Report of:	Meeting	Date
Councillor Alan Vincent, Resources Portfolio Holder and Clare James, Corporate Director Resources	Council	9 January 2020

Treasury Management Activity April 2019 to September 2019

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the first half of the financial year 2019/20.

2. Outcomes

2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

3. Recommendation

3.1 That the Annual Report on Treasury Management Activity for the first half of the 2019/20 financial year be approved.

4. Background

4.1 Capital Strategy

4.1.1 In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following:-

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed;
- The implications for future financial stability.

4.2 Treasury Management

4.2.1 The council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

4.2.2 The second main function of the treasury management operation is the funding of the council's capital plans. The management of longer term cash may involve arranging long or short term loans, or using long term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

4.2.3 Accordingly, treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4.2.4 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve these policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead (April 2020), a Mid-year Review Report (normally November/December 2019 but delayed by the General Election) and an Annual Report (May 2020) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management and policies to a specific named body. For this council the delegated body is the Overview and Scrutiny Committee.

4.2.5 This mid-year report covers the following for the six months ending 30 September 2019:

a) An economic update for the first part of the 2019/20 year;

b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
c) The council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
d) A review of the council's investment portfolio for 2019/20;
e) A review of the council's borrowing strategy for 2019/20;
f) A review of any debt rescheduling undertaken during 2019/20;
g) A review of compliance with Treasury and Prudential limits for 2019/20.

5. Key issues and proposals

5.1 Economics update

5.1.1 This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on the 31 October 2019, with or without a deal. Given these circumstances and the general election on 12 December, any interest rate forecasts are subject to material change as the situation evolves.

5.1.2 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll. It was therefore no surprise that the Monetary Policy Committee (MPC) left the 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. It is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut the Bank Rate to support growth.

5.1.3 As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and remained at this level in September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

5.1.4 Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation.

5.1.5 In the USA, President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9%. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further.

5.1.6 In the Eurozone (EZ) growth was 0.4% in quarter 1 and then fell to 0.2% in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near 2%), has prompted the European Central Bank (ECB) to take new measures to stimulate growth.

5.2 Interest Rate Forecasts

5.2.1 The council's treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 09/10/19.

Link Asset Services Interest View - %										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.80	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

5.2.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

As previously mentioned, the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields.

The balance of risks to the UK

5.2.3 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as softening global economic picture.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside. As the council currently has no plans to borrow externally, further detail is not included in this report. A more detailed review will take place in the next report to Council in April.

5.3 Treasury Management Strategy Statement and Annual Investment Strategy Update

5.3.1 The Treasury Management Strategy (TMSS) for 2019/20 was approved by Council on 4 April 2019. There are no policy changes to the TMSS and details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5.4 Capital Position

5.4.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2019/20 Original Estimate £m	Current Position as at 31/08/19 £m
Total	6.226	8.485

5.5 Changes to the Financing of the Capital Programme

5.5.1 The table below shows how the capital expenditure (above) will be financed. Any shortfall of resources results in a need to borrow.

Capital Expenditure	2019/20 Original Estimate £m	Current Position as at 31/08/19 £m
Total	6.226	8.485
Financed by:		
Capital Receipts	0.036	0.043
Capital Grants and Contributions	3.081	4.348
Revenue/Reserves	3.109	4.094
Total Financing	6.226	8.485
Borrowing Requirement	0	0

5.6 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.6.1 The table below shows the Capital Financing Requirement (CFR), which is the underlying need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

5.6.2 We are on target to achieve the original forecast Capital Financing Requirement and the Operational Boundary will remain the same.

Operational Boundary	**2019/20 Original Estimate £m**
Prudential Indicator - Capital Financing Requirement:	
Total CFR	11,356
Prudential Indicator - Operational Boundary for external debt:	
Debt	13,548
Other long term liabilities	8
Total	13,556

5.7 Limits to Borrowing Activity

5.7.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowing less investment) will only be for capital purpose. Gross external borrowing should not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the next two financial years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

5.7.2 The Corporate Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

5.7.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and need to be set and revised by Members. It was set at £20m at Council 4 April 2019. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5.8 Investment Portfolio

5.8.1 In accordance with the code, it is the council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the council's risk appetite. As shown by forecasts at 5.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

5.8.2 The council has continued to invest any surplus balances with the council's Bank, NatWest on call deposit facility, Money Market Funds (MMF) with Prime Rate Capital Management, the Bank of Scotland (Overnight/Call account and 95 day notice facility), Handelsbanken (Instant Access account and 35 day notice facility) Santander (35 day corporate notice facility) and Qatar National bank (1 month and a 3 month fixed notice facility).

5.8.3 The approved £6m maximum limits within the Annual Investment Strategy were breached on two occasions during the first 6 months of 2019/20. The first occasion was in July and was due to an investment being made into the Handelsbanken Instant Access account instead of going to Qatar. This temporarily left a balance of £7,965,412 with Handelsbanken across two accounts. The second occasion was due to a larger than expected automatic roll up into the NatWest Liquidity account making the balance £6,026,130, this was picked up the following day and a transfer made. There were no costs incurred as a result of either action.

5.8.4 Within the council's current Annual Investment Strategy, the Investment Policy criteria are based on Link Asset Services creditworthiness service and it is meeting the requirement of the treasury management function. The council, to date, has adopted a very cautious approach and regularly monitors organisations with which investments are held to ensure they meet the Investment Policy criteria.

Investment Counterparty criteria

5.8.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

5.8.6 Interest receivable on investments for the first half of the year is £73,256 compared to an annual budget of £142,400. The rate of interest received is expected to reduce through the second part of the year due to the funds available for investment diminishing as a result of increased capital expenditure and reduced levels of Council Tax income in the last quarter of the year.

5.8.7 The equated investments for the first half of 2019/20 are detailed in the following table indicating that investments earned an average return of 0.71% against a benchmark LIBID (London Interbank Bid Rate) 7-day average of 0.57%.

	Equated Investment Principle	Interest Due	Rate of Return	Benchmark Return
NatWest Liquidity Account	107,547	2,576	0.30%	0.57%
Handelsbanken IA Account	753,572	2,637	0.35%	0.57%
Bank of Scotland Call Account	938,063	5,628	0.60%	0.57%
Handelsbanken 35 Day Notice Account	756,164	4,916	0.65%	0.57%
Money Market Funds	2,784,932	21,046	0.78%	0.57%
Santander 35 Day Corp Notice	2,761,644	23,474	0.85%	0.57%
Qatar (Fixed)	2,712,328	31,299	1.03%	0.57%
Bank of Scotland 95 Day Notice	1,123,288	12,356	1.10%	0.57%
Total	**11,937,538**	**103,932**	**0.71%**	**0.57%**

5.9 Borrowing

5.9.1 The council's capital financing requirement (CFR) for 2019/20 as approved by Cabinet on 13 February 2019 is £11.4m. The CFR denotes the council's underlying need to borrow for capital purposes. This borrowing can be external from the Public Works Loan Board (PWLB) or the market or internal (from balances on a temporary basis).The 2019/20 budget assumed no additional long-term borrowing and that capital schemes were to be funded by grants and contributions, capital receipts, revenue or reserves.

5.9.2 There were no short-term borrowing transactions (i.e. less than 365 days) during the first six months of 2019/20.

5.9.3 Interest payments in respect of short-term and long-term borrowing for the first half of the financial year are on target and total £34,415 compared to a budgeted figure of £68,830 for the full year. There is also an additional budget of £1,000 for interest in the latter part of the financial year owing to potential temporary borrowing requirements as income from Council Tax reduces during February and March.

5.9.4 The council incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The council's net bank account position was not overdrawn during the period April to September 2019.

5.10 Debt Rescheduling

5.10.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year, although it is reviewed at least annually.

5.10.2 The table below illustrates the council's debt and investment position at the beginning of the 2019/20 financial year and as at 30 September 2019:

	1st April 2019 £	30th September 2019 £
Loans - Temporary	0	0
- Cash Overdrawn	290,820	161,948
Total Short-Term Debt	**290,820**	**161,948**
Loans - Long-Term Borrowing	1,552,000	1,552,000
Total Long-Term Debt	**1,552,000**	**1,552,000**
Investment - Temporary	19,516,612	27,775,748
Total Short-Term Investments	**19,516,612**	**27,775,748**
Cash in Bank	0	0
Cash held by the Authority	2,370	2,390
Total Cash and Cash Equivalents	**2,370**	**2,390**

6 Latest News

6.1 Changes in risk appetite

6.1.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. No such change in risk appetite has been identified at Wyre.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendation will ensure that the CIPFA Code of Practice on Treasury Management and statutory requirements have been complied with.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
ICT	x
data protection	x

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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List of background papers:		
name of document	date	where available for inspection
None		