

## Appendix C Treasury Management Interim Report (30 September 2019)

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in their Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

### 1. The UK Economy

- 1.1. The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll:
- The Bank of England base rate has been held at 0.75% since 02/08/18. The Monetary Policy Committee (MPC) is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.
  - Consumer price inflation (CPI) was 1.7% in August 2019, down from 2.1% in July 2019, this was below market expectations and below the 2% target set by the Bank of England.

### 2. The Council's Investments

- 2.1 At 30 September 2019 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount £m
<u>Instant access bank accounts:</u>				
Handlesbanken	N/A	N/A	0.68%	5.00
<u>Instant Access Money Market Funds:</u>				
Aberdeen Standard	N/A	N/A	0.74%	5.00
CCLA	N/A	N/A	0.73%	2.50
Federated	N/A	N/A	0.74%	5.00
Insight	N/A	N/A	0.66%	5.00
Invesco	N/A	N/A	0.71%	5.00
Morgan Stanley	N/A	N/A	0.65%	0.57
<u>95 Day Notice Bank Accounts:</u>				
Santander	N/A	N/A	1.50%	5.00
<u>Fixed Term Deposits:</u>				
Coventry Building Society	186 days	03/02/20	0.85%	5.00
<b>Total</b>			<b>0.83%</b>	<b>38.07</b>

- 2.2 The council continues to select counterparties suitable for investment based on the credit worthiness service provided by their treasury advisors, Link Asset Services. The service employs a sophisticated modelling approach utilising credit ratings from the three main credit

rating agencies. The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Capita Asset Services allocate a series of colour coded bands with suggested maximum durations for investments as shown below;

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

2.3 The council has earned interest on its investments as follows:

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £000	Budget £000	(Surplus) /Deficit £'000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-19	37.6	30	0.89	0.67	27	17	(10)
May-19	40.6	30	0.87	0.67	29	17	(12)
Jun-19	39.1	30	0.87	0.67	28	16	(12)
Jul-19	46.3	30	0.83	0.67	33	17	(16)
Aug-19	45.3	30	0.83	0.67	31	17	(14)
Sep-19	42.0	30	0.81	0.67	28	16	(12)
Oct-19	30.0	30	0.67	0.67	17	17	-
Nov-19	30.0	30	0.67	0.67	17	17	-
Dec-19	30.0	30	0.67	0.67	16	16	-
Jan-20	30.0	30	0.67	0.67	17	17	--
Feb-20	30.0	30	0.67	0.67	17	17	-
Mar-20	30.0	30	0.67	0.67	16	16	-
<b>Total</b>					<b>276</b>	<b>200</b>	<b>(76)</b>

2.4 Interest income earned has been higher than expected as the interest rate earned on investments has been slightly higher than budgeted and the average amount available for investment has been higher than anticipated, reflecting low actual capital spend to date and higher capital receipt balances held.

2.5 In addition to investment income the council earns interest on the provision of loan finance to the waste disposal PFI provider, this is expected to generate loan interest payable to us of £2.3m in 2019/20, this will be recharged through the waste disposal PFI arrangement.

### 3. The Council's Borrowing

#### Short-term borrowing

3.1 The council is continuing its policy of using short-term borrowing (if required) from other local authorities for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources avoiding a large cost of carry when comparing fixed interest debt to current (variable) investment rates.

3.2 The council can only borrow up to its Capital Financing Requirement, which represents the need to borrow for capital spend, and cannot borrow beyond this limit to finance the revenue budget. This is approved at budget setting in the Treasury Management Policy.

3.3 At the end of September 2019 there were no short-term loans outstanding.

#### **Long-term borrowing**

3.4 At 30 September 2019 the council held long term borrowing of £134.8m, no new long term borrowing has been secured. Rates are monitored and discussed with our treasury advisors to determine the optimum timing of securing any new long term borrowing.

3.5 The current capital financing budget position is summarised below:

<b>Summary of Borrowing Budget</b>	<b>Budget</b>	<b>Forecast</b>	<b>(Surplus) /Deficit</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Minimum revenue provision	6.9	6.5	(0.4)
Interest payable on all loans	5.7	5.4	(0.3)
<b>Total</b>	<b>12.6</b>	<b>11.9</b>	<b>(0.7)</b>

#### **4. Summary of forecast outturn**

4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £0.8m, the main reason being the delayed need to borrow, following lower capital investment spend compared to the capital budget approved in February.