

## 2019/20 Quarter 2 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2019 – 30/09/2019 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 |

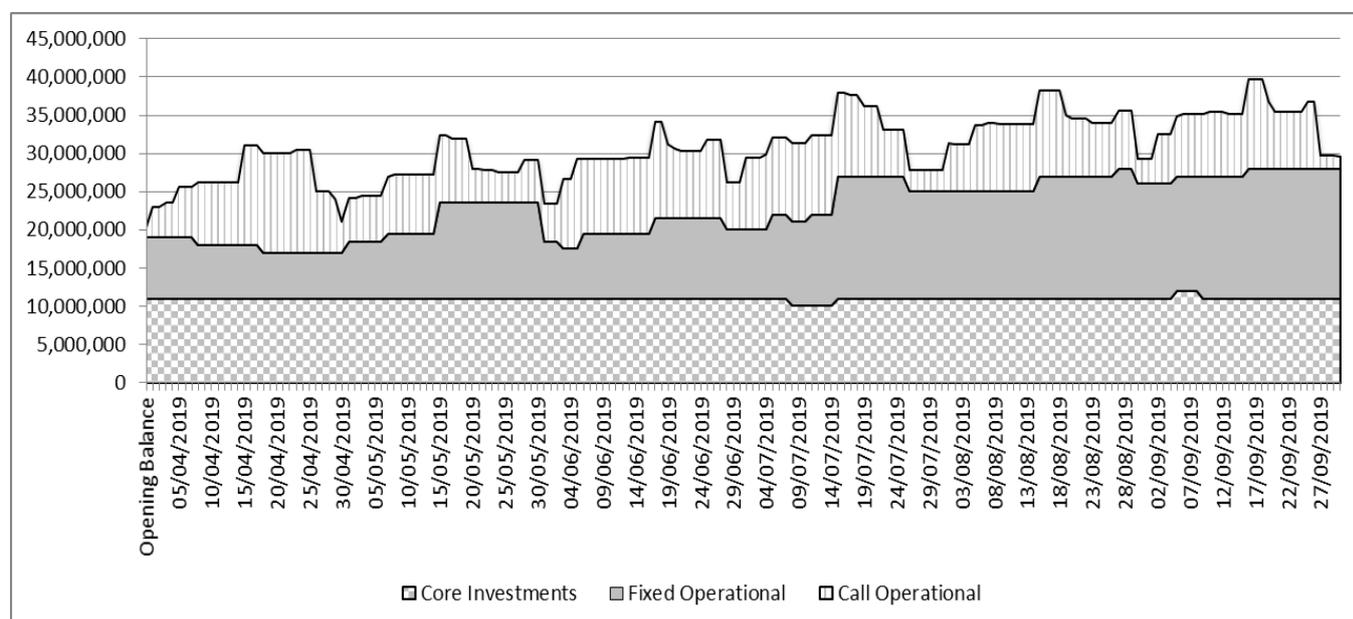
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Council's borrowing is circa 111% (i.e. £1.111m per £1m repaid), which would take around 31 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 30/09/19.



The Council held £29.54m of investments as at 30 September 2019. Table 2 shows the outstanding investments by type.

**Table 2 Investment Summary**

| Counterparty                   | Value (£m)   |
|--------------------------------|--------------|
| <b>Call Operational</b>        |              |
| Blackrock                      | 0.000        |
| CCLA                           | 0.000        |
| Federated                      | 1.550        |
| <b>Fixed Operational</b>       |              |
| Bank of Scotland               | 2.000        |
| Coventry Building Society      | 2.000        |
| Cumberland Building Society    | 2.000        |
| Leeds Building Society         | 2.000        |
| Newcastle Building Society     | 1.000        |
| Nottingham Building Society    | 1.000        |
| Principality Building Society  | 2.000        |
| Thurrock Borough Council       | 1.000        |
| UK Treasury Bills              | 2.994        |
| West Bromwich Building Society | 1.000        |
| <b>Fixed Core</b>              |              |
| Bank of Scotland               | 1.000        |
| Coventry Building Society      | 1.000        |
| Goldman Sachs                  | 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>29.54</b> |

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

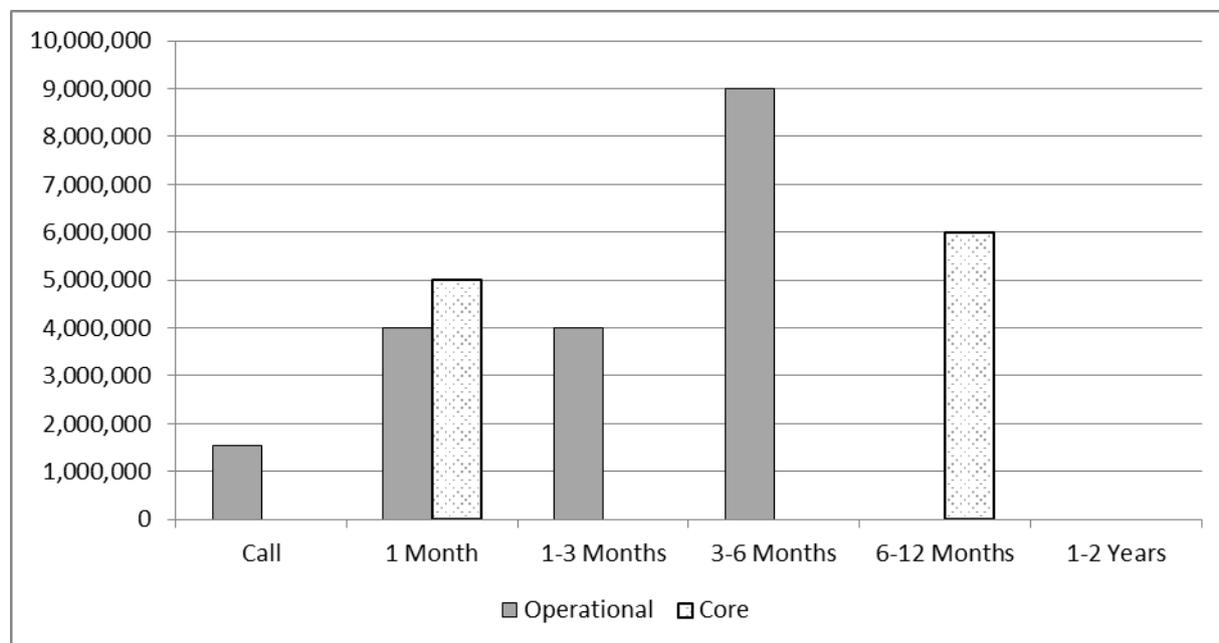


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the benchmark.

**Table 3 Performance**

|                        | Average Return | Benchmark Rate | Variance |
|------------------------|----------------|----------------|----------|
| Call Operational       | 0.74%          | 0.55%          | 0.19%    |
| Fixed Operational      | 0.83%          | 0.79%          | 0.04%    |
| Fixed Core (Long Term) | 0.92%          | 0.73%          | 0.19%    |
| <b>Overall Average</b> | <b>0.85%</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

During the last quarter we exceeded our investment limit with one counterparty, this was raised with the portfolio holder and the Section 151 officer. Following discussions a decision was made to approach the counterparty and call back the amount over the counterparty limit. Agreement was reached with the counterparty to recall the excess and as a result we were only exposed for the additional amount of £1,000,000 for 5 working days.

### 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% and we are unlikely to see any further action until the uncertainties over Brexit clear. If there is a no deal, the expectation is of a rate cut to support growth.

CPI inflation has been on a falling trend, reaching 1.7% in August 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.

Wage inflation is the big story with it peaking at 3.9% in June before falling back to 3.8% in July (excluding bonuses), leading to real wage growth of 2.1-2.2%. Whilst unemployment has remained at 3.8%, its lowest rate since 1975.

### 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.