Subject:	**TREASURY MANAGEMENT YEAR-END REPORT 2018/19**
Meeting and Date:	**Cabinet – 2 September 2019** **Governance Committee – 26 September 2019**
Report of:	**Mike Davis, Strategic Director (Corporate Resources)**
Portfolio Holder:	**Councillor Stephen Manion, Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 31 March 2019 (Q4) 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 March was 2.16% (annualised), which outperformed the benchmark[1] by 1.49%. The total interest and dividends income received for the year was £1,159k, which is £160k 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 order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

1 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.

3. **Economic Background**

3.1 The report attached (Appendix 1) contains information up to the end of March 2019; 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 March:

i. *In August 2019 the Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. In the last few months, global trade tensions have intensified, leading to a decline in forward interest rates in the UK. An increase in the perceived likelihood of a no-deal Brexit has further lowered UK interest rates and has led to a depreciation of the sterling exchange rate.*

ii. *After growing by 0.5% in 2019 Q1, GDP is expected to have been flat in Q2, slightly weaker than anticipated in May. Brexit-related developments, such as stock building ahead of previous deadlines, are making UK data volatile. In addition, Brexit-related uncertainties have been weighing on business investment.*

iii. *CPI inflation was at the 2.0% target in June and is expected to decline below the MPC's 2% target in the near term, due to energy prices declining. The unemployment rate fell slightly in the three months to May, to 3.8%, a little lower than expected in the May Report. Annual pay growth has been relatively strong in recent months.*

iv. *The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction.*

Key issues in the Bank of England Inflation Report

i. ***MPC's key judgements:*** *While global activity has weakened and sentiment has deteriorated, looser financial conditions support the return of world growth to its potential rate in the medium term. On the conditioning assumption that there is a smooth Brexit, UK demand growth recovers after softening in the near term. As GDP growth recovers to above the subdued rate of potential supply growth, excess demand and domestic inflationary pressures build.*

ii. ***Global economic and financial market developments:*** *The outlook for global growth has deteriorated a little, in part reflecting escalating trade tensions. The market path for interest rates has fallen further in the UK since May, as in other advanced economies. The probability that market participants attach to a no-deal Brexit has increased. This has contributed to the lower path for UK interest rates and the 4% depreciation of sterling.*

iii. ***Demand and output:*** *Output growth was volatile in 2019 Q1, largely driven by Brexit-related stock building. Looking through the volatility, underlying output growth appears to have slowed relative to 2018, reflecting the impact of Brexit-related uncertainties and weaker global growth. UK GDP growth has been driven largely by consumption growth. Underlying UK GDP growth has softened to*

below-potential rates, reflecting weaker global growth as well as the impact of Brexit-related uncertainties. Growth is expected to remain subdued in coming quarters, as those uncertainties have intensified over the past few months and are assumed to remain elevated in the near term.

iv. ***The labour market and supply:*** *While employment growth has softened, the labour market remains tight. Pay growth has risen to its highest rate since 2008. Productivity growth has remained weak,*

v. ***Outlook for inflation:*** *CPI inflation was at the 2.0% target in June. CPI inflation is projected to fall temporarily below the MPC's 2% target over the second half of 2019 as energy prices decline. Conditioned on a smooth withdrawal of the UK from the EU, Brexit-related uncertainties are assumed to subside over the forecast period. Together with a boost from looser monetary conditions, the decline in uncertainties leads to a recovery in demand growth to robust rates. As a result, excess demand and domestic inflationary pressures build. CPI inflation picks up to materially above the MPC's 2% target by the end of the forecast period. In the event of a Brexit deal, sterling would be likely to appreciate and market interest rates and UK-focused equity prices to rise.*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of March 2019, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £51.7m, increasing to £52.6m at the end of July (see Appendix 4). The increase 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 March 2019, the Council's investment portfolio totalled £48m (see Appendix 2). Cashflow funds were higher than anticipated (£3.7m at 31 March 2019). A £5m fixed-term deposit matured in January, and £8m was invested in Kames Capital Monthly Diversified Income Fund. It is proposed that the extra 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 increased (to £4.6m at 31 July 2019) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of March 2019 the Council had £23.5 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives. As at 31st July the Council held £17m in short term borrowing.

6. Debt Rescheduling

6.1 During the year the Council was invited to submit a bid to repurchase its LOBO (Lender Option Borrower Option) loan as KA Finanz had decided to sell their LOBO 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.

6.2 At this time it is not considered of benefit to the Council to undertake 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. Corporate Implications

8.1 Comment from the Section 151 Officer: Finance have produced this report and have no further comments to add. (DL)

8.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

8.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15.

9. Appendices

Appendix 1 – Arlingclose treasury management report for quarter four 2018/19

Appendix 2 – Investment portfolio as at 31 March 2019

Appendix 3 – Borrowing portfolio as at 31 March 2019

Appendix 4 – Investment portfolio as at 31 July 2019

10. Background Papers

Medium-Term Financial Plan 2018/19–2021/22

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