Cabinet
22 November 2018

Treasury Management Strategy Mid-Year Review Report 2018/19

Cabinet Member: Cllr Peter Hare Scott
Responsible Officer: Andrew Jarrett, Deputy Chief Executive (S151).

Reason for Report: To inform the Cabinet of the treasury performance during the first six months of 2018/19 and agree the ongoing deposit strategy for the remainder of 2018/19 and a review of compliance with Treasury and Prudential Limits for 2018/19 (Appendix 1).

Recommendation: That Cabinet recommends to Council that a continuation of the current policy outlined at paragraphs 6.0 - 6.5 be agreed.

Relationship to Corporate Plan: Maximising investment return whilst minimising risk of credit default enables the Council to finance the delivery of its Corporate Plan objectives.

Financial Implications: Good financial management and administration underpins the entire strategy. The Council's Treasury Management Strategy should attempt to maximise investment return commensurate with the minimum risk to the principal sums invested**.**

Legal Implications: The Council is under a statutory duty to "have regard" to the 2011 CIPFA Treasury Management Code of Practice. The Council's own Financial Regulations include requirements as to the reporting of treasury management information.

Risk Assessment: The Council considers deposit security as the paramount function in any treasury dealings or activities. It should be noted that any investment decisions will always be subject to a degree of risk. However, in complying with an agreed Treasury Management Strategy, these risks would be kept to a minimum acceptable level.

1.0 Introduction

1.1 CIPFA's Code of Practice for Treasury Management recommends the annual setting of a Treasury Management Strategy and best practice dictates a half yearly update of treasury performance. This report will not only update members on the treasury performance over the first six months of 2018/19, but will also seek approval for the ongoing deposit strategy.

2.0 Treasury Performance 1/4/18 to 30/09/18

2.1 The table below shows the Council's overall treasury management position for the first six months of 2018/19.

	Average Interest %	Total Interest as at 30/9/18	Forecast Year-end position
Temporary Investments and Deposits	0.77%	£103k	£180k
CCLA dividends	4.22%	£105k	£211k
Total		**£ 208k**	**£391k**

2.2 The General Fund 2018/19 budget for all investment activity is £254k and for the Housing Revenue Account is £59k.

2.3 The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary nor contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. It is currently estimated that the Council will generate an investment return of approximately £391k. Members should note that historically we are able to invest significantly more monies in the first half of each financial year.

2.4 Interest rate forecasts:

2.4.1 The Council's treasury advisor, Link Asset Services (formerly Capita Asset Services), has provided the following forecast:

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%	3.60%	3.70%
50yr PWLB Rate	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%	3.50%

3.0 Current Portfolio Position

3.1 The Council's treasury portfolio position as at 30 September 2018 was made up of short-term investments/deposits to the value of £30.92m. These investments comprised:

£ 28.50m in fixed term investments
£ 2.42m in Natwest bank call accounts

Property Fund comprises of:
£ 5.00m with CCLA commercial property fund

Detailed list of deposits/short term investments:

Institution	Principal: (£)	Rate:	Start Date:	Maturity Date:
Goldman Sachs **	3,000,000	1.05%	03/10/2017	03/10/2018
Nottingham City Council	1,000,000	0.67%	03/09/2018	22/10/2018
Coventry Building Society	1,000,000	0.58%	25/10/2017	25/10/2018
Coventry Building Society	1,000,000	0.67%	01/12/2017	26/11/2018
Lloyds	500,000	0.90%	01/12/2017	30/11/2018
Leeds City Council	2,000,000	0.75%	31/08/2018	30/11/2018
Sumitomo **	4,000,000	0.80%	16/07/2018	08/02/2019
Lloyds	500,000	0.85%	14/02/2018	14/02/2019
Coventry	2,000,000	0.72%	05/07/2018	15/03/2019
Santander	2,000,000	0.80%	08/05/2018	28/03/2019
Lloyds	1,000,000	0.90%	05/04/2018	05/04/2019
Santander	2,000,000	1.01%	06/04/2018	05/04/2019
Goldman Sachs	2,000,000	1.22%	26/04/2018	26/04/2019
Santander	1,000,000	0.93%	15/08/2018	15/05/2019
Barclays	2,500,000	0.94%	01/08/2018	31/07/2019
Sumitomo	1,000,000	0.83%	05/09/2018	05/03/2019
Salford City Council	2,000,000	0.90%	01/10/2018	01/07/2019

** These banks are domiciled in the UK.

3.2 **Property Fund**: The Council currently has £5m deposited with the CCLA (Churches, Charities and Local Authorities) commercial property fund. Dividends are paid quarterly; first two quarters, dividends of 4.22% were earned.

3.3 The Council received an average return of 0.77% on investments during the first six months. The return on investments for the first half of the year has increased due to the Bank of England raising the base rate from 0.5% to 0.75% - only the second rise in over a decade. The expectation for the second half of the year has some uncertainty given the concerns over the impact of Brexit.

3.4 During 2017/18 an average rate of investment return of 0.51% was earned at the mid-year point.

4.0 Borrowing Requirements

4.1 The Council has no short term borrowing but has existing PWLB loans of £41.59m at the end of September 2018, in addition to £344k in finance leases.

4.2 The Council did undertake new borrowing during 2017/18 on the 29th March 2018 when £0.21m was borrowed for the Matrix Leisure Equipment at Exe Valley Leisure Centre. There has been no new borrowing during 2018/19, however there is £0.50m assumed to be borrowed during 2018/19 to deliver the capital programme.

4.3 Members should therefore note that any activity during the remainder of 2018/19 will keep us within approved treasury and policy limits previously agreed. (See Appendix 1 for main Prudential Indicators)

5.0 Annual Investment Strategy

5.1 Any fixed term investments in the market place (except Debt Management Office [DMO]) are restricted to a maximum term of one year. The Council's substantial commitments (particularly the monthly precepts to Devon County Council, the Police and Fire Authority) constrain the term of investments. The Cabinet of 9 February 2012 resolved to a continuation of the policy to invest all surplus funds with the main UK banks and building societies, subject to strict lending criteria.

5.2 The Council will continue to have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA Treasury Management Code").

6.0 Lending Criteria and Counterparty Limits

6.1 The current policy allows the lending of funds to be deposited with major UK banks and building societies with an investment period no longer than one year and where the counterparty is required to meet the following ratings requirements: Banks (Fitch F1, F1+) and for building societies based upon a minimum Fitch rating of F1 and an asset base level of at least £1bn. The maximum lending limit to any group counterparty is £5m. The policy includes investments with CCLA property fund and money market funds with a limit of £2m on this option. Note that delegation was provided to the s151 officer and Finance Portfolio Holder in 2011/12 to make reactive decisions when market conditions changed due to volatility in rating changes when our own bankers, Natwest, were downgraded, along with other part nationalised banks. We do not invest any term deposits with the Royal Bank of Scotland Group and only have our call accounts with them.

6.2 Officers would recommend a continuation of the existing policy for investments with banks and building societies, property funds and money market funds.

6.3 In addition to these fixed term deposits, the Council also uses an instant access liquidity account with the National Westminster Bank (the Council's banker) to sweep any small surplus funds which cannot be placed by our brokers. Again, this account will be subject to the same £5m maximum deposit level.

6.4 The Council will also continue to lend to:

- Local Authorities, Police and Fire & Rescue Authorities
- DMOADF

6.5 None of the investments made to organisations stated in paragraph 6.4 will be constrained to a maximum deposit of £5m due to the limited level of attached risk.

7.0 Future Outlook

7.1 Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019. As for the labour market, unemployment has continued at a 43 year low of 4%. It was therefore unsurprising that wage inflation increased to 2.9% and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to suggest a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given the uncertainties around Brexit.

7.2 In the political arena, there is a risk that the current Conservative minority government may be unable to form a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

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