



Treasury Management Interim Report (31 December 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. Year-on-year growth in the three months to the end of September slowed to 1% from 1.3% in the second quarter, some of this was thought to be as the result of using the stockpiles which had been held in preparation for an EU exit earlier in the year.
- The Bank of England maintained the base rate at 0.75% following their December meeting.
 - The Consumer Prices Index (CPI) was 1.5% in November 2019, unchanged from October and remained below the 2% target set by the Bank of England.

2. The Council's Investments

- 2.1 At 31 December 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	0.73%	5.00
CCLA	N/A	N/A	0.73%	2.50
Deutsche	N/A	N/A	0.57%	2.46
Federated	N/A	N/A	0.73%	5.00
Insight	N/A	N/A	0.67%	5.00
Invesco	N/A	N/A	0.72%	4.64
Morgan Stanley	N/A	N/A	0.64%	3.21
<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
Total			0.80%	42.81

- 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	44.3	30	0.80	0.67	30	17	(13)
Nov-19	45.6	30	0.80	0.67	30	17	(13)
Dec-19	43.7	30	0.81	0.67	30	16	(14)
Jan-20	40.0	30	0.80	0.67	27	17	(10)
Feb-20	35.0	30	0.80	0.67	23	17	(6)
Mar-20	30.0	30	0.80	0.67	20	16	(4)
Total					336	200	(136)

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 December 2019 there were no short-term loans outstanding.

Long-term borrowing

3.4 At 31 December 2019 the council held long term borrowing of £133.9m, 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:

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

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 and higher investment balances being maintained. This follows lower cash capital investment spend to date compared to the capital investment budget approved in February.