**TRAFFORD COUNCIL**

**Report to:** **Accounts & Audit Committee – 30 October 2019**
**Executive – 25 November 2019**

**Report for:** **Information**

**Report of:** **The Executive Member for Finance and Investment and the Corporate Director of Finance and Systems**

**Report Title**

| |
|---|
| **Treasury Management 2019-20 Mid-Year Performance Report** |

**Summary**


This report gives Members a summary of the Treasury Management activities undertaken for the first half of 2019/20 as follows;

**Debt Activity:-**

- The level of external debt rose from £220.7m at 31st March to £310.7m at 30 September 2019,
- Gross loan interest costs totalling £8.1m are to be contained within the Medium Term Financial Plan,

**Investment Activity:-**

- The level of interest to be generated for the year is forecasted to be in line with budget of £1.0m,
- Overall Rate of Return achieved during the period April to September 2019 was 1.28%, or 0.71% £351k above the comparable performance indicator of average 7-day **L**ondon **I**nterbank **BID** interest rate of 0.57%
- At 30 September the value of Council's investments was £112.8m.

**Prudential indicators:-**

- The Council complied with its legislative and regulatory requirements and
- There were no breaches of prudential indicators.


**Recommendations**

That the Accounts & Audit Committee & Executive be requested to:

1. Note the Treasury Management activities undertaken in the first half of 2019/20.

Contact person for background papers and further information:


Name: Graham Perkins
Extension: 4017 Background papers: None

| | |
|---|---|
| Relationship to Policy Framework/Corporate Priorities | Value for Money |
| Financial | Treasury Management impacts on the Council’s budget in terms of borrowing costs and investment returns and the implications of which are fully contained within the Council’s Medium Term Financial Plan (MTFP). |
| Legal Implications: | All actions undertaken during this period were in accordance with legislation, Ministry of Housing Communities and Local Government (MHCLG) Guidance, Charted Institute of Public Finance and Accountancy (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice. |
| Equality/Diversity Implications | Not applicable |
| Sustainability Implications | A “Green Deposit” bank account has agreed with Barclays Bank to support investment in sustainable assets – See Para 5.15. |
| Resource Implications e.g. Staffing / ICT / Assets | Not applicable |
| Risk Management Implications | The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. The Council’s in-house treasury management team continually monitor interest forecasts and actual market interest rate movements to ensure that any exposure to adverse fluctuations in interest rates are minimised and security of capital sums are maintained at all times. Failure to properly manage and monitor the Council’s loans and investments could lead to service failure and loss of reputation. |
| Health & Wellbeing Implications | Not applicable |
| Health and Safety Implications | Not applicable |

**Executive Summary**

This report provides Members with a summary of the treasury management activity during the first half year of 2019/20 and has been prepared in accordance with current legislation and Codes of Practice.

**Economic position** (Section 2)

- The world economy, as forecasted, slowed with the UK growing by 1.2% y/y in quarter 2 (June 18 – June19).
- In response to an uncertain global economic climate the Monetary Policy Committee (MPC) left Bank Rate at 0.75%.
- The 29 March 2019 deadline for the UK to leave the EU passed without agreement and a new deadline of 31 October 2019 is now in place.

**Debt** (Section 4)

- Total loan debt rose from £220.7m 31.03.2019 to £310.7m at 30.09.2019 a net increase of £90.0m comprising of:
    - New loans totalling £94m were taken from the Public Works Loan Board (PWLB) to fund the capital programme and reduce the under borrowed position - details of these can be found at paragraph 4.5,
    - Natural loan repayments totalling £4.0m were made.
- Total loan interest of £8.1m is currently forecasted to be paid in the year of which £2.8m relates to debt taken in respect of the Council's Asset Investment programme and is funded from rental income received. The balance of £5.3m relates to debt taken to fund the Council's historical and current capital programme.
- The average rate of interest payable has fallen from 3.33% as at 31.03.2019 to 2.81% as at 30.09.19. This fall in interest rates is due to high interest rated loans maturing and being repaid together with new low interest rate loans being taken from the PWLB.
- On 9th October 2019 and without any prior warning, HM Treasury increased PWLB interest rates by 1% on top of usual lending terms. This increase in interest rates applied to all new loans with immediate effect.

**Investments** (See Section 5)

- The level of investments rose from £77.9m as at 31.03.2019 to £112.8m at 30.09.2019 a movement of £34.9m due to monies received ahead of spend.
- The Average Rate of Return for investments for the first half of 2019/20 was:
    - Short term 0.94% which was 0.37% or £0.164m above the recognised performance indicator of 7-day LIBID.
    - Long term 4.22% which was 3.65% or £0.187m above the recognised performance indicator of 7-day LIBID.
- The Investment interest to be earned for the year is currently on track to achieve budget of £1.0m.
- All investments were repaid on time without issue and placed in accordance with the Council's approved strategy.

**Prudential Indicators and limits (Section 7)**

No breaches to any of these limits occurred during this period.

## 1. BACKGROUND

1.1 This report has been produced in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017) which requires that the Council receives on an annual basis 3 separate Treasury Management reports as follows;

- 3 year Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy,
- Mid-year Review (this report) and
- Performance update, covering activities undertaken during the previous financial year.

1.2 This mid-year report highlights the treasury management activities undertaken during the first half year of 2019/20 as follows;

- Economic Update (section 2)
- Treasury Position (section 3)
- Debt Activity (section 4)
- Investment Activity (section 5)
- Risk Benchmarking (section 6)
- Prudential and Performance Indicators (section 7)
- Other Activity Update (section 8)
- Recommendations (section 9)

1.3 Each year this Council produces and operates to a balanced budget, which broadly means cash raised during the year will meet its expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering investment return.

1.4 In addition to this aspect, funding of the Council's multi-million pound capital programme is also undertaken. This identifies the need for any potential new borrowing and may result in the take up of long or short term loans or using longer term cash flow surpluses. In addition periodically when the opportunities arise, any debt previously drawn may be restructured to meet Council risk or cost objectives.

## 2. ECONOMIC UPDATE

2.1 During the first half of 2019/20, the main economic headlines are outlined below with a revised forecast of the key indicators for 2019 being provided at Appendix B for reference:

**UK**

- The first half of 2019/20 saw UK economic growth fall as Brexit uncertainty took a toll. The annualised Gross Domestic Product (GDP) for quarter 1 was 1.8% with the second quarter being reported at 1.2%.
- The MPC has at each of its monthly meetings left bank rate at 0.75% where it has been since August 2018.
- Consumer Price Index (CPI) was 1.7% in August 2019 which was 0.3% below the Government's target rate of 2.0% and does not pose any immediate concern to the MPC.

- Unemployment continues to be at record low levels rising marginally from the quarter 1 position (Jan - Mar 19) of 3.8% to 3.9% for the 2nd quarter (Apr – Jun 19).
- Theresa May resigned as Prime Minister being replaced by Boris Johnson on a platform of the UK leaving the EU by 31 October, with or without a Brexit deal.
- Despite on-going negotiations, to date no option put forward to MPs with regards to Brexit has been able to obtain their support and it remains difficult to be confident about how the forthcoming year will perform.

**USA**

- The American economy is showing signs of slowing down with annualised growth of 3.1% in quarter 1 and 2.1% for quarter 2 with forecasts for quarter 3 to continue downwards.
- The Federal Bank (Fed) reduced interest rates by 0.25% in September 2019 to between 1.75% and 2.00%.
- Unemployment in the US continues to fall and the latest figures, June 2019 show this to be 3.7%.
- CPI fell by 0.2% in August 2019 to 1.8%.
- The tariff trade war with China continues to depress US and world growth.

**Eurozone**

- European Central Bank (ECB) at its meeting in July expressed concern on the weak outlook for growth and low inflation despite all the monetary stimulus the bank has undertaken and still has in place. Reduction to its main bank rate which currently stands at 0.0% is expected and the potential for more quantitative easing to provide further stimulus to economy could be implemented.
- GDP continues to slow with annual growth of 1.2% and 1.0% being reported for quarters 1 and 2 respectively with little potential for increases to this during the rest of the year.
- CPI was recorded at 1.4% in August, which is below the ECB target rate of 2.0%.
- Unemployment continues its downward trend albeit marginally falling to 6.3% in July 2019 from 6.4% in April 2019.
- Germany regarded as one of the major financial strong countries within the Eurozone reported a fall in its GDP to -0.1% in quarter 2 primarily as a result of industrial production down by 5.2%. Further problems to its economy would arise from a Brexit no deal and President Trump's threat to impose tariffs on EU produced cars.

**Other Countries**

- Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on essential reform of the economy.

- China's economic growth continues to weaken despite repeated rounds of central bank stimulus. The trade war with the US does not appear to have had any significant impact on GDP growth due to the impact of tariffs being offset by falls in the exchange rate and from moving exports through other countries rather than directly to the US.

2.2 The Council's treasury management advisors Link Asset Services (LAS), provide interest rate forecasts periodically through-out the year and the table below outlines the latest **average** forecasted rates, as issued in August 2019, for the periods stated:

| | **2019-20 Original Forecast %** | **2019-20 Revised Forecast %** | **2020-21 Revised Forecast %** | **2021-22 Revised Forecast %** |
|---|---|---|---|---|
| Bank Rate | 1.00 | 0.75 | 0.83 | 1.02 |
| Investment Rates | | | | |
| 3 month | 1.10 | 0.70 | 0.80 | 1.04 |
| 1 Year | 1.40 | 1.00 | 1.10 | 1.40 |
| PWLB Loan Rates | | | | |
| 5 Year | 2.25 | 1.33 | 1.70 | 2.00 |
| 25 Year | 3.05 | 2.27 | 2.63 | 2.93 |

2.3 The original 2019-20 interest rate forecasts provided by LAS reflected a steady increase in interest rates based on the assumption that an agreement would be reached on Brexit between the UK and the EU in March 2019. This did not occur and the above revised forecasts are produced assuming sufficient progress will be made concerning an agreed Brexit by 31st October 2019. If however no agreement is reached and Brexit goes ahead then forecasters predict that both the Bank rate and PWLB rates will be subject to downward movements in order to avoid any potential recessionary effects which may arise as a result.

2.4 Given the current level of uncertainty it is no surprise that the MPC has left Bank Rate unchanged at 0.75% throughout 2019 and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

2.5 As a consequence to the delay in increasing investment interest rates it is now forecasted that the levels of returns on the Council's investments over the forthcoming couple of years will be lower than originally anticipated and this revised position is reflected in the updated MTFP for the period 2020/23.

2.6 To reduce any risk aspects arising from this situation the Council will continue its policy to take a cautious approach when undertaking all money market transactions.

## 3. TREASURY POSITION

3.1 The Council's investment and debt positions at the beginning and midway through the current financial year are listed in the table below;

| | 31 March 2019 | | 30 September 2019 | |
|---|---|---|---|---|
| | **Principal £m** | **Average Interest Rate %** | **Principal £m** | **Average Interest Rate %** |
| **DEBT** | | | | |
| *Short term (payable before 31.03.20)* | | | | |
| PWLB | 3.4 | 8.88 | 0.1 | 2.80 |
| Government Loans - Salix | 1.4 | 0.00 | 0.7 | 0.00 |
| Sub-total | 4.8 | 6.21 | 0.8 | 0.23 |
| *Long term (payable after 31.03.20)* | | | | |
| PWLB | 177.7 | 3.04 | 271.7 | 2.60 |
| Market | 36.0 | 4.56 | 36.0 | 4.56 |
| Government Loans - Salix | 2.2 | 0.00 | 2.2 | 0.00 |
| Sub-total | 215.9 | 3.26 | 309.9 | 2.81 |
| **Total debt** | **220.7** | **3.33** | **310.7** | **2.81** |
| | | | | |
| **INVESTMENTS** | | | | |
| *Short term(less than 1 year duration)* | | | | |
| - Instant access | 22.3 | 0.78 | 20.1 | 0.72 |
| - Call accounts | 5.3 | 0.90 | 2.5 | 0.75 |
| - Term deposit | 45.3 | 1.07 | 67.6 | 1.02 |
| Sub-total | 72.9 | 0.97 | 90.2 | 0.95 |
| *Long term (greater than 1 year duration)* | | | | |
| - CCLA | 5.0 | 4.92 | 5.0 | 4.75 |
| - Asset Investment programme (AIP) | 0.0 | 0.00 | 17.6 | n/a |
| Sub-total | 5.0 | 4.92 | 22.6 | 4.22 |
| **Total Investments** | **77.9** | **1.22** | **112.8** | **1.54** |

3.2 It is important to note that when referring to this information in the above table, that the levels of investments fluctuate daily as a result of timing issues from monies being received ahead of spend requirement and are therefore are only available on a temporary basis.

## 4. DEBT ACTIVITY

4.1 The Council's total borrowing requirement as highlighted by the Capital Financing Requirement (CFR), reflects the underlying need to borrow for capital purposes and at 31st March 2019 this was £251.6m which was £30.9m higher than the actual level of external debt of £220.7m.

4.2 This position highlights the Council was under borrowed on 31st March 2019 by £30.9m resulting from prior years decisions to apply internal funds in the form of cash supporting reserves & balances to fund the capital borrowing requirement instead of taking out any new loans.

4.3 On 9th October 2019 and without any prior notification the PWLB made the following 2 announcements;

- Due to the maximum net amount of PWLB loans outstanding approaching the £85bn statutory limit, the Government has legislated to increase this limit to £95bn. This increase in the net borrowing limit was in response to the cost of borrowing falling to record lows during the summer and local authorities substantially increasing their borrowing as a result.
- With immediate effect HM Treasury raised the margin it applies to PWLB borrowing rates from 0.8% to 1.8% above the respective gilt rate. By undertaking this action HM Treasury is restoring interest rates to levels available in 2018.

4.4 Prior to this action PWLB interest rates particulallry during the Summer were at historically low levels with some rebound in rates moving higher in early September.

4.5 During the first half of 2019/20, new long term loans totalling £94m were taken in August and September to:

- reduce the 31 March 2019 under borrowing position - £25m and
- fund the capital programme requirement £69m.

4.6 The Council continues to have an underlying need to borrow for capital purposes and of the total £8.1m loan interest costs, £5.3m of this is being met from an existing revenue provision within the Medium Term Financial Plan and £2.8m from applying a proportion of the rental returns generated from the commercial investment programme.

4.7 The Council continues to have an extensive capital commercial asset investment programme and prior to completion of the acquisition of a property within this scheme, significant due diligence is carried out. It is acknowledged however that as a result of potential future events beyond the Council's control, that risks do exist with this type of activity and thereby a risk reserve has been created.

4.8 During the first half of 2019/20, a number of loan transactions were undertaken resulting in a net increase in the Council's overall external debt levels as detailed for reference in the tables below:

| **Loans** | **31 March 2019 £m** | **Borrowed £m** | **Debt Repaid £m** | **30 September 2019 £m** |
|---|---|---|---|---|
| Short Term | 4.8 | 0.0 | 4.0 | 0.8 |
| Long Term | 215.9 | 94.0 | 0.0 | 309.9 |
| **Total** | **220.7** | **94.0** | **4.0** | **310.7** |

| **Lender** | **Principal – (Repayment) / New** | **Average Interest rate** | **Notes** |
|---|---|---|---|
| PWLB | £(3.3)m | 9.00% | Natural maturity. |
| SALIX Finance | £(0.7)m | 0.000% | Natural maturity. Loan used to |

| | | | |
|---|---|---|---|
| | | | part fund the LED Street Lighting Programme. |
| PWLB (taken August 19) | £17.0m | 1.21% | Reduce the under borrow position. |
| PWLB (taken August 19) | £17.0m | 1.88% | Fund capital programme schemes, £9m and reduce under borrow position £8m. |
| PWLB (taken September 19) | £60.0m | 1.90% | Loans taken to fund commercial investments and capital programme schemes. |
| **Total** | **£90.0m** | | |

4.9 Currently the Council has 28 loans in total and these are all fixed rate with only 2 of the market loans being subject to potential half yearly interest reviews.

4.10 The PWLB has 2 main sets of interest rates which Public Sector organisations can borrow funds at referred to as Standard and Certainty rates and these are defined as:

- Standard rate - prevailing market gilt rate for each respective period plus 200pts and
- Certainty rate - prevailing market gilt rate for each respective period plus 180pts.

4.11 To ensure the Council continues to be eligible to take loans from the PWLB at the lower Certainty rate, the in-house treasury management team is required annually to complete and submit an application form for this facility. This process was successfully completed in June 2019 and based on the sums borrowed in the first half of 2019/20 of £94m this has enabled annual savings in interest payable of £188k (£94m x 0.20%) to be achieved.

4.12 As a consequence of low interest rates, debt rescheduling opportunities continue to be expensive to undertake due to the high breakage (premium) costs which would be incurred. During the first half of the year no debt restructuring was undertaken however this situation will continue to be monitored.

## 5. INVESTMENT ACTIVITY

5.1 In compliance with the Council's Annual Investment Strategy, approved by Council in February 2019 and revised in July 2019, the priorities when placing any temporary surplus funds will continue to be that as adopted in previous years which is **S**ecurity of capital, **L**iquidity and finally obtaining an appropriate level of **Y**ield.

5.2 The table below highlights the level of investment transactions carried out during the first half of 2019/20;

| Investments | 31 March 2019 £m | New £m | Repaid £m | 30 September 2019 £m |
|---|---|---|---|---|
| Instant access | 22.3 | 209.6 | 211.8 | 20.1 |
| Notice accounts | 5.3 | 0.0 | 2.8 | 2.5 |

| | | | | |
|---|---|---|---|---|
| Term deposit | 45.3 | 32.3 | 10.0 | 67.6 |
| Long term – CCLA | 5.0 | 0.0 | 0.0 | 5.0 |
| Long term - AIP | 0.0 | 17.6 | 0.0 | 17.6 |
| **Total** | **77.9** | **259.5** | **224.6** | **112.8** |

5.3 The £34.9m upward movement in the level of investments as at 31 March 2019 to 30 September 2019 reflects the day to day cash flow movements and monies received ahead of spend.

5.4 All investments placed with any of the Council's approved institutions and which matured during the first half of the financial year, were repaid on time without any difficulties with the list of institutions in which the Council invests continuing to be kept under review.

5.5 The breakdown of the Council's temporary investments as at 31 March 2019 compared to 30 September 2019 per each classification of institution is shown below for reference:

| **Sector** | **31 March 2019 £m** | **30 September 2019 £m** |
|---|---|---|
| UK Banks | 27.6 | 35.6 |
| UK Building Societies | 0.0 | 0.0 |
| Money Market Funds | 22.3 | 20.1 |
| Non UK Banks | 15.0 | 19.0 |
| Local Authority | 8.0 | 15.5 |
| Other - CCLA | 5.0 | 5.0 |
| Other - AIP | 0.0 | 17.6 |
| **Total** | **77.9** | **112.8** |

The maturity structure of the investment portfolio was as follows:

| **Period** | **31 March 2019 £m** | **30 September 2019 £m** |
|---|---|---|
| Instant Access | 22.3 | 20.1 |
| Up to 3 Months | 19.6 | 16.0 |
| 3 to 6 Months | 12.0 | 32.8 |
| 6 to 9 Months | 11.5 | 15.3 |
| 9 to 12 months | 7.5 | 6.0 |
| Over 1 year | 5.0 | 22.6 |
| **Total** | **77.9** | **112.8** |

5.6 During the first half of the year, a total of 103 short term temporary and 1 long term investments were undertaken by the Council's in-house treasury management team in a continuing challenging environment of low interest rates. The table below highlights the results of the **short term** investment activities and this clearly illustrates the Council outperforming the 7day LIBID benchmark, a recognised market performance indicator, by 0.37% on its short term investments whilst ensuring that all risk was kept to a minimum during this period.

| Average level of Investments (ex CCLA) 1 April to 30 Sept £m | Average interest rate earned % | Average 7 day LIBID rate % | Additional interest earned against 7 day LIBID £k |
|---|---|---|---|
| 88.4 | 0.94 | 0.57 | (164) |

5.7 With regards to the Council's 2 **long term** investments totalling £22.6m, a first half year return of 4.22% was achieved generating interest of £215k. This return is 3.65% and £186k over the 7day LIBID benchmark rate and further details of these investments are provided in the following paragraphs.

5.8 In September 2015, the Council invested £5m in the Local Authority Property Investment fund, managed by the Church Commissioners Local Authority, (CCLA), and this enabled 1,643,872 units to be purchased in the fund. This fund is only accessible to Local Authorities and its objective is to generate long-term growth in the amount originally invested whilst generating returns in the form of annual dividends by investing in commercial property throughout the UK.

5.9 By the very nature of this type of investment and to enable a satisfactory rate of return to be achieved in the form of capital growth and annual revenue returns, it is expected that funds will be held in this account for a minimum period of 5 years.

5.10 At 31 March 2019 the Council's investment was worth £5.04m and this has fallen marginally to £5.00m as at 30 September 2019 due mainly to weakness in the retail sub-sectors. Whilst commercial property valuations fell marginally over the first half year there are currently no concerns on the security and liquidity of this investment, which remains within the limits approved.

5.11 With regards to the level of CCLA dividends received, these continue to be strong as a result of the high rental returns being achieved. For reference the annualised level of return generated for the first half of 2019/20 was 4.75% gross of fees compared to 4.90% for the same period in 2018/19. Despite all the current market uncertainties it is anticipated that the return for the remainder of the year will be in line achieved for the first half year with a continuing positive outlook going forward.

5.12 The level of budgeted investment interest forecasted to be generated from all of the Council's investments during 2019/20 was set at £(1.0)m and currently it is forecasted that this will be achieved.

5.13 As outlined at Section 2 above, it is a very difficult investment market with low interest rates in line with the current 0.75% Bank Rate. Given this and the fact that any potential increases in Bank Rate are likely to be gradual the potential for earning a respectable level of interest whilst ensuring the Council's risk exposure is kept to a minimum, remains a challenge. In order to maintain risk to a minimum, funds will continue to be placed in low risk counterparties with returns set to reflect this strategy.

5.14 As highlighted at paragraph 5.1 above the Council's main objective when undertaking any investment is to ensure that funds are subject to the lowest levels of risk possible whilst generating a satisfactory level of return. The Council is also aware of the increasing responsibility it has to promote and support environmental friendly projects and transactions without exposing itself to any unnecessary risk.

5.15 At a recent review meeting between the Council's bank Barclays and the in-house treasury management team details of the bank's recently launched Green Deposit Notice account were highlighted. This new account operates and offers the Council exactly the same key features which the bank's other Notice accounts provide with all monies placed in the Green Deposit account, being earmarked by Barclays to be used in schemes supporting the transition to a lower carbon economy.

5.16 In response to this meeting the in-house treasury management team has commenced the process of opening a Green Deposit Notice account and it is currently planned for an element of the Council's temporary investments to be placed in this account when it has been fully opened in October 2019.

5.17 On 23 July 2019 Council approved a report which sought to extend the previous Investment Strategy by permitting funds to be placed in;

- pooled investment vehicles that have a strong focus on social impact ethical investments and
- investments which support and complement the Council's Asset Investment Strategy.

5.18 Following this extension to the Council's Investment Strategy and in response to the Council's Investment Management Board recommendation in July 2019, the Council in August 2019 entered into a £17.6m loan facility agreement which has a maximum duration of 5 years secured on 4 prominent income producing properties within Manchester City Centre.

5.19 For reference Appendix A details the Council's investments, as at 30th September 2019.

## 6. RISK BENCHMARKING

6.1 In accordance with the Code and MHCLG Investment Guidance, appropriate security and liquidity benchmarks are used by the in-house treasury management team to monitor the current and future potential risk conditions enabling any corrective action to the strategy to be applied if required.

6.2 These benchmarks are simple guides to maximum risk (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria.

6.3 During the first half of 2019/20 it can be reported that no benchmarks, which were set in the Strategy report in February 2019, were breached as shown from the table below.

| Indicator | Target | Actual |
|---|---|---|
| **Security** – potential default rate of the Council's investment portfolio based on rates issued by the 3 main credit rating agencies. | Max 0.05% | Max 0.01% |
| **Liquidity** – investments available within 1 week notice | £10m min. | Achieved |

| | | |
|---|---|---|
| **Liquidity** – Weighted Average Life of investments (ex CCLA Property Fund) | 6 months | This was not breached and as at 30 September was 3.25 months. |
| **Yield** – Investment interest return to exceed 7 day **L**ondon **I**nterbank **BID** rate | 0.57% (Avg. 7 day LIBID) | 1.28% (All Investments) |
| **Origin of investments placed** - maximum investments to be directly placed with non-UK counterparties. | UK institutions 100% Non UK institutions 40% | Achieved |

## 7. PRUDENTIAL AND PERFORMANCE INDICATORS

7.1 In accordance with MHCLG Guidance and the Code, a number of prudential indicators are in place ensuring that the Council's capital expenditure plans and borrowing remain robust, prudent and sustainable.

7.2 These indicators which were approved by Council in February 2019 are monitored on a monthly basis and during the first half of 2019/20 it can be reported that no breaches occurred.

7.3 The Council's Audit & Assurance Service, as part of their 2019/20 audit plan, undertook a review of the treasury management process & activities undertaken in 2018/19. The objective of the review was to provide assurance on the operation of the key controls within the treasury management system. For the 13th year in succession a report was issued stating that the in-house treasury management team offered a High Level of Assurance (very good) and there were no recommendations required to be implemented.

## 8. OTHER ACTIVITY UPDATE

8.1 The main purpose of this report is to inform Members of the activities undertaken during 1 April to 30 September 2019 by the in-house treasury management team. In addition to those outlined above the following events have also occurred;

- Member Training - this was provided by the Council's advisors Link Asset Services and in-house staff to both Members of the Accounts and Audit Committee and staff new to the role of treasury management on 12th June 2019. Further training is to be provided on 15th January 2020 which will focus primarily on the 2020-2024 treasury management strategy. In addition to this two Members of the Accounts and Audit Committee attended external training provided by CIPFA in Leeds on 16th October.

## 9. RECOMMENDATIONS

9.1 That the Accounts & Audit Committee & Executive be requested to;

- Note the Treasury Management activities undertaken in the first half of 2019/20.

**<u>Other Options</u>**

This report is a mandatory report which has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during the first half of 2019/20. There are no other options to consider.

## Consultation

There are no applicable consultation requirements in respect of this report.

Information for the period 1 April to 30 September 2019 was obtained from Link Asset Services, the Council's external consultants.

## Reasons for Recommendation

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

**Finance Officer Clearance … GB…….**

**Legal Officer Clearance … DS……..**

**Corporate Director's signature … …………..**

**APPENDIX A**

## Breakdown of Investments as at 30 September 2019

| Counterparty | Amount (31 March 2019) £ | Amount (30 Sept 2019) £ | Long Term Credit Rating |
|---|---|---|---|
| *Money Market Fund* | | | |
| Amundi | 410,000 | 0 | AAA |
| Federated Investors | 8,860,000 | 6,850,000 | AAA |
| Legal & General | 100,000 | 0 | AAA |
| Invesco Aim | 2,910,000 | 7,000,000 | AAA |
| Aberdeen | 10,000,000 | 6,260,000 | AAA |
| *Sub total* | 22,280,000 | 20,110,000 | |
| *Notice Accounts* | | | |
| Barclays Bank | 2,500,000 | 2,500,000 | A |
| Santander UK Bank | 2,800,000 | 0 | A |
| *Sub total* | 5,300,000 | 2,500,000 | |
| *Term Deposit* | | | |
| Australia and New Zealand Bank | 12,000,000 | 17,000,000 | AA |
| Close Brothers Bank | 10,000,000 | 10,000,000 | A |
| Development Bank of Singapore | 3,000,000 | 0 | AA |
| Eastleigh Borough Council | 0 | 2,000,000 | AA |
| Flintshire Council | 2,000,000 | 0 | AA |
| First Abu Dhabi Bank | 0 | 2,000,000 | AA |
| Goldman Sachs Investment Bank | 0 | 7,800,000 | A |
| Greater Manchester Combined Authority | 3,000,000 | 0 | AA |
| Lincoln City Council | 3,000,000 | 3,000,000 | AA |
| Lloyds Bank | 10,270,000 | 13,270,000 | A |
| North Lanarkshire Council | 0 | 5,500,000 | AA |
| Santander UK Bank | 2,000,000 | 2,000,000 | A |
| Slough Borough Council | 0 | 5,000,000 | AA |
| *Sub total* | 45,270,000 | 67,570,000 | |
| *Property Funds* | | | |
| Church Commissioners Local Authority | 5,041,755 | 5,000,000 | Not rated |
| *Sub total* | 5,041,755 | 5,000,000 | |
| *Other* | | | |
| Asset Investment Programme | 0 | 17,600,000 | Not rated |
| ***Total*** | **77,891,755** | **112,780,000** | |

The above table shows the level of placed as at 30 September 2019 and 31 March 2019, the last time Members were provided with this information.

**APPENDIX B**

## Major Economic Forecasts for Calendar Year 2019

### Original - February 2019

| Location | Gross Domestic Product | Unemployment Rate | Consumer Price Index | Bank Rate |
|---|---|---|---|---|
| **UK** | 1.6% | 3.7% | 2.0% | 1.25% |
| **Euro Area** | 2.1% | 7.5% | 1.9% | 0.25% |
| **USA** | 2.7% | 3.8% | 2.4% | 3.00% |
| **China** | 6.5% | 4.2% | 2.5% | 4.50% |

### Revised - September 2019

| Location | Gross Domestic Product | Unemployment Rate | Consumer Price Index | Bank Rate |
|---|---|---|---|---|
| **UK** | 1.2% | 3.7% | 2.0% | 0.75% |
| **Euro Area** | 1.1% | 7.4% | 1.2% | 0.00% |
| **USA** | 2.3% | 3.7% | 1.8% | 2.25% |
| **China** | 6.2% | 3.8% | 2.5% | 4.15% |

Source of information OECD & Trading Economics