Executive **28 November 2019**

Report of the Head of Corporate Finance and Commercial Procurement (interim s 151 officer)

Portfolio of the Executive Member for Finance and Performance

Treasury Management Mid-Year Review and Prudential Indicators 2019/20

Summary

1. The Council is required through legislation to provide members with a mid-year update on treasury management activities. This report provides an update on activity for the period 1 April 2019 to 30 September 2019.

Recommendations

2. Members are required, in accordance with the Local Government Act 2003 (revised), to:
   - Note the Treasury Management activities to date in 2019/20
   - Note the Prudential Indicators set out at Annex A and note the compliance with all indicators.

Reason: to ensure the continued performance of the Council's Treasury Management function.

Background

3. The Treasury Management function is responsible for the effective management of the Council's investments, cash flows, banking, and money market transactions. It also considers the effective control of the risks associated with those activities and ensures optimum performance within those risk parameters.

4. This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) CIPFA's Code of Practice on Treasury Management, and covers the following:
   - An economic update for the first part of the 2019/20 financial year;
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
   - The prudential indicators;

- A review of the Council's investment portfolio;
- A review of the Council's borrowing strategy;
- A review of compliance with the Treasury and Prudential Limits.

Interest Rate Forecast

5. Table 1 is Link Asset Services Interest Rate forecast for both the bank rate and long term Public Works Loans Board borrowing rates (note all figures are percentages):

	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
5 Yr PWLB rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10 Yr PWLB rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25 Yr PWLB rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50 Yr PWLB rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

Table 1: Link Asset Services Interest Rate Forecast (%)

6. The Monetary Policy Committee has left Bank Rate unchanged at 0.75% so far in 2019.

Annual Investment Strategy Update

7. Council approved the Treasury Management Strategy Statement for 2019/20 on 28 February 2019. There are no policy changes and the details in this report do not amend the Statement.

8. The Council's Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:
   - security of capital
   - liquidity
   - yield

9. The Council continues to aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and the Councils risk appetite.

Investment Portfolio

10. The average level of cash balances available for investment purposes in the first 6 months of 2019/20 was £61.336m (£92.174m for the same 6 month period in 18/19). The level of cash balances available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, receipt of developers contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. These funds are therefore only available on a temporary basis depending on cash flow movement.

11. The average level of cash balances has decreased compared to a year ago due to a number of factors. These include a number of delayed capital schemes now-progressing.

12. The Council continues to use cash balances instead of taking long term debt to finance the Councils capital programme. This strategy remains a prudent one as investment rates continue to be lower than borrowing rates when viewed on a short term projection but the potential to secure long term funding is kept under review to ensure this remains the most effective use of cash balances, given long term rates are currently at attractive levels. As cash balances are set to decrease in the short to medium term, due to previously agreed capital schemes progressing and new schemes being added to the capital programme, consideration is being given to long term debt in order to finance the Councils capital programme.

13. Investment return (calculated as the amount of interest earned against the average cash balance for the period) during the first six months of 2019/20 is shown in table 2:

	2018/19 (full year)	**2019/20 (part year to date)**
Average CYC Rate of Return	0.69	0.82
Benchmarks		
Average 7 Day LIBID	0.51	0.57
Average 1 Month LIBID	0.68	0.60

Table 2: CYCs investment rate of return performance vs. benchmarks

14. The average rate of return achieved to date in 2019/20 has increased compared to the average seen in 2018/19, helped by the effect of the increase in Bank Rate midway through 2018 and the Council securing higher yielding fixed term investments when cash balances have allowed.

15. It remains a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates continue to be very low and in line with the current 0.75% Bank Rate. Given that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

16. Figure 1 shows the interest rates available on the market based on LIBID rates between 7 days and 1 year and also the rate of return that the Council has achieved for the first six months of 2019/20. It shows that favourable / competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

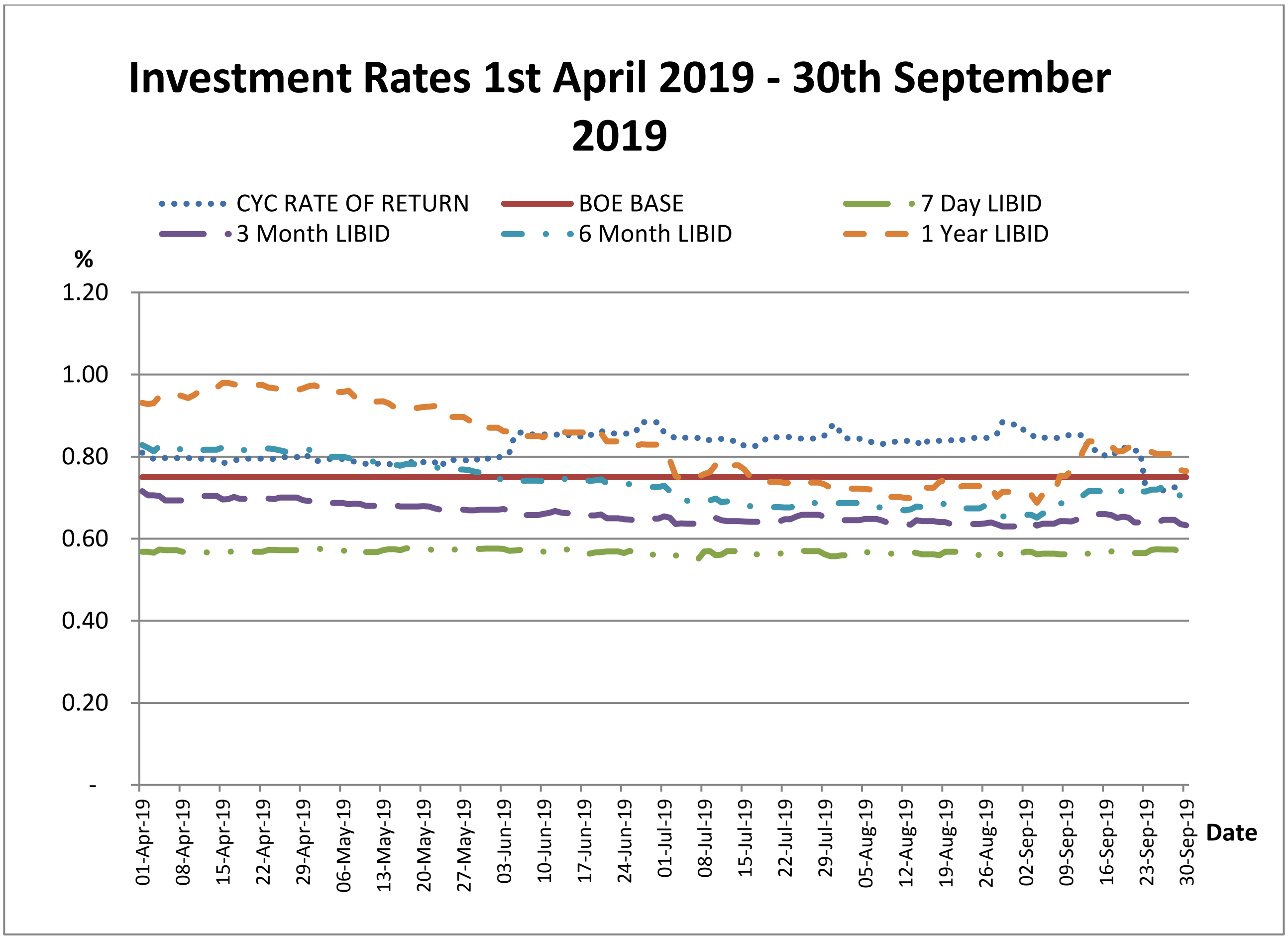

Figure 1 CYC Investments vs Money Market Rates up to 30th September 2019

17. Figure 2 shows the investments portfolio split by cash in bank, deposits in short term call accounts, fixed term investments and money market funds (MMFs).

18. All of the money market funds have an AAA credit rating and the current account is AA-.

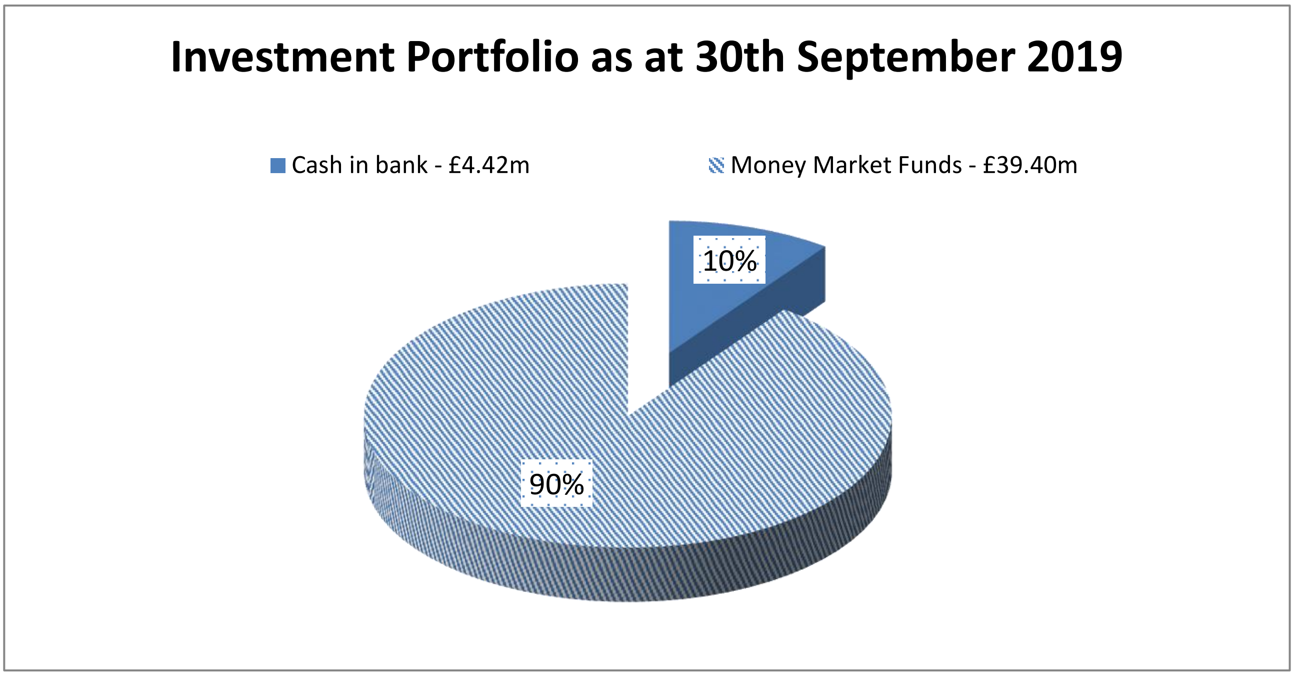

Figure 2 Investment Portfolio by type at 30th September 2019

Borrowing Portfolio

19. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.

20. The level of borrowing taken by the Council is determined by the Capital Financing Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent.

21. Under regulation, the Council can borrow in advance of need and Markets are therefore constantly monitored and analysed to ensure that advantage is taken of favourable rates and the increased borrowing requirement is not as dependant on interest rates in any one year.

22. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised. In the current interest rate environment, where investment rates on holding investments are significantly below borrowing rates, consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower.

23. The finance team continues to closely monitor the opportunities that arise and receive daily updates from Link Asset Services in respect of borrowing timings and amounts. No new loans have been taken during this period.

24. The Council's long-term borrowing started the year at a level of £242.465m. On 12th August 2019 a £3m PWLB loan was repaid taking the Council's long-term borrowing figure to £239.465m. A further £3m PWLB loan repayment will be made on 8th October 2019 taking the Council's long-term borrowing figure to £236.465m The Housing Revenue Account settlement debt amounts is 58% of the borrowing portfolio (£139.034m) and the General Fund debt is 42% (£100.431m).

25. On 9 October 2019, the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and as a result many local authorities will have to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.

26. This has no significant impact on this council however, as we have no immediate plans to undertake any borrowing. In addition, as the rates had been so unusually low over recent months, we had continued to model the affordability on the higher rates that are now in place. The announcement of the 9 October has effectively just returned the PWLB rates to those in place last year at this time. Although we have previously relied on the PWLB as a main source of funding, we are able to consider alternative cheaper sources of borrowing and we have already been made aware of numerous financial institutions that have products available. Members will be updated as this area evolves.

27. It is also possible that the Municipal Bond Agency will be offering loans to local authorities in the future and we may make use of this new source of borrowing as and when appropriate.

28. Figure 3 illustrates the 2019/20 maturity profile of the Council's debt portfolio at 30th September 2019. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

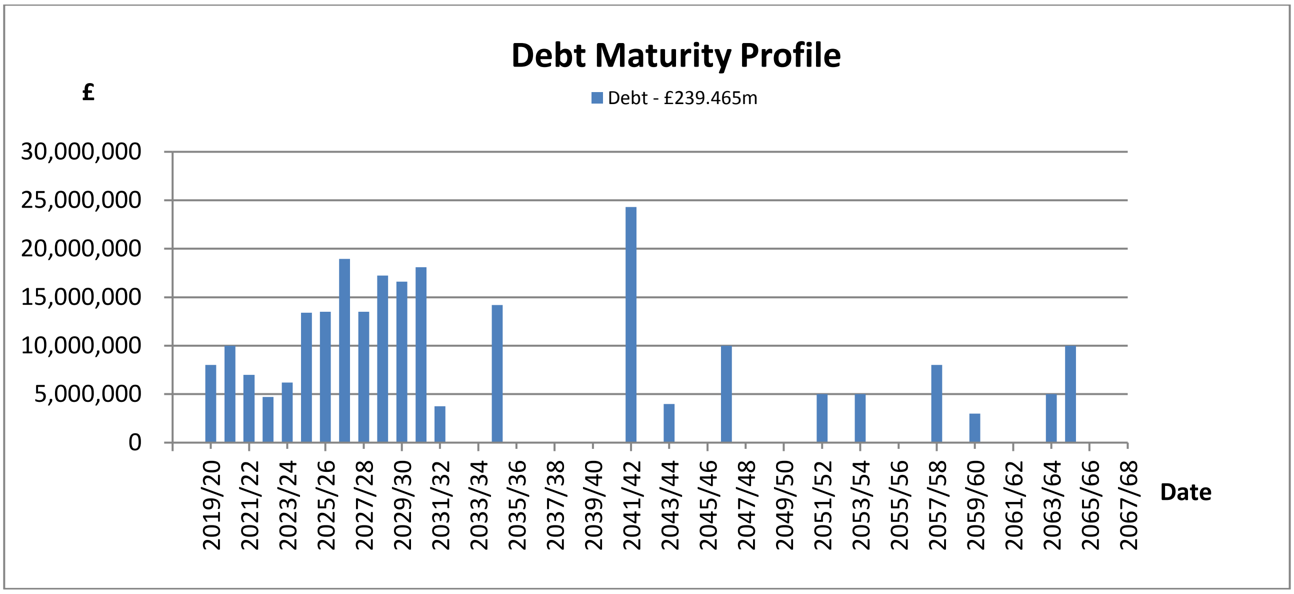

Figure 3 – Debt Maturity Profile 19/20 at 30th September 2019

29. Table 3 shows PWLB Certainty borrowing rates available for selected loan durations.

	PWLB Certainty borrowing rates by duration of loan				
	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
Yr High	1.58%	1.73%	2.07%	2.58%	2.41%
Yr Low	1.17%	1.01%	1.13%	1.73%	1.57%
Yr Avg	1.40%	1.37%	1.62%	2.20%	2.07%

Table 3 – PWLB Borrowing Rates (%) – to 30th September 2019

Compliance with Prudential Indicators

30. The Prudential Indicators for 2019/20 included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Budget Council on 25 February 2019.

31. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A. During the financial year 2019/20 to date the Council has operated within the treasury limits and Prudential Indicators set out.

Consultation and Options

32. The report shows the six month position of the treasury management portfolio in 2019/20. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Link Asset Services. It is a statutory requirement to provide the information detailed in the report.

Council Plan

33. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

Financial implications

34. The financial implications are in the body of the report.

Legal Implications

35. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other Implications

36. There are no crime and disorder, information technology, property, equalities, human resources or other implications because of this report.

Risk Management

37. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. As a result, there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in the Treasury Management Strategy Statement at the start of each financial year.

Contact Details

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<tr><td colspan="5">Wards Affected: All</td><td></td></tr>
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Specialist Implications:
Legal – Not Applicable
Property – Not Applicable
Information Technology – Not Applicable

Annexes

Annex A – Prudential Indicators 2019/20

Glossary of Abbreviations used in the report:

LIBID	London Interbank Bid Rate
PWLB	Public Works Loans Board