Subject:	**TREASURY MANAGEMENT YEAR END REPORT 2019/20**
Meeting and Date:	**Governance Committee – 30 July 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 March 2020 (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 2.97% (annualised), which outperformed the benchmark[1] by 2.34%. The total forecast interest and dividends income for the year £1,710k, which is £114k less than the original budget estimate of £1,824k. This reduction is due to postponing the additional investment in pooled investment funds until December 2019.

1.2 The Council remained within the majority of its Treasury Management guidelines and complied with the Prudential Code guidelines during the period. The only exception was the limit on short term borrowing which was exceeded at the end of March due to retaining additional cashflow funds whilst assessing the potential cashflow impact of the Coronavirus lockdown.

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 March 2020; 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. *The medium-term global economic outlook is exceedingly weak. While containment measures taken by national governments in response to coronavirus (COVID-19) are being eased, it is likely to be some time before demand recovers to pre-crisis levels due to increased unemployment, the on-going need for virus control measures and the impact on consumer/business confidence*.

ii. *The global central bank and government responses have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. The economic bounce in the second half of the year could be significant, as businesses currently dormant begin production/supply services once more.*

iii. *However, the scale of the economic shock to demand and the probable on-going social distancing measures necessary before/if a vaccine is produced will mean that the subsequent pace of recovery is limited. Early signs of this are evident in recent UK monthly GDP data for May, which showed a lower than expected 1.8% rise, following April's 20% fall. The UK economy's reliance on the hard-hit services sector dampens the outlook.*

iv. *This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Following fence-sitting by MPC members, money markets have priced in a more significant chance of negative Bank Rate.*

v. *Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation.*

vi. *Arlingclose expects Bank Rate to remain at the current 0.10% level.*

vii. *We expect additional monetary loosening in the future, most likely through further financial asset purchases. While our central case for Bank Rate is no change, we cannot rule out further cuts to Bank Rate to zero or even into negative territory.*

viii. *Gilt yields will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth prospects improve.*

ix. *Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances.*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of March 2020, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £60.2m, increasing to £72.5m at the end of June (see Appendix 4). The increase reflects normal cashflow 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 2020, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£10.2m at 31 March 2020).

4.3 Cashflow funds have since increased (to £22.5m at 30 June 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 March 2020, the Council had £29 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 Year End 2019/20

Appendix 2 – Investment portfolio as at 31 March 2020

Appendix 3 – Borrowing portfolio as at 31 March 2020

Appendix 4 – Investment portfolio as at 29 February 2020

9. Background Papers

Medium Term Financial Plan 2019/20 – 2022/23

Contact Officer: Dani Loxton, extension 2285