.
17. 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.

18. No rescheduling of debt has been undertaken in the first six months of the year.

### TREASURY CONSULTANTS' ADVICE

19. Appendix C presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2019/20.
20. In addition, a detailed comparison of interest rate forecasts is presented as Appendix D. Bank rate and PWLB borrowing rate forecasts are given from the December quarter of 2019 through to the March quarter of 2022.
21. 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.
22. Link's suggested budgeted investment earning rates for investments up to about three months duration in each financial year are as follows:

<b>Table 3 - Average Earnings in each financial year</b>			
	<b>Revised November 2019</b>	<b>Revised August 2019</b>	<b>Original February 2019</b>
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%

23. 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. As noted in above in respect of investment performance in the first six months of the year, it is unlikely that this rate will be achievable for the year as a whole, because this council cannot commit cash for term deposit investments and the highly liquid accounts used pay a lower rate of interest than the Link target.

24. In the forecast interest rates shown at Appendix D, 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.

## IMPLICATIONS OF REPORT

25. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

## COMMENTS OF THE STATUTORY FINANCE OFFICER

26. This report complies with the statutory requirement to review treasury strategies and activities half yearly.

## COMMENTS OF THE MONITORING OFFICER

27. The Monitoring Officer has no comments.

GARY HALL  
CHIEF EXECUTIVE

Report Author	Ext	Date
Tony Furber	***	12/11/19