

Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Treasury Management Six Month Performance Review

Meeting/Date: Council – 4th December 2019

Executive Portfolio: Executive Councillor for Strategic Resources, Councillor J A Gray

Report by: Finance Manager (Section 151 Officer)

Ward(s) affected: All Wards

Executive Summary:

Best practice and prescribed treasury management guidance requires Members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

The Council's 2019/20 Treasury Management Strategy was approved by the Council on the 27th February 2019 and this report sets out the Treasury Performance for period between 1st April 2019 and 30th September 2019.

The main purpose of Treasury Management is to;

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are considered to be low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues through the first half of 2019/20 influencing the Council's decision-making were;

- Economic growth forecasts are still more pessimistic due to the Brexit uncertainty, and real wage growth was up to 1.9% excluding bonuses after adjusting for inflation. The unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%.
- Politics at home and abroad continued to be a big driver of financial markets over the last quarter. We have had a new Prime Minister- Boris Johnson since the last report was presented to the Cabinet.

- The Bank of England has maintained Bank Rate at 0.75%, and its August Inflation Report indicated the deterioration in global activity and sentiment. Therefore, the direction of interest rates could be in either direction depending on whether or not a deal is reached.
- Market rates as a whole are very low, due to the Bank Rate remaining historically low, reducing the Council's ability to earn a return on investments without increasing the risk of the investments. The Council's average investing rate was 0.59% (average interest rates obtained from Bank Deposits and Money Market Funds).

The Council's responses to the key issues were;

- When the Council has surplus funds these will primarily be invested on a short term basis, in bank deposit accounts and money market funds.
- Where possible to take a higher return without sacrificing liquidity.
- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing, based on gilt yields over a long period. The average interest rate paid was 2.76%.
- Where economic conditions are forecast to deteriorate it is vital to monitor financial institutions credit rating, and credit default swap rates (the cost to insure lending). This information is provided by the Council's treasury adviser- Arlingclose.

The Council's Commercial Investment Strategy (CIS)

The Commercial Investment Strategy commenced in 2015/16. Indicators relating to the investments are shown in **Appendix A section 3.5**.

The returns from the CIS portfolio represent a higher return than those from financial institutions and in addition offer a less risky investment as they are backed by a physical asset.

These investments generated £2.8m of investment income for the Council in 2018/19 after taking account of direct costs, representing a rate of return of 6.1%. The breakdown of the properties portfolio is shown in **Table 6** and the proportion of the investment income in relation to gross service expenditure, in **Table 7 of Appendix A**.

Recommendation(s):

The Council is recommended to

- Note the treasury management performance for the first 6 months of 2019/20 and to recommend the report to Council for consideration.

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to update Members on the Council's treasury management activity for the first 6 months of the year, including investment and borrowing activity and treasury performance.

2. BACKGROUND

- 2.1 It is regarded as best practice and prescribed treasury management practice, that Members are kept up to date with treasury management activity.
- 2.2 The Council approved the 2019/20 Treasury Management Strategy at its meeting on 27th February 2019.
- 2.3 All treasury management activity undertaken during the first half of 2019/20 complied with the CIPFA Code of Practice and relevant legislative provisions.
- 2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

3. ANALYSIS

Economic Review

- 3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A section 2.0**. The main relevance to the Council is
- Economic growth still remains very low and the quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2%.
 - Real wage growth improved by 1.9% excluding the bonuses and 2.1% if bonuses were included. Employment growth has been softening and rose just by 31,000 in the three month to July.
 - Inflation fell to 1.7% year/year in August. This was below the Bank of England forecast.
 - The bank rate was kept at 0.75%. As a consequence the Council's borrowing costs will remain low but the opportunities to make significant returns on financial investments remain limited but improving.
 - Politics both at home abroad were still a big driver of financial markets over the last quarter.

Performance of Council Funds

- 3.2 The treasury management transactions undertaken during the first 6 months of 2019/20 financial year and the details of the investments and

loans held as at 30th September 2019 are shown in detail in **Appendix A section 3.0 to 3.2.**

Risk Management

- 3.3 The Council's primary objectives for the management of its investment are to give priority to the security and liquidity (how quickly cash can be accessed) of its funds before seeking the best rate of return. For more details see **Appendix A section 3.3.**

Readiness for Brexit

- 3.4 The scheduled date for the UK to leave the EU is now 31st October 2019 and there remains little political clarity as to whether a deal will be agreed by this date. The step being taking by this Council to ensure money invested in Money Market Funds are secure is stated in **Appendix A section 3.4.**

Non Treasury Investments

- 3.5 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non financial assets which the Council holds primarily for financial return. The full details of these investments can be found on **Section 3.5 of Appendix A.**

Compliance

- 4.0 Compliance with specific investment and debt limits are indicated in table **8 and 9 of Appendix A.**

Treasury Management Indicators

- 5.0 The Council measures and manages its exposure to treasury management risks using indicators which are details in the **Appendix A section 5.0.**

6. COMMENTS OF OVERVIEW AND SCRUTINY

- 6.1 The Panel received the Treasury Management Six Month Performance Review at its meeting on 5th November 2019.
- 6.2 Following a query on long term borrowing, the Executive Councillor for Resources stated that borrowing was predominantly for property purchases under the Commercial Investment Strategy (CIS).
- 6.3 The issue of the current CIS property values was raised. It was recognised that this is a technical accounting exercise and what is shown is the current property values before new leases are negotiated and in place.

List of Appendices Included

Appendix A

- Economic review (source: Arlingclose)
- Borrowing and Investment as at 30th September 2019
- Risk Management
- Readiness for Brexit
- Non-treasury Investments
- Treasury Management Indicators
- Outlook for the remainder of 2019/20

Appendix B


- Capital Prudential Indicators

Appendix C


- Glossary

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