**Cabinet**
**17 October 2019**

# Treasury Management Strategy Mid-Year Review Report 2019/20

**Cabinet Member:** Councillor Alex White
**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 2019/20 and agree the ongoing deposit strategy for the remainder of 2019/20 and a review of compliance with Treasury and Prudential Limits for 2019/20 (Appendix 1).

**Recommendation(s):**

1. **That Cabinet recommends to Council that a continuation of the current policy outlined at paragraphs 6.0 - 6.5 be agreed.**
2. **That Cabinet recommends that Council approval the changes to the Capital Financing Requirement, Operation Boundaries and Authorised Limits for the next 3 years at paragraphs 4.3 - 4.5.**

**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 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.

**Equality Impact Assessment**: It is considered that the impact of this report on equality related issues will be nil.

**Climate Change Assessment:** No implications relating this report.

## 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 2019/20, but will also seek approval for the ongoing deposit strategy.

## 2.0 Treasury Performance 01/04/19 to 30/09/19

2.1 The table below shows the Council’s overall treasury management position for the first six months of 2019/20.

| Treasury Position | Average Interest | Total Interest as at 30/9/19 | Forecast Year-end position |
|---|---|---|---|
| Temporary Investments and Deposits | 0.75% | £124k | £196k |
| CCLA dividends | 4.19% | £103k | £210k |
| Commerical activities / Non-financial investments | 4.50% | £91k | £209k |
| **Total** | | **£318k** | **£615k** |

2.2 The General Fund 2019/20 budget for temporary investment and non-treasury activities is £443k and for the Housing Revenue Account is £83k.

2.2 This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, so far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in September), the whole political situation in the UK over Brexit is highly fluid and could change radically by the day. The vote in the Commons on 3 September lead to a delay in the date for Brexit to 31 January 2020. There is also the likelihood of a general election. In such circumstances, any interest rate forecasts are subject to material change as the situation evolves. At present, if the UK does achieve an agreed deal on Brexit soon, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover quickly. The Monetary Policy Committee (MPC) could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation.

2.3 On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could falter and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Base Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by way of tax cuts and / or expenditure on infrastructure projects, to boost the economy. However, infrastructure projects generally take a long time to plan and to start up, and so to feed through into impacting the economy; tax cuts would be much quicker in impacting the level of consumption in the economy.

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 | 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 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 |
| 6 Month LIBID | 0.80 | 0.80 | 0.80 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.30 | 1.40 |
| 12 Month LIBID | 1.00 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.40 | 1.50 | 1.60 |
| 5yr PWLB Rate | 1.20 | 1.30 | 1.50 | 1.60 | 1.70 | 1.70 | 1.80 | 1.90 | 2.00 | 2.00 | 2.10 |
| 10yr PWLB Rate | 1.50 | 1.60 | 1.80 | 1.90 | 2.00 | 2.00 | 2.10 | 2.20 | 2.30 | 2.30 | 2.40 |
| 25yr PWLB Rate | 2.10 | 2.30 | 2.40 | 2.50 | 2.60 | 2.70 | 2.70 | 2.80 | 2.90 | 3.00 | 3.00 |
| 50yr PWLB Rate | 2.00 | 2.20 | 2.30 | 2.40 | 2.50 | 2.60 | 2.60 | 2.70 | 2.80 | 2.90 | 2.90 |

## 3.0 Current Portfolio Position

3.1 The Council's treasury portfolio position as at 30 September 2019 was made up of short-term investments/deposits to the value of £30.28m. These investments comprised:

£ 27.50m in fixed term investments
£ 2.78m 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: |
|---|---|---|---|---|
| Cornwall Council | 2,000,000 | 0.65% | 05/07/2019 | 07/10/2019 |
| Goldman Sachs | 2,000,000 | 1.22% | 15/10/2018 | 15/10/2019 |
| Leeds BS | 2,000,000 | 0.71% | 14/08/2019 | 15/11/2019 |
| Coventry | 1,500,000 | 0.92% | 22/05/2019 | 22/11/2019 |
| Coventry | 1,500,000 | 0.92% | 03/06/2019 | 03/12/2019 |
| Lloyds | 2,000,000 | 1.05% | 28/03/2019 | 30/12/2019 |
| Lloyds | 2,000,000 | 1.05% | 01/04/2019 | 02/01/2020 |
| Barclays | 1,000,000 | 0.74% | 02/07/2019 | 02/01/2020 |
| Yorkshire Building Society | 1,500,000 | 0.75% | 17/07/2019 | 17/01/2020 |
| Lloyds | 1,000,000 | 1.05% | 25/04/2019 | 27/01/2020 |
| Goldman Sachs | 2,000,000 | 0.99% | 26/04/2019 | 27/01/2020 |
| Coventry | 2,000,000 | 0.98% | 01/05/2019 | 03/02/2020 |
| Leeds BS | 1,500,000 | 0.79% | 02/09/2019 | 02/03/2020 |
| Goldman Sachs | 1,000,000 | 0.94% | 17/09/2019 | 17/03/2020 |
| Santander | 1,500,000 | 0.83% | 01/10/2019 | 01/04/2020 |
| Close Brothers | 1,000,000 | 1.10% | 04/09/2019 | 02/09/2020 |
| Santander | 2,000,000 | 0.94% | 17/09/2019 | 17/09/2020 |

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 4.50% were earned.

3.3 The Council received an average return of 0.75% on investments during the first six months. The return on investments for the first half of the year has remained stable due to the Bank of England continuing to hold the base rate at 0.75%. The expectation for the second half of the year has some uncertainty given the concerns over the impact of Brexit.

3.4 During 2018/19 an average rate of investment return of 0.77% 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 £39.83m at the end of September 2019, in addition to £0.28m in finance leases.

4.2 The Council did not undertake any new borrowing during 2018/19. There has also been no new borrowing during 2019/20, however there is £0.50m assumed to be borrowed during the remainder of 2019/20 to deliver the capital programme.

4.3 The Council approved the 3 Rivers Developments Limited business plan in February 2019 which details loans the Council can make to the company. In order to finance the capital loans the Council is able to borrow from PWLB. The latest 2019/20 loans forecast could be up to £9.29m.

4.4 The Treasury Management Strategy Statement (TMSS), for 2019/20 was approved by this Cabinet on 7 February 2019. The underlying TMSS approved previously requires revision in the light of the 3 Rivers Developments Limited business plan and the revised deliverable Capital Programme for 2019/20.

4.5 The proposed changes are set out in the following 3 tables below for the next 3 financial years:

| Prudential Indicator 2019/20 £000 | Original Estimate | Revised Prudential Indicator Estimate |
|---|---|---|
| Authorised Limit | 77,000 | 72,000 |
| Operational Boundary | 68,000 | 63,000 |
| Capital Financing Requirement | 64,120 | 59,721 |

| Prudential Indicator 2020/21<br>£000 | Original<br><br>Estimate | Revised Prudential Indicator Estimate |
|---|---|---|
| Authorised Limit | 89,000 | 96,000 |
| Operational Boundary | 80,000 | 87,000 |
| Capital Financing Requirement | 75,510 | 83,508 |

| Prudential Indicator 2021/22<br>£000 | Original<br><br>Estimate | Revised Prudential Indicator Estimate |
|---|---|---|
| Authorised Limit | 98,000 | 108,000 |
| Operational Boundary | 89,000 | 99,000 |
| Capital Financing Requirement | 85,233 | 96,868 |

## 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 two years (previously 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 7 February 2019 resolved to diversify the investment portfolio to include non-UK banks with a minimum Sovereign Fitch rating of AAA (highest possible rating).

5.2 The Council will continue to have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in April 2018 (3rd Edition) 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 two years 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 tejorm 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, Fire & Rescue, Parish Councils etc and other Public Bodies
- UK Government (including gilts, Treasury Bills and the DMADF)
- Other Bodies.

6.5 The investments that can be made to the organisations stated in paragraph 6.4, will not be constrained to a maximum deposit of £5m due to their lower level of risk. However, other bodies have a monetary limit of £3m.

## 7.0 Future Outlook

7.1 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took its toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. This mirrored investor confidence around the world which is now expecting a significant downturn or possibly even a recession in some developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

7.2 As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, (July 2.1%), and is likely to shift only a little upwards over the rest of 2019/20. It does not therefore pose any immediate concern to the MPC at the current time.

7.3 In the political arena, if there is a general election soon, 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 although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

## 8.0 Conclusion

8.1 The first half year performance looks encouraging but as Members will be very well aware, there is considerable financial uncertainty both nationally and internationally which may have a negative impact on our yields.

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