

**REPORT TO:** Executive Board  
**DATE:** 14 November 2019  
**REPORTING OFFICER:** Operational Director – Finance  
**PORTFOLIO:** Resources  
**TITLE:** Treasury Management Half Year Report 2019-20  
**WARDS:** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

## **2.0 RECOMMENDED: That the report be noted.**

## **3.0 SUPPORTING INFORMATION**

### **Economic Outlook**

3.1 The following analysis of the economic situation has been provided by Link Asset Services, the Council's treasury management advisors.

3.2 During the six months ended 30 September 2019

- Brexit was delayed until 31 October 2019 and Boris Johnson Replaced Theresa May as Prime Minister
- The fundamentals that determine consumer spending remained healthy;
- Inflation fell below the Bank of England's 2% target;
- There was a widespread fall in investors' global interest rate expectations;
- The Monetary Policy Committee (MPC) kept the bank base rate on hold at 0.75%.

3.3 In the UK after only tepid annual economic growth of 1.4% in 2018, growth in quarter 1 of 2019 was unexpectedly strong at 0.5%. However, this was boosted by stock building by businesses ahead of the original March Brexit deadline, and resulted in a reduction of 0.2% in quarter 2.

3.4 We are unlikely to see any changes to the base rate from the Monetary Policy Committee until the uncertainties over Brexit clear. If there were a no deal exit, it is likely that bank base rate would be cut in order to support growth, but the MPC does have concerns over the trend in wage inflation which peaked at a

new post financial crisis high of 3.9% in June before edging back to 3.8% in July (excluding bonuses). Growth in employment fell to only 31,000 in the three months to July, well below the 2018 average, while the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

- 3.5 CPI inflation fell to 1.7% in August 2019 and is likely to remain close to 2% over the next two years. If there was a “no deal” Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.
- 3.6 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 2.1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.
- 3.7 In the USA President Trump’s massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018, which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but fell back to 2.0% in quarter 2
- 3.8 The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. After the Federal Reserve had increased rates by 0.25% in December 2018 to 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July and September in order to counter the downturn in the outlook for US and world growth. There are expectations that it could be cut again in December.
- 3.9 In the Eurozone the annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all now ended their post financial crisis support for the financial markets through the purchase of debt. 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 to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels at least through to the end of 2019.

## Interest Rate Forecast

3.10 The following interest rate forecast has been provided by Link Asset Services.

Link Asset Services Interest Rate View											
	Sep-19	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	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	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	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

## Short Term Borrowing Rates

3.11 The bank base rate remained at 0.75% since 2<sup>nd</sup> August 2018.

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
Call Money (Market)	0.67	0.68	0.68	0.67	0.67	0.68	0.66
1 Month (Market)	0.73	0.73	0.73	0.72	0.71	0.71	0.72
3 Month (Market)	0.85	0.82	0.80	0.77	0.77	0.76	0.76

## Longer Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
1 Year (Market)	1.06	1.10	1.00	0.95	0.85	0.84	0.89
10 Year (PWLB)	1.89	2.06	1.73	1.71	1.54	1.24	1.30
25 Year (PWLB)	2.40	2.54	2.30	2.30	2.22	1.82	1.83

3.12 Market rates are based on LIBOR rates and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

3.13 It should be noted that on 9 October 2019, the Treasury announced a 1% increase in PWLB rates with immediate effect. Any future borrowing planned by the Council will therefore be at the new higher rate.

## Borrowing and Investments

### Turnover during the period

	No of deals	Turnover £m
Short Term Borrowing	-	-
Short Term Investments	7	75

### Position at month end

	Mar £m	Apr £m	May £m	Jun £m	Jul £m	Aug £m	Sep £m
Total Borrowing	172	172	172	172	172	172	172
Total Investments	(80)	(80)	(105)	(105)	(110)	(110)	(105)
Call Account Balance	(17)	(23)	(25)	(25)	(18)	(19)	(22)

### Investment benchmarking

Benchmark	Benchmark Return %	Performance Apr - Sep %	Investment Interest Earned £000
7 day	0.57	0.69	69
1 month	0.60	-	-
3 months	0.66	1.06	112
6 months	0.73	0.93	25
12 months	0.83	1.15	257
Over 12 months		1.36	169
Property Fund		3.99	100
<b>Total</b>			<b>732</b>

- 3.14 This shows the Council has over achieved on all benchmarks for the first 6 months of the year. There are no benchmarks available for the Council's investment in the CCLA property fund, or for investments held over 12 months.

## Budget Monitoring

<b>Net Interest at 30th September 2019</b>			
	<b>Budget Year to Date £000</b>	<b>Actual Year to Date £000</b>	<b>Variance (o/spend) £000</b>
Investment	(528)	(732)	205
Borrowing	550	550	-
<b>Total</b>	<b>22</b>	<b>(183)</b>	<b>205</b>

### New Long Term Borrowing

3.15 No new long term borrowing has been taken in this period.

### Policy Guidelines

3.16 The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.17 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with Sector's credit rating methodology.

### Treasury Management Indicators

3.18 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

3.19 Between 20 March 2019 and 19 September 2019 the Council held £25m of investments with Thurrock Council. The limit for a Local Authority counterparty was lowered to £20m in the 2018/19 strategy statement meaning the Council broke the Counterparty limit by £5m. This was done in error and the 5m investment was not renewed on 19 September to bring the Council's investments within the Counterparty limits.

### Debt Rescheduling

3.20 No debt rescheduling was undertaken during the quarter.

#### **4.0 POLICY IMPLICATIONS**

4.1 None.

#### **5.0 FINANCIAL IMPLICATIONS**

5.1 The financial implications are as set out in the report.

#### **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

#### **7.0 RISK ANALYSIS**

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

#### **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 None.

#### **9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

9.1 There are no background papers under the meaning of the Act.

## Treasury and Prudential Indicators – 2019/20 – Quarter 2

Prudential Indicators	2018/19	2019/20	
	Full Year Actual £000	Original Estimate £000	Quarter 2 Estimate £000
Capital Expenditure	21,901	19,565	46,330
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	3,254	10,591	22,944
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	(14,817)	(4,464)	7,887
Ratio of Financing Costs to Net Revenue Stream <i>(Proportion of cost of borrowing to Council's net revenue)</i>	2.0%	1.5%	1.6%
External Debt	172,000	172,000	172,000
Operational Boundary <i>(Limit of which external debit is not expected to exceed)</i>	856,312	841,500	841,500
Authorised Limit <i>(Limit beyond which external debit is prohibited)</i>	926,312	889,540	889,540

Maximum Principal invested > 365 days	Investment Limit £000	2018/19	2019/20
		Actual £000	Estimate £000
Principal Sums Invested over 365 days	40,000	25,000	25,000