

REPORT TO EXECUTIVE

Date of Meeting: 10 December 2019

REPORT TO COUNCIL

Date of Meeting: 17 December 2019

Report of: Chief Finance Officer

Title: Treasury Management 2019/20 Half Year Update

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 To report on the current Treasury Management performance for the 2019/20 financial year and the position regarding investments and borrowings at 30 September 2019. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

- 2.1 **That Members of the Executive note the Treasury Management report in respect of the first six months of the 2019/20 financial year.**

3. Reasons for the recommendation:

- 3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non-financial resources

- 4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2019/20 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

- 5.1 There is a significant, positive variance in respect of net interest for both the General Fund and the HRA. The decision to undertake the long term borrowing to underpin the Council's Capital Financing Requirement has resulted in a reduction in the cost of interest payments, not only this year, but across the Medium Term Financial Plan. The borrowing undertaken will allow the Council to deliver the existing capital programme without the need to borrow further. However members will note that any further additions to the capital programme that depend on borrowing will have to meet a higher cost threshold when determining their affordability.

6. What are the legal aspects?

- 6.1 In February 2012 the Council adopted the updated *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to report on its performance at the end of each financial year. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

7. Monitoring Officer's comments:

- 7.1 This report raises no issues for the Monitoring officer.

8. Report Details:

8.1 Economic Context and Interest Rate Prospects

The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was downbeat about the outlook for both the UK and major world economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

At the time of writing, the whole political situation in the UK over Brexit is highly fluid and could change radically by the day. At present, if the UK does soon achieve an agreed deal on Brexit, then it is possible that growth could recover quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could falter and the MPC would be likely to cut Bank Rate in order to support growth.

The Authority's treasury management advisors are currently forecasting that the MPC will increase Bank Rate in December 2020 to 1%.

8.2 Treasury Management Strategy

The Council approved the 2019/20 Treasury Management Strategy at its meeting on 26 February 2019. The stated investment strategy was to continue to hold only small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits which would be placed with Local Authorities.

The Strategy stated that the on-going borrowing requirement would be monitored and a decision of whether to take the planned borrowing would need to be made in light of need and current and forecast interest rates. This decision was delegated to the Section 151 Officer and the Leader of the Council.

To take advantage of current low borrowing rates the decision was taken to borrow £49.45 million from the PWLB on 26 September 2019. The Council now has a surplus of funds to invest in the short term until required.

The Council approved an amendment to the existing Treasury Management Strategy at its meeting on 15 October 2019. The Council requires the ability to hold the £49.45 million in short term investments that can be accessed relatively quickly, therefore the monetary limit of each of the money market funds rose from £5 million each to £10 million. A decision was also made to rise the monetary limit for Lower Tier Local Authorities from £3 million to £5 million in-line with the Upper Tier Authority limit.

8.3 Net Interest Position

The General Fund shows an improvement against the estimate for net interest payable, the position is:

| | Estimate | Actual to 30 September 2019 | Estimated Outturn | Variation |
|--|-----------------|--|------------------------------|------------------|
| | £ | £ | £ | £ |

| | | | | |
|-----------------------------------|----------------|------------------|----------------|------------------|
| Interest paid | 911,000 | 102,040 | 602,509 | (308,491) |
| Interest earned | | | | |
| Temporary investment interest | (324,000) | (212,958) | (425,380) | (101,380) |
| ECL Loan | (466,000) | (108,750) | (216,348) | 249,652 |
| Other interest earned | (9,300) | (4,650) | (9,300) | 0 |
| Science Park Loan | (25,780) | (12,890) | (25,780) | 0 |
| CVS Loan | (4,220) | 0 | 0 | 4,220 |
| Less | | | | |
| Interest to HRA | 250,000 | 149,080 | 298,159 | 48,159 |
| Interest to S106 agreements | 104,400 | 43,559 | 87,118 | (17,282) |
| Interest to Trust Funds | 4,800 | 2,392 | 4,783 | (17) |
| Lord Mayors Charity | 100 | 42 | 84 | (16) |
| GF interest (received) / paid out | (470,000) | (144,175) | (286,664) | 183,336 |
| Net Interest | 441,000 | (42,135) | 315,845 | (125,155) |
| CCLA – LAPF Dividend | (225,000) | (119,508) | (239,017) | (14,017) |
| Investment Loss – General Fund | 0 | 0 | 0 | 0 |
| Net Interest | 216,000 | (161,643) | 76,828 | (139,172) |

9. Investment Interest

- 9.1 The Council can use the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have been utilised in the period to provide a low-risk temporary arrangement to hold surplus funds raised through PWLB borrowings. Appendix A sets out the institutions that the Council can use for deposits, this is known as our Counterparty list.
- 9.2 The Council has five Money Market Funds. The money market funds allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.
- 9.3 The Council made an investment in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment.
- 9.4 The Council's current investments are:

Money Market Funds

| Amount | Investment | Interest rate* |
|-------------|---------------------------------------|----------------|
| £10,000,000 | Amundi Asset Management | 0.72% |
| £10,000,000 | Federated Investors | 0.73% |
| £10,000,000 | Aberdeen Standard Investments | 0.73% |
| £10,000,000 | CCLA - The Public Sector Deposit Fund | 0.71% |
| £2,000,000 | Black Rock Asset Management | 0.69% |

* Interest rate is variable (therefore this is based on past performance)

Fixed Term Deposits - Current

| Amount | Investment | Interest rate | Date Invested | Maturity Date | No. of Days |
|-----------|--|---------------|---------------|--------------------------|-------------|
| 3,000,000 | Cambridgeshire County Council | 1.15% | 10/12/18 | 09/12/19 | 364 |
| 5,000,000 | Slough Borough Council | 1.10% | 03/04/19 | 01/04/20 | 364 |
| 3,000,000 | Blaenau Gwent County Borough Council | 0.90% | 24/05/19 | 13/03/20 | 294 |
| 3,000,000 | Blackpool Borough Council | 0.95% | 31/05/19 | 10/02/20 | 255 |
| 3,000,000 | Thurrock Council | 0.87% | 31/07/19 | 30/06/20 | 335 |
| 3,000,000 | Salford City Council | 0.87% | 13/08/19 | 11/08/20 | 364 |
| 3,000,000 | Goldman Sachs | 0.79% | 21/08/19 | 02/12/19 | 103 |
| 5,000,000 | London Borough of Southwark | 0.67% | 04/09/19 | 19/02/20 | 168 |
| 5,000,000 | Warrington Borough Council | 0.85% | 01/10/19 | 29/09/20 | 364 |
| 2,000,000 | Thurrock Council | 0.88% | 11/10/19 | 13/07/20 | 276 |
| 3,000,000 | Standard Chartered – Sustainable deposit | 0.85% | 16/10/19 | 16/04/20 | 183 |
| 3,000,000 | Barclays Green 95 day notice account | 0.95% | 18/10/19 | 95 days from notice date | Min: 95 |
| 5,000,000 | Fife Council | 0.85% | 25/10/19 | 23/10/20 | 364 |
| 5,000,000 | London Borough of Barking and Dagenham | 0.90% | 25/10/19 | 27/04/20 | 185 |

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council's Green agenda and can be included in a sustainability clause in the audited accounts.

The Standard Chartered Sustainable deposit guarantees that investment is referenced against sustainable assets aligned to the United Nations' Sustainable Development Goals (SDGs).

Fixed Term Deposits – Forward Deals

| Amount | Investment | Interest rate | Date Invested | Maturity Date | No. of Days |
|-----------|---------------------------|---------------|---------------|---------------|-------------|
| 3,000,000 | Lancashire County Council | 0.95% | 02/12/19 | 30/11/20 | 364 |

Property Funds

| Amount | Investment | Dividend Yield |
|------------|----------------------------|----------------|
| £5,000,000 | CCLA – LAMIT Property Fund | 4.35% |

10. Borrowings

- 10.1 The Council's short term borrowing is £10 million and long term borrowing is £110.684 million (£53.8 million General Fund and £56.884 HRA). Details of current loans are set out in 11.5.

- 10.2 The PWLB long-term borrowing rates fell during the period, prompting the decision on 26 September to borrow in readiness for the on-going capital programme. This was a timely decision as there was an announcement on 9 October to increase the interest rates offered on new PWLB loans by 1% with immediate effect.
- 10.3 The current General Fund capital programme as at Quarter 2 indicates total borrowing will need to increase to £72.707 million over the next 3 years.
- 10.4 The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.
- 10.5 Current Borrowing:

| Amount | Lender | Interest rate | Date of repayment |
|-------------|------------------------------|---------------|-------------------|
| £10,000,000 | London Borough of Wandsworth | 0.90% | 05/12/2019 |
| £56,884,000 | PWLB (HRA) | 3.48% | 28/03/2062 |
| £2,200,000 | PWLB | 2.34% | 11/01/2044 |
| £2,150,000 | PWLB | 2.08% | 04/04/2044 |
| £4,650,000 | PWLB | 1.61% | 26/09/2049 |
| £8,800,000 | PWLB | 1.71% | 26/09/2054 |
| £36,000,000 | PWLB | 1.80% | 26/09/2069 |

11. Future Position

- 11.1 The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.
- 11.2 The Council's five Money Market Funds which are AAA rated, currently offer rates between 0.68% and 0.73%, the rates are liable to fluctuation in the year. The short term investments that are made through the money market funds ensure cash can be accessed immediately. This has a slight impact on returns but increases the security of our cash.
- 11.3 We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies and the Debt Management Office. The rates received currently average around 0.85%.
- 11.4 Officers have regular meetings with the Treasury Management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.
- 11.5 We continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the Treasury Management strategy which is presented to committee for approval in February 2020.

12. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

13. What risks are there and how can they be reduced?

The council uses Treasury Management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's Treasury Management strategy.

14. Equality Act 2010 (The Act)

14.1 Under the Act's Public Sector Equality Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

14.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

14.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

14.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

14.4.1 The report is for information only

15. Are there any other options?

No.

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

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