2018/19 Quarter 3 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2018 – 31/12/2018 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

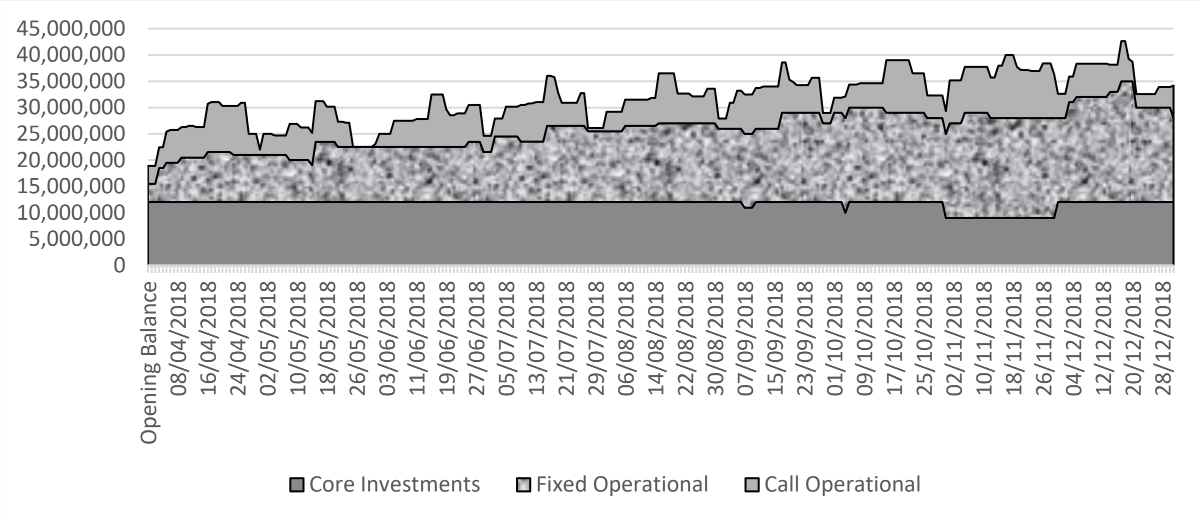
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Councils borrowing is circa 76% (i.e. £760k per £1m repaid), which would take over 20 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 31/12/18.



The Council held £34.2m of investments as at 31 December 2018. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		Value (£m)
Call Operational		
	Blackrock	1.400
	CCLA	4.800
Fixed Operational		
	Bank of Scotland	2.000
	Cheltenham Borough Council	1.000
	Coventry Building Society	1.000
	Highland Council	2.000
	Leeds Building Society	2.000
	Nottingham Building Society	1.000
	Principality Building Society	1.000
	Suffolk County Council	3.000
	Yorkshire Building Society	3.000
Fixed Core		
	Goldman Sachs	2.000
	City of Kingston upon Hull	5.000
	Nationwide Building Society	1.000
	Newcastle Building Society	1.000
	NatWest (Ring Fenced Bank)	1.000
	Sumitomo Mitsui Bank	2.000
		34.200

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

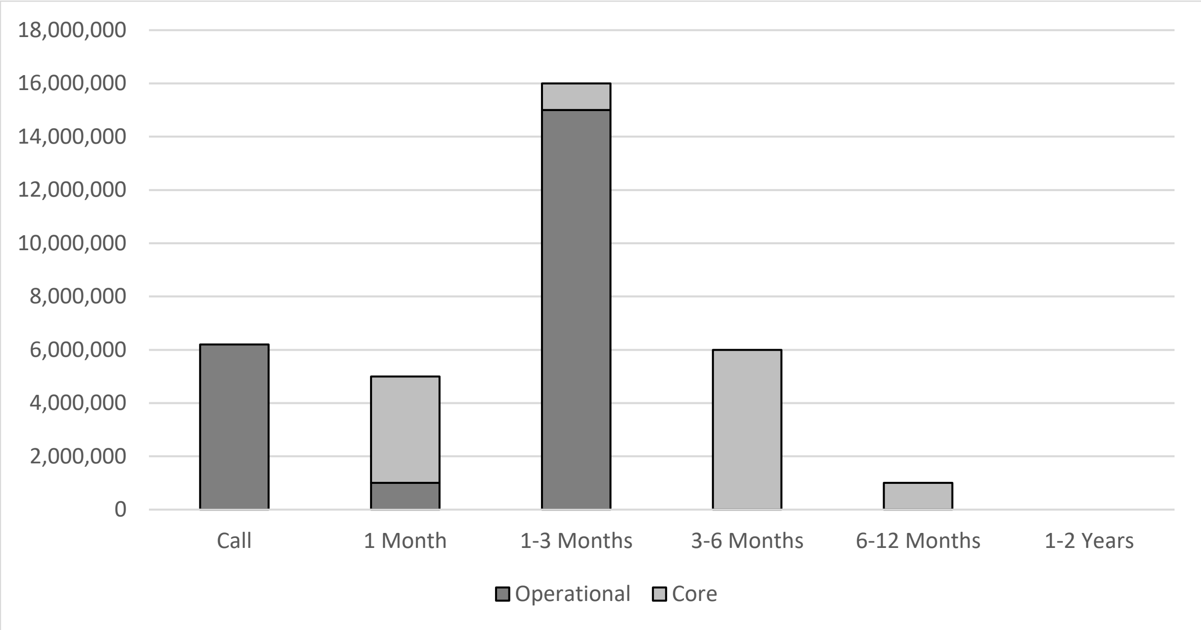


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	Benchmark Rate	Variance
Call Operational	0.61%	0.47%	0.14%
Fixed Operational	0.68%	0.65%	0.03%
Fixed Core (Long Term)	0.71%	0.76%	-0.05%
Overall Average	**0.67%**	**0.63%**	**0.05%**

Overall the Council's investments are outperforming the average benchmark rate. However Core (Long-Term) investments are 0.05% below the benchmark rate of 0.76%. This is as a result of the timing of investments maturing and the timing of the last rate rise.

Other Considerations

During the quarter we exceeded the counterparty limit with one of our Money Market Funds by £1.2 million. This was identified and corrected the next day. The situation arose as a result of an administrative error with a deal being listed under the wrong fund on our internal investment record. Operational procedures have been amended in the short-term to avoid this happening again. In the long-term officers are looking at using an online Money Market Fund Portal for managing money market investments. Such a portal will display daily account balances and provide warning messages and prevent limits being exceeded.

Looking Forward

After weak economic growth of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four.

There has been no further movement in the Bank Rate since August's increase to 0.75% and it is unlikely that we will see any further action from the Monetary Policy Committee (MPC) until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth.

CPI inflation has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.

Wage inflation peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October, mainly due to a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between to two figures in now around 1%, i.e. a real terms increase. 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.

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.