Subject:	**TREASURY MANAGEMENT QUARTER THREE REPORT 2019/20**
Meeting and Date:	**Governance Committee – 19 March 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 31 December 2020 (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 3.03% (annualised), which outperformed the benchmark[1] by 2.37%. The total forecast interest and dividends income for the year £1,678k, which is £146k less than the original budget estimate of £1,824k. This reduction is due to deciding not investing anything further in pooled investment 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 0.67 at the end of the quarter.

3. **Economic Background**

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

I. The global economic outlook has rapidly deteriorated with the escalation and spread of coronavirus (COVID-19) to all regions and concerns over its scale and longevity. The economic shock is affecting both supply and demand sides of economies through disruption to trade; containment efforts by governments, corporates and individuals and the damage to sentiment could halve global growth from 2.9% to 1.5% in 2020 (OECD), with a worst-case scenario of a sharper contraction and global recession.

II. Central banks have already responded in the US, Canada and Australia with interest rate cuts. Outgoing Bank of England Governor has commented the Bank's response will be "powerful and timely" and we expect the MPC to deliver two 0.25% reductions in quick succession, the first imminently at an emergency meeting this month.

III. The government will outline its public spending intentions in the March Budget and undertake substantial fiscal loosening in 2020/21. The Chancellor is now also expected to announce a package of measures to ease COVID-19's pressure on the health service, consumers and businesses. Nevertheless, activity will also hinge on COVID-19's global economic damage and outcome.

IV. Chinese activity remains impaired despite a slowdown in cases. As one of the main drivers of global economic growth and its integral position in many global supply chains, a persistent downturn in its economy is having a global spill-over and wide-ranging ramifications.

V. The UK economy is likely to face issues with supply, due to the global impact on supply chains, and demand, as individuals travel less frequently for both work and leisure. Economic growth will therefore be weak for H1 2020.

VI. Prior to the virus, the more stable political environment had prompted a partial return in business and household confidence, and a bounce in economic activity and inflation. Whether this can be maintained or at least returned to during this year depends on the extent and duration of the virus impact.

VII. Coronavirus has rapidly become the major source of economic uncertainty arising from disrupted global supply, falling demand and the effects of containment measures by governments and households.

VIII. Arlingclose expects the MPC to deliver two 0.25% cuts in Bank Rate in quick succession, the first at an emergency meeting this month. The downside risk is for Bank Rate to fall to zero.

IX. The Chancellor is expected to likely announce additional fiscal measures in the March Budget to directly address COVID-19's impact on the health service, individuals and companies. Other governments will do likewise.

X. Gilt yields could fall further, perhaps into negative territory, and remain low in the near term due to the pessimistic UK and global economic outlooks and damage to sentiment from coronavirus.

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of December 2019, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £55.4m, decreasing to £51m at the end of February (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 December 2019, the Council's investment portfolio totalled £50m an increase of £2m (see Appendix 2). Cashflow funds were higher than anticipated (£5.4m at 31 December 2019). A further £2m has been investing in the KAMES Capital pooled investment fund in the quarter.

4.3 Cashflow funds have since decreased (to £1m at 29 February 2020) 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 December 2019, the Council had £12 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 Three 2019/20

Appendix 2 – Investment portfolio as at 30 December 2019

Appendix 3 – Borrowing portfolio as at 30 December 2019

Appendix 4 – Investment portfolio as at 29 February 2020

9. Background Papers

Medium Term Financial Plan 2019/20 – 2022/23

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