Treasury Management Interim Report (31 December 2018)

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 slow progress made with the Brexit negotiations continue to have an impact on UK markets:

- The economy has not performed as well as expected so far in this quarter. Economic growth, which was robust in July, has backtracked as concerns around the possibility of a 'no deal' Brexit grow.
- On 02/08/18 the Bank of England raised the base rate from 0.50% to 0.75%.
- Consumer price inflation (CPI) was 2.3% in November 2018, down from 2.4% in August 2018 and the lowest inflation rate since March 2017.

2. The Council's Investments

2.1 At 31 December 2018 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount £m
Instant Access Money Market Funds:				
Federated	N/A	N/A	0.75%	5.00
Aberdeen Standard	N/A	N/A	0.75%	5.00
Insight	N/A	N/A	0.67%	2.45
Morgan Stanley	N/A	N/A	0.69%	4.45
Invesco	N/A	N/A	0.72%	5.00
95 Day Notice Bank Accounts:				
Santander	N/A	N/A	1.50%	5.00
Fixed Term Deposits:				
Eastleigh Borough Council	182 days	29/03/19	0.80%	5.00
Market Harborough Building Society	100 days	25/01/19	0.90%	5.00
Lancashire County Council	273 days	29/07/19	1.05%	5.00
London Borough of Harrow	112 days	25/03/19	0.80%	5.00
Total			**0.69%**	**46.90**

2.2 The higher level of investment balances shown above are due to the capital receipts received from the sale of the smallholding estate.

2.3 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
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

2.4 An investment was made on 17th October 2018 to a building society that is not on the Council's approved Counter Party List. The investment was for £5m to the Market Harborough Building Society for 100 days earning an interest rate of 0.90%. The investment is considered not a risk to the Council. An internal audit has been completed to review the controls in place at the time and how these did not prevent this investment from being actioned. The review has ascertained where controls need to be enhanced to prevent a repeat of this type of investment from being actioned in future. All internal audit recommendations have been adopted. The 2019/20 budget setting report includes reccommending to council for approval a revised treasury management strategy which will include the top five UK Building Society's as approved counterparties.

2.5 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-18	26.7	30	0.51	0.5	11	12	1
May-18	35.9	30	0.56	0.5	17	12	(5)
Jun-18	33.9	30	0.60	0.5	18	12	(6)
Jul-18	40.1	25	0.59	0.5	21	10	(11)
Aug-18	42.0	25	0.65	0.5	24	10	(14)
Sep-18	40.6	20	0.67	0.5	23	8	(15)
Oct-18	42.5	20	0.71	0.5	27	8	(19)
Nov-18	46.8	15	0.72	0.5	33	6	(27)
Dec-18	46.8	15	0.69	0.5	27	6	(21)
Jan-19	*40.0*	15	*0.60*	0.5	*20*	6	*(14)*
Feb-19	*40.0*	10	*0.60*	0.5	*20*	4	*(16)*
Mar-19	*40.0*	10	*0.60*	0.5	*20*	4	*(16)*
Total					***261***	**98**	***(163)***

2.6 Interest income earned has been higher than expected as the interest rate earned on investments has been slightly higher than budgeted, due to interest rate incresaes 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.

2.7 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 £2.6m in 2018/19, 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 to finance the revenue budget.

3.3 At the end of December 2018 there were no short-term loans outstanding.

Long-term borrowing

3.4 At 31 December 2018 the council held long term borrowing of £139.5m, no new long term borrowing has been secured. Rates are monitored and discussed with our treasury advisors to determine the timing of securing any new long term borrowing.

3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	(Surplus) /Deficit
	£m	£m	£m
Minimum revenue provision	7.8	6.7	(1.1)
Interest payable on all loans	6.1	5.6	(0.5)
Total	**13.9**	**12.3**	**(1.6)**

4. Summary of forecast outturn

4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £1.8m, the main reason being the delayed need to borrow, following higher cash balances being held, reduced the annual interest cost payable.