2018/19 Quarter 2 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2018 – 30/09/2018 against the Council's Treasury Management Strategy, which was approved by Council on 27th February 2018

The Councils Treasury Management operation ensures cash flows are adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, this is the element of the capital programme that is not financed from external grants, capital receipts or other contributions. Which when added to the Council's Capital Financing Requirement (CFR) shows the underlying borrowing need of the Council. This underlying borrowing need is managed by the treasury team through short and long term borrowing arrangements and the use of longer term cash flow surpluses.

Borrowing

No new borrowing has been undertaken in the year to date, therefore the Council has maintained external borrowing at £12.8 million. As a result, gross and net borrowing are below the capital financing requirement (CFR). This is a key indicator as it shows that the Council is not borrowing to fund revenue activities or borrowing to lend-on.

Table 1: Borrowing Limits

	£m
Actual borrowing	12.800
Authorised limit	24.600
Operational boundary	18.600
Capital Financing Requirement (CFR)	18.558

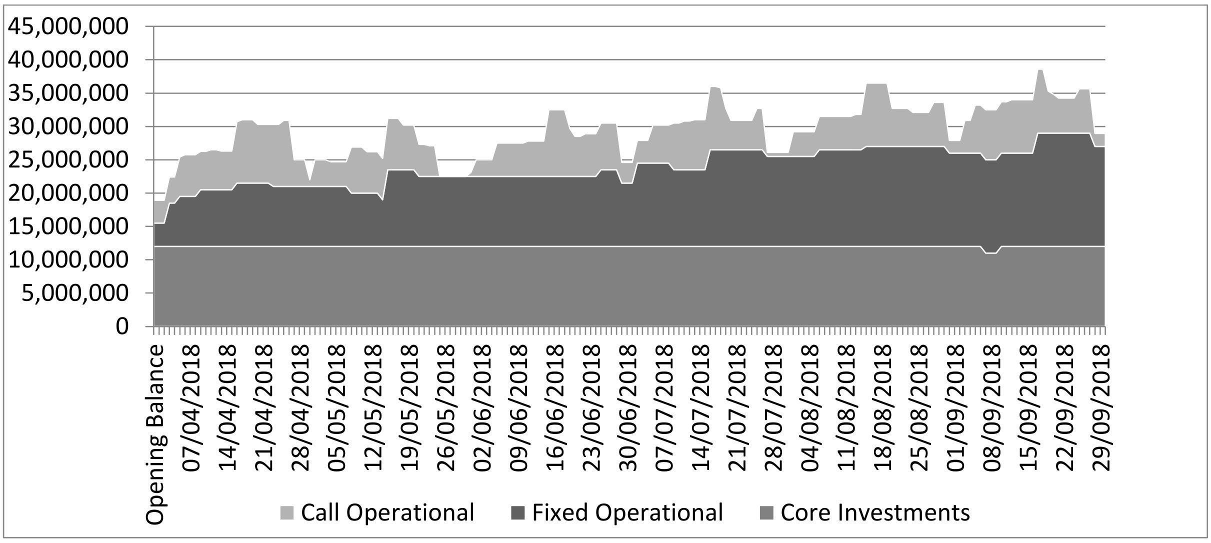
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Councils borrowing is circa 69% (i.e. £690k per £1m repaid), which would take nearly 18 years to repay. This is not low enough to consider making an early repayment, however we will keep this under review.

It is anticipated that the Council will not need to undertake any additional borrowing in 2018/19, with the increase in the CFR being met through the use of cash balances, increasing our internal borrowing position. Our internal borrowing position is estimated to be £5.758 million or 31% of the CFR at year end. This position will be carefully monitored against changes to reserves to ensure that the position is sustainable.

Investments

Graph 1 below shows the movement on the Councils investment portfolio between 01/04/18 and 30/09/18.



The Council held £28.95m of investments as at 30 September 2018. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		Value (£m)
Call Operational		
	Blackrock	1.950
	CCLA	0.000
Fixed Operational		
	Bank of Scotland	3.000
	Coventry Building Society	1.000
	Leeds Building Society	1.000
	NatWest (Ring Fenced Bank)	1.000
	Nottingham Building Society	1.000
	Principality Building Society	1.000
	Sumitomo Mitsui Bank	1.000
	Toronto Dominion Bank	2.000
	West Bromwich Building Society	1.000
	UK Treasury Bills	2.995
Fixed Core		
	Goldman Sachs	2.000
	Lancashire County Council	3.000
	Nationwide Building Society	1.000
	Newcastle Building Society	2.000
	NatWest (Ring Fenced Bank)	1.000
	Sumitomo Mitsui Bank	2.000
	Surrey Heath Borough Council	1,000
		28.945

Graph 2 below shows the maturity profile of the Councils investment portfolio split between operational and core investment types

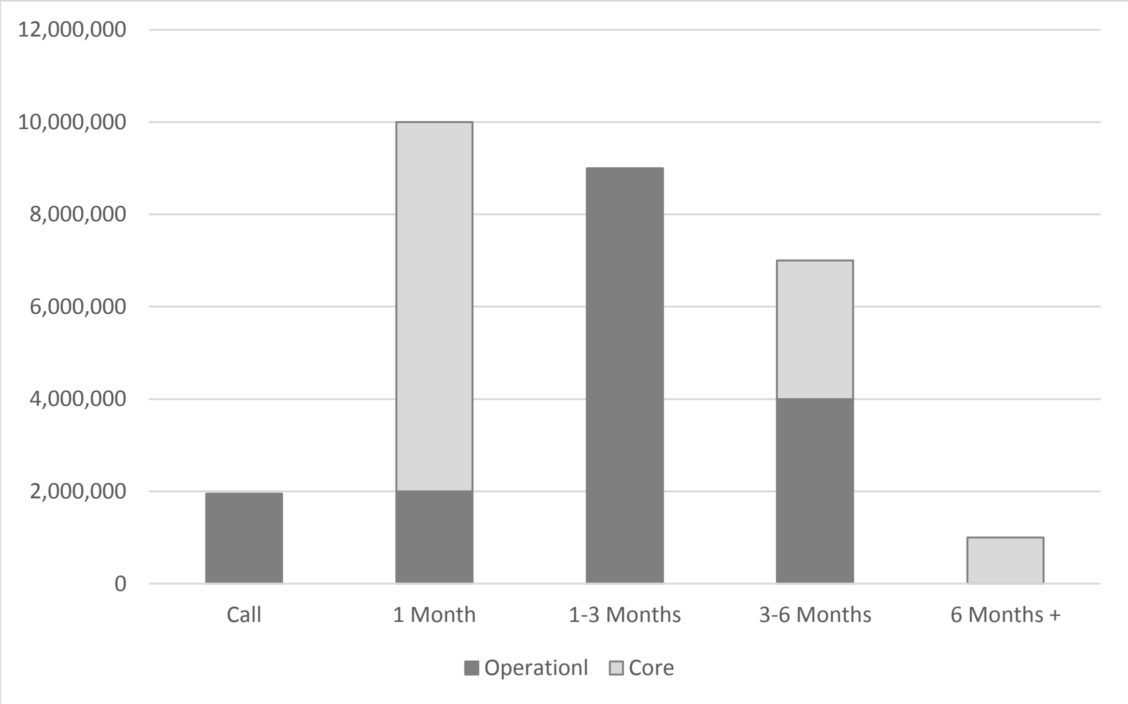


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	Benchmark Rate	Variance
Call Operational	0.56%	0.42%	0.14%
Fixed Operational	0.63%	0.60%	0.03%
Fixed Core (Long Term)	0.66%	0.71%	-0.05%

Operational investments are outperforming their respective benchmarks. However Core (Long Term) investments are 0.05% below the benchmark rate of 0.71%. This is as a result of investments from before the last rate rise still working their way through our portfolio. £8 million pounds of this is maturing in October and will be invested in the current higher interest rate environment and it is therefore expected that core investment returns will pick up in the next quarter.

Looking Forward

The first half of 2018/19 has shown modest growth in the UK economy, but robust enough growth for the Bank of England Monetary Policy Committee to vote on 2nd August to unanimously (9-0) increase the base rate from 0.50% to 0.75%.

Concerns have been raised about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

Conclusion

The Council Investments continue to perform well against benchmarks, with all activity within approved limits and Borrowing has been maintained at £12.8 million within the debt indicators.