
Subject:	TREASURY MANAGEMENT QUARTER ONE REPORT 2019/20
Meeting and Date:	Governance Committee – 26 September 2019
Report of:	Helen Lamb – Head of Finance and Housing
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 30 June 2019 (Q1) and an update of activity to date.
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Recommendation:	That the report is received.
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1. Summary

- 1.1 The Council's investment return for the period to June was 3.74% (annualised), which outperformed the benchmark¹ by 2.98%. The total forecast interest and dividends income for the year £1,734k, which is £90k less than the original budget estimate of £1,824k. This reduction is due to not investing anything further in pooled investment funds during the first quarter due to a reduction in cashflow funds..
- 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 2019/20 Treasury Management Strategy (TMS) on 6th March 2019 as part of the 2019/20 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 June 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 June:

- I. The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.*
- II. There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.*
- III. New UK Prime Minister Boris Johnson has pledged to exit the EU on 31st October with or without a deal. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline. The probability of a no-deal EU exit has therefore increased, which has implications for the future path of interest rates.*
- IV. UK economic growth has stalled after a relatively strong Q1 2019. The ONS reported a Q2 growth rate of -0.2%. The MPC has downgraded its growth forecasts for future years.*
- V. While the potential for divergent paths for UK monetary policy remain in the event of a withdrawal agreement, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy.*
- VI. Inflation remains around target. The tight labour market risks medium-term domestically-driven inflationary pressure. Slower global growth should reduce the prospect of externally driven inflationary pressure, although political turmoil could push up oil prices.*
- VII. 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 June 2019, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £49.6m, increasing to £55.3m at the end of Aug (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 30 June 2019, the Council's investment portfolio totalled £48m (see Appendix 2). Cashflow funds were lower than anticipated (£1.7m at 30 June 2019). No further investments have been made in the quarter.

4.3 Cashflow funds have since increased (to £7.3m at 31 August 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 June 2019 the Council had £17 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

6. **Debt Rescheduling**

6.1 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. **Appendices**

Appendix 1 – Arlingclose Treasury Management Report for Quarter One 2019/20

Appendix 2 – Investment portfolio as at 30 June 2019

Appendix 3 – Borrowing portfolio as at 30 June 2019

Appendix 4 – Investment portfolio as at 31 August 2019

9. **Background Papers**

Medium Term Financial Plan 2019/20 – 2022/23

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