

---

<b>Subject:</b>	<b>TREASURY MANAGEMENT QUARTER 3 REPORT 2018/19</b>
<b>Meeting and Date:</b>	<b>Governance – 14 March 2019</b>
<b>Report of:</b>	<b>Mike Davis – Strategic Director (Corporate Resources)</b>
<b>Portfolio Holder:</b>	<b>Councillor Mike Conolly – Portfolio Holder for Corporate Resources and Performance</b>
<b>Decision Type:</b>	<b>Non-Key Decision</b>
<b>Classification:</b>	<b>Unrestricted</b>

---

**Purpose of the report:** To provide details of the Council's treasury management for the quarter ended 31 December 2019 (Q3) and an update of activity to date.

---

**Recommendation:** That the report is received.

---

## 1. Summary

- 1.1 The Council's investment return for the period to December was 2.05% (annualised), which outperformed the benchmark<sup>1</sup> by 1.40%. Interest and dividends income achieved for the period was £859k; the year-to-date (YTD) budget is £749k. The Council's projected investment return for 2018/19 is £1,254k, which is £255k better than the original budget estimate of £999k. This improvement is due to additional funds being invested in pooled investment funds, as detailed below.
- 1.2 The Council has remained within its Treasury Management guidelines and has complied with the Prudential Code guidelines during the period.

## 2. Introduction and Background

- 2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.
- 2.2 Council adopted the 2018/19 Treasury Management Strategy (TMS) on 7th March 2018 as part of the 2018/19 Budget and Medium Term Financial Plan.
- 2.3 In order to comply with the CIPFA code referred to above, a brief summary is provided below and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.
- 2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but in

---

<sup>1</sup> The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.74 at the end of the quarter.

order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

### 3. Economic Background

3.1 The report attached (Appendix 1) contains information up to the end of December 2018; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

*“Main points since December:*

- i. The uncertain political situation surrounding Brexit has produced the prospect of divergent paths for UK monetary policy.*
- ii. Recent political manoeuvrings appear aimed at avoiding the worst-case Brexit scenarios, which may suggest reduced downside risks to the economic outlook and the interest rate forecast.*
- iii. The MPC bias towards tighter monetary policy remains, but appears to have eased a little on the back of slower global and UK growth/inflation expectations. Policymakers are unlikely to raise Bank Rate unless there is a withdrawal arrangement and the prospect of a transitional period.*
- iv. Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for stronger growth following an extension to Article 50 or a withdrawal agreement as business investment/general confidence recovers. The potential for severe economic outcomes in the short term is uncomfortably higher than it should be. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.*
- v. The UK economic environment appears relatively soft, despite seemingly strong labour market data. Uncertainty surrounding Brexit and global growth is damaging consumer and business sentiment. GDP growth slowed markedly in Q4 2018 and has not recovered in Q1 2019. Our view is that the UK economy faces a challenging outlook as the country exits the European Union and Eurozone/global economic growth softens; notwithstanding a possible short term bounce in activity should a Brexit deal be agreed.*
- vi. Cost pressures have eased due to a fall in oil prices. The apparent tight labour market risks longer term domestically-driven inflationary pressure whatever the external inflation effects. Wage growth has picked up in recent months.*
- vii. Global economic growth has eased and the economic/political outlook has prompted central banks to reduce expectations for on-going monetary tightening. Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.*

#### **4. Annual Investment Strategy**

- 4.1 The investment portfolio, as at the end of December 2018, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £51.2m, decreasing to £49.1m at the end of February (see Appendix 4). The decrease reflects normal cash-flow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.
- 4.2 As at 31 December 2018, the Council's investment portfolio totalled £45m (see Appendix 2). Cashflow funds were higher than anticipated (£6.4m at 31 December 2018) as a further £2m was invested in the Columbia Threadneedle Strategic bond fund. It is proposed that the additional income generated from these additional investments is transferred to the Special Projects reserve to support future funding for projects.
- 4.3 Cashflow funds have since decreased (to £1.1m at 28 February 2019) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as required, instead of holding excess funds in call accounts.
- 4.4 Since the end of the quarter the Council has invested a further £8m in pooled investment funds, opening a new fund with KAMES Capital on the 28<sup>th</sup> February 2019.

#### **5. New Borrowing**

- 5.1 During the quarter the Council was invited to submit a bid to repurchase its LOBO loan as KA Finanz had decided to sell their LOBO (Lender Option Borrower Option) portfolio. The LOBO was held at an interest rate of 4.75% and had 25 years remaining on the loan. An assessment of the long term costs of the LOBO compared to alternative borrowing options was undertaken and a bid of £3.6m was submitted to the auction process. This bid was successful and the Council no longer holds any LOBO loans.
- 5.2 The refinancing of the LOBO will be initially financed from DDC cashflow. It is not proposed to undertake new long term borrowing to offset this at this time. However, short term borrowing may be undertaken as part of the Council's strategic cash management objectives.
- 5.3 The Council's borrowing portfolio is attached at Appendix 3. A £5 million short term loan was taken out with Hampshire County Council on the 17 December 2018 as part of the Council's strategic cash management objectives. This will be repaid on the 16 December 2019.

#### **6. Debt Rescheduling**

- 6.1 At this time it is not of benefit to the Council to consider any further rescheduling of its long-term debt.

#### **7. Compliance with Treasury and Prudential Limits**

- 7.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

8. **Appendices**

Appendix 1 – Arlingclose treasury management report for quarter two

Appendix 2 – Investment portfolio as at 31 December 2018

Appendix 3 – Borrowing portfolio as at 31 December 2018

Appendix 4 – Investment portfolio as at 28 February 2019

9. **Background Papers**

Medium Term Financial Plan 2018/19 – 2021/22

Contact Officer: Dani Loxton, extension 2285