2019/20 Quarter 3 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2019 – 31/12/2019 against the Council's Treasury Management Strategy, which was approved by Council on 26th February 2019.

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	26,815
Operational boundary	20,600
Capital Financing Requirement (CFR)	20,543

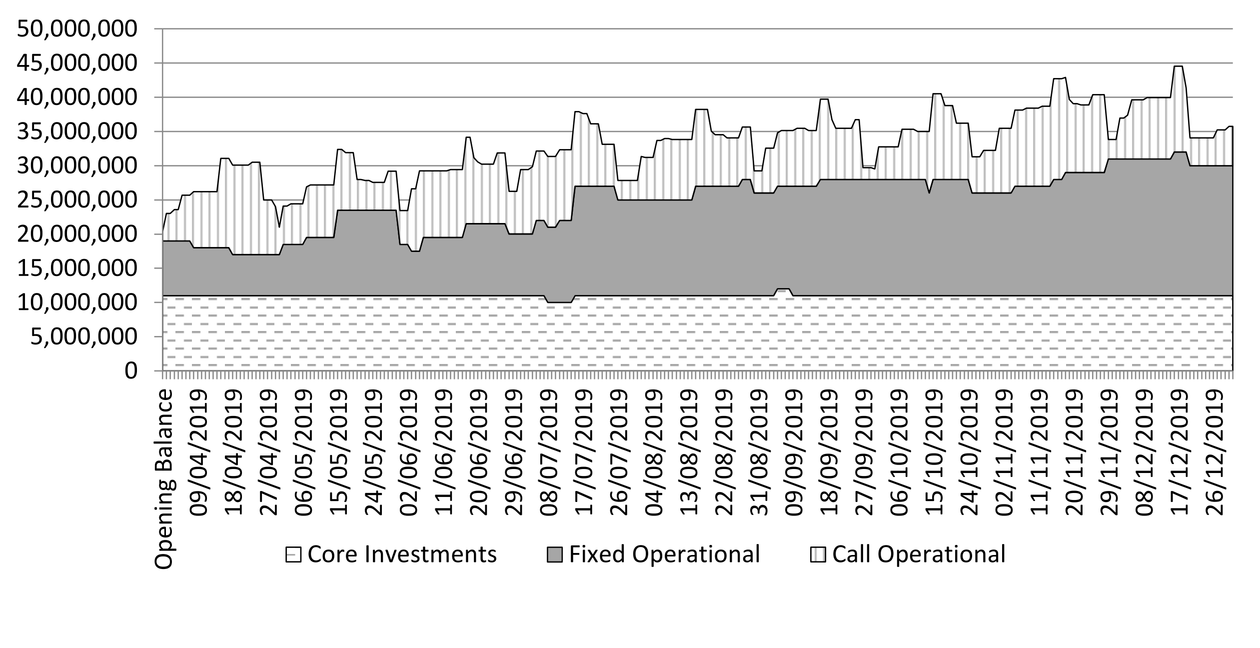
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Councils borrowing is circa 94% (i.e. £0.94m per £1m repaid), which would take around 26 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 31/12/19.



The Council held £35.746m of investments as at 31 December 2019. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		Value (£m)
Call Operational		
	Blackrock	0.050
	CCLA	3.100
	Federated	2.600
Fixed Operational		
	Bank of Scotland	2.000
	Blackpool Borough Council	2.000
	Goldman Sachs	1.000
	Leeds Building Society	3.000
	Newcastle Building Society	2.000
	Nottingham Building Society	1.000
	Principality Building Society	2.000
	Sumitomo Mitsui	1.000
	Thurrock Borough Council	1.000
	UK Treasury Bills	1.996
	West Bromwich Building Society	1.000
	Yorkshire Building Society	1.000
Fixed Core		
	Bank of Scotland	1.000
	City of Liverpool	1.000
	Coventry Building Society	1.000
	Goldman Sachs	2.000
	London Borough of Enfield	3.000

	NatWest (Ring Fenced Bank)	1.000
	Sumitomo Mitsui Bank	2.000
		35.746

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

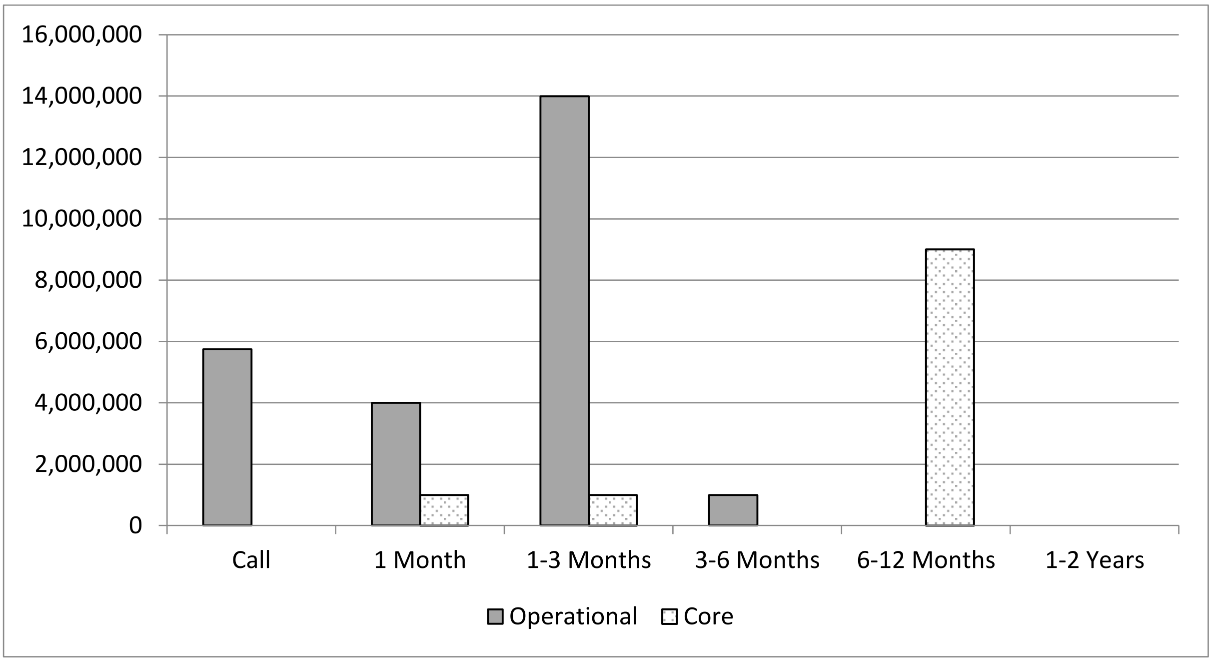


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	**Benchmark Rate**	**Variance**
Call Operational	0.73%	0.53%	0.20%
Fixed Operational	0.81%	0.63%	0.18%
Fixed Core (Long Term)	0.90%	0.65%	0.25%
Overall Average	**0.81%**		

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.

Looking Forward

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 back up to 0.4% and quarter 4 expected to come in around zero. Despite the decisive result of the general election in December which clears the way for the UK to leave the EU on 31 January 2020, there is still uncertainty as to whether a trade deal will be achieved by the end of 2020.

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 exit, the expectation is of a rate cut to support growth.

CPI inflation has been on a falling trend, reaching 1.5% in October and November and is likely to remain between 1.5% and the MPC target of 2% over the next two years. However, in the event of no deal exit, 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 3.5% in October (excluding bonuses), leading to real wage growth of 2.0-2.4%. 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.