

## 2019/20 Quarter 1 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2019 – 30/06/2019 against the Council's Treasury Management Strategy, which was approved by Council on 26<sup>th</sup> February 2019.

The Council's 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	26,815
Operational boundary	20,600
Capital Financing Requirement (CFR)	20,543

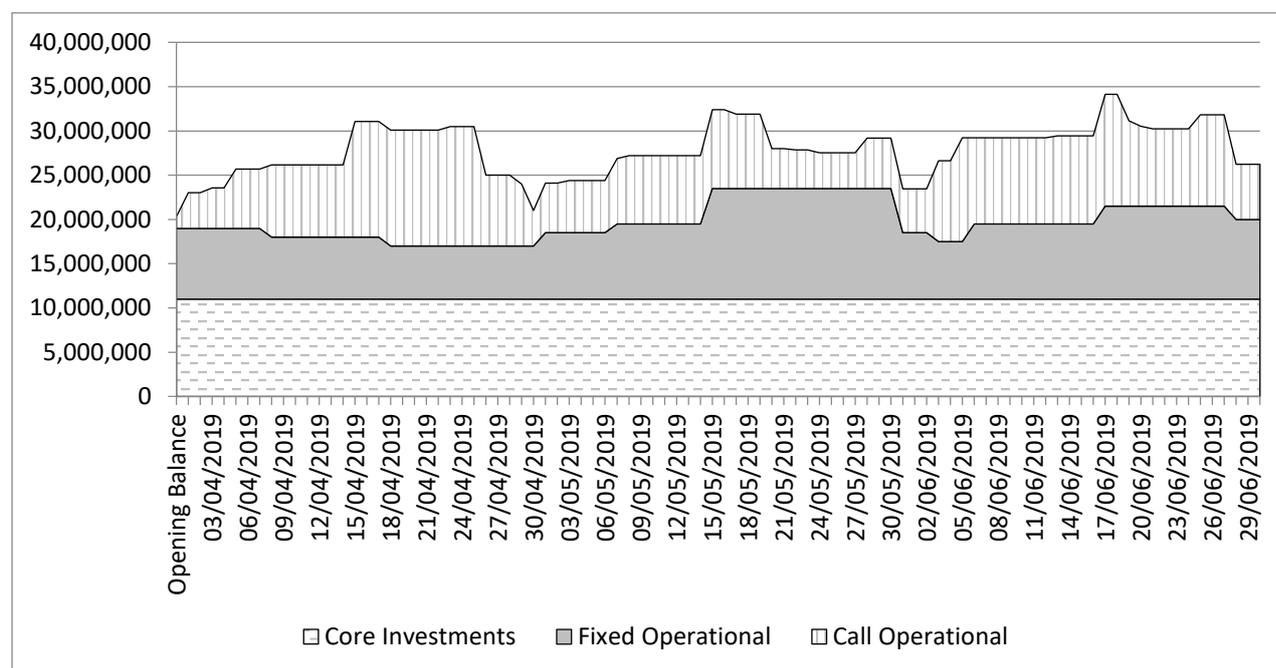
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Council's borrowing is circa 93% (i.e. £931k per £1m repaid), which would take over 25 years to repay. This is not low enough to consider making an early repayment, however we will keep this under review.

The Capital Programme assumes borrowing will be used during 2019/20, the actual timing of borrowing will depend on timing of projects and expected changes in interest rates. Our internal borrowing position is currently estimated to be £7.743million or 38% of the CFR at year end, this has risen from 31% of CFR in 2018/19. 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 01/04/19 and 30/06/19.



The Council held £26.24m of investments as at 30 June 2019. Table 2 shows the outstanding investments by type.

**Table 2 Investment Summary**

Counterparty	Value (£m)
<b>Call Operational</b>	
Blackrock	0.550
CCLA	1.390
Federated	4.300
<b>Fixed Operational</b>	
Bank of Scotland	2.000
Coventry Building Society	2.000
Newcastle Building Society	1.000
Nottingham Building Society	2.000
West Bromwich Building Society	2.000
<b>Fixed Core</b>	
Goldman Sachs	2.000
City of Kingston upon Hull	2.000
London Borough of Enfield	3.000
Newcastle Building Society	1.000
NatWest (Ring Fenced Bank)	1.000
Sumitomo Mitsui Bank	2.000
	<b>26.24</b>

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

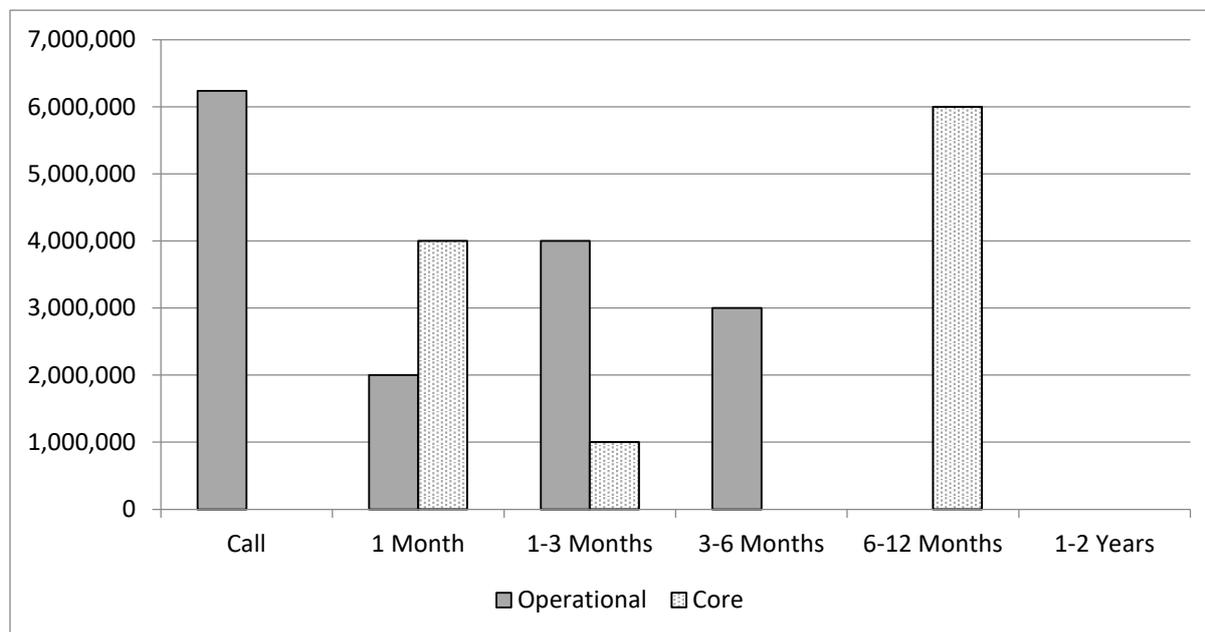


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the benchmark.

**Table 3 Performance**

	Average Return	Benchmark Rate	Variance
Call Operational	0.75%	0.55%	0.20%
Fixed Operational	0.83%	0.68%	0.15%
Fixed Core (Long Term)	0.93%	0.78%	0.15%
<b>Overall Average</b>	<b>0.82%</b>		

All of the councils investments are performed in excess of their benchmarks, with the overall average outperforming the 6 month benchmark rate used for the Fixed Core (long term) investments.

### Other Considerations

There is nothing to report here.

### Looking Forward

After stronger than expected economic growth of 0.5% in quarter one, monthly growth fell in April before rising slightly in May. Expectation for quarter 2 is for growth to stall or contract. Brexit still remains an issue as the deadline was pushed back to Halloween.

There has been no further movement in the Bank Rate since August's increase to 0.75%, with investors reassessing their outlook from expecting a rate rise to now expecting cuts in the rate. Due to weakening global growth, expectations of rate cuts in the US and Europe, as well as growing

concerns over a no deal Brexit. Indeed in the Treasury Committee report in June the Governor of the Bank of England, gave the strongest hint yet that in the case of a no deal Brexit, the monetary policy Committee (MPC) would but rates. This has led to our advisors predicting that rates could be cut quickly from 0.75% to 0.25%.

CPI inflation has been on a falling trend, reaching 2% in May in line with the MPC target of 2%. Expectation is for CPI to remain around this level over the next two years and in the event of No deal expectation is it could rise to 4% as a result of imported inflation on the back of a weakened pound.

### **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.