
Subject:	TREASURY MANAGEMENT QUARTER TWO REPORT 2019/20
Meeting and Date:	Cabinet – 13 January 2020 Governance – 21 January 2020
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 September 2019 (Q2) 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 September was 3.09% (annualised), which outperformed the benchmark¹ by 2.42%. The total forecast interest and dividends income for the year £1,675k, which is £149k less than the original budget estimate of £1,824k. This reduction is due to withholding the decision to invest in further pooled funds due to uncertainty around Brexit and the political and global economic climate.
- 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

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 0.67 at the end of the quarter.

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.

3. **Economic Background**

- 3.1 The report attached (Appendix 1) contains information up to the end of September 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 September:

- I. The global economy is entering a period of slower growth in response to political issues, including 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 are low.*
- II. Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and up beat expectations have been wrong before.*
- III. Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.*
- IV. UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.*
- V. While the potential for divergent paths for UK monetary policy remain in the event of the General Election result 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. Indeed, two MPC members voted for an immediate cut in November 2019.*
- VI. Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven 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 September 2019, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £53.9m, increasing to £57.3m at the end of November (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 September 2019, the Council's investment portfolio totalled £48m (see Appendix 2). Cashflow funds were higher than anticipated (£5.9m at 30 September 2019). No further investments have been made in the quarter.

4.3 Cashflow funds have since increased (to £9.3m at 30 November 2019) due to normal cashflow fluctuations.

5. **New Borrowing**

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of September 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. **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. (HR)

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>. (KS)

9. **Appendices**

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

Appendix 2 – Investment portfolio as at 30 September 2019

Appendix 3 – Borrowing portfolio as at 30 September 2019

Appendix 4 – Investment portfolio as at 30 November 2019

10. **Background Papers**

Medium Term Financial Plan 2019/20 – 2022/23

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