

<b>Report to:</b>	Council	<b>Date of Meeting:</b>	23 January 2020
<b>Subject:</b>	Revenue and Capital Budget Update - Treasury Management Position to October 2019		
<b>Report of:</b>	Head of Corporate Resources	<b>Wards Affected:</b>	All Wards
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	No	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

This report provides Members with a review of the Treasury Management activities undertaken to 31<sup>st</sup> October 2019. This document is the second report of the ongoing quarterly monitoring provided to Audit & Governance Committee and the mid-year report to Cabinet and Council, whose role it is to carry out scrutiny of treasury management policies and practices.

### Recommendation(s):

Members are requested to note the Treasury Management update to 31<sup>st</sup> October 2019, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

### Reasons for the Recommendation(s):

To ensure that Members are fully appraised of the treasury activity undertaken to 31<sup>st</sup> October 2019 and to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

### Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

### What will it cost and how will it be financed?

#### (A) Revenue Costs

The financial position on the external investment budget to the end of October indicates a surplus to the end of the period. The forecast to the end of the financial year also shows that investment income will exceed the level set in the budget.

**(B) Capital Costs**

None.

**Implications of the Proposals:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> External Interest is forecast to exceed the target for the year.
<b>Legal Implications:</b> The Council has a statutory duty to review its Treasury Management activities from time to time during the financial year.
<b>Equality Implications:</b>  None.

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

**What consultations have taken place on the proposals and when?**

**(A) Internal Consultations**

The Head of Corporate Resources (FD5848/19) and Chief Legal and Democratic Officer (LD4082/19) have been consulted and any comments have been incorporated into the report.

**(B) External Consultations N/A**

## Implementation Date for the Decision

With immediate effect.

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### Appendices:

There are no appendices to this report

### Background Papers:

There are no background papers available for inspection.

## 1. Background to the Report

- 1.1. As recommended under CIPFA's revised 2017 Code of Practice on Treasury Management in Public Services, the Council's Treasury Management Policy and Strategy document for 2019/20 (approved by Council on 28<sup>th</sup> February 2019) included a requirement for regular updates to be provided on the investment activity of the Authority. This report is the second of such reports for the year and presents relevant Treasury Management information for the period ending 31<sup>st</sup> October 2019.
- 1.2. The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy and Strategy and the Council's approved Prudential Indicators (the operational boundaries within which the Council aims to work).

## 2. Investments Held

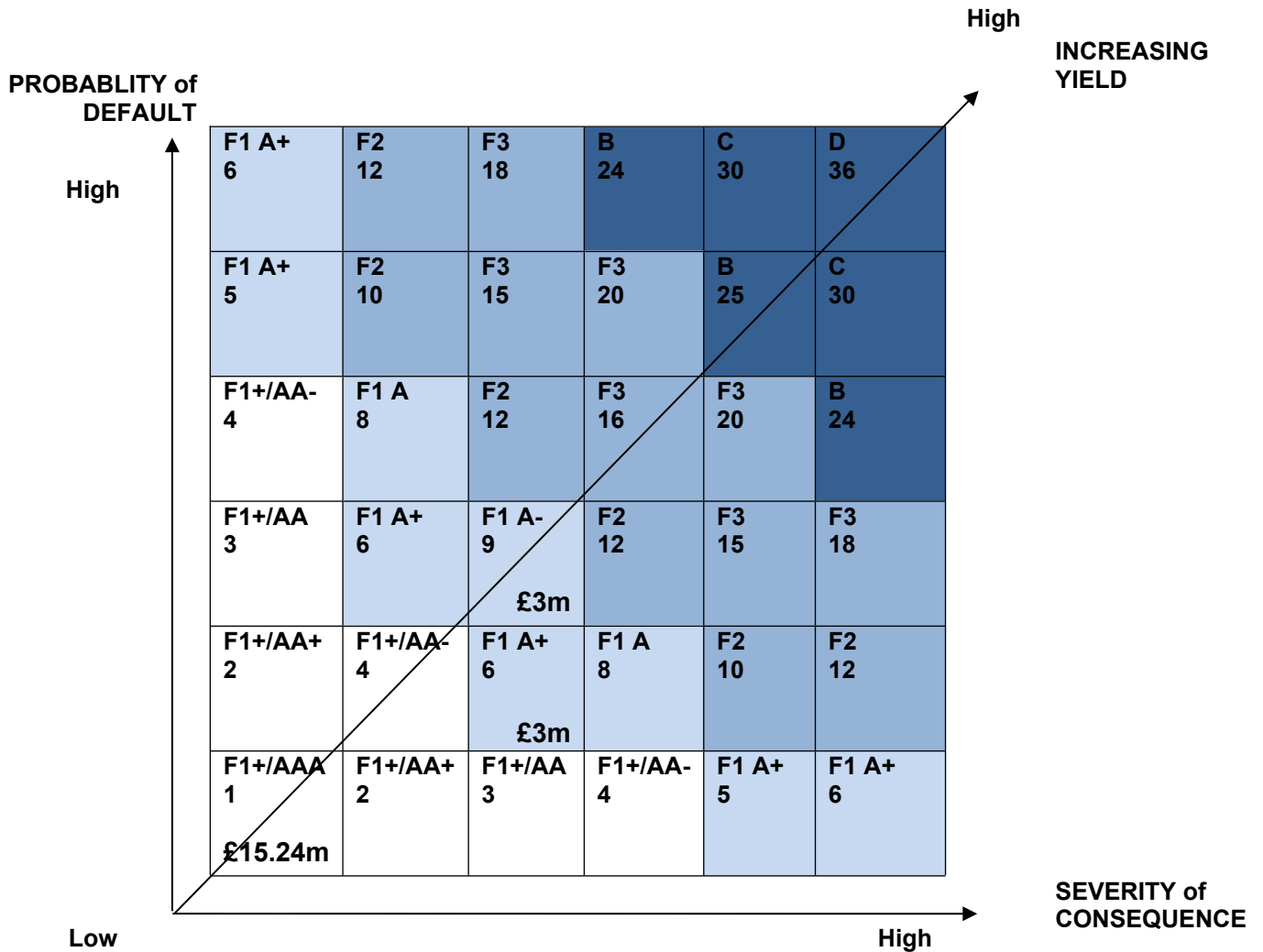
- 2.1. Investments held at the 31/10/2019 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
<b>Money Market Funds:</b>				
Aberdeen	2.44	0.68	n/a	AAA
Aviva	2.62	0.72	n/a	AAA
BNP Paribas	2.59	0.71	n/a	AAA
Goldman Sachs	0.77	0.67	n/a	AAA
Invesco	2.62	0.72	n/a	AAA
Federated Investors	2.10	0.73	n/a	AAA
Insight	2.10	0.72	n/a	AAA
Total	15.24			

Institution	Deposit £m	Rate %	Maturity	Rating
<b>Fixed Term Deposits:</b>				
Lloyds	3.00	1.05	10/02/2020	A+
Coventry Building Society	3.00	0.92	11/11/2019	A-
Total	6.00			
<b>Property Fund:</b>				
CCLA	5.00	4.24	n/a	n/a
Total	5.00			
<b>TOTAL INVESTMENTS</b>	<b>26.24</b>			

- 2.2. All of the investments made since April 2019 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case economic conditions change, a day to day operational maximum of 10% of the total portfolio is currently being imposed. This will spread the risk of investments for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.
- 2.3. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 2.6).
- 2.4. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is currently more buoyant than the north. The Council has in effect bought a share of the property portfolio, and returns paid are in the region of 4%. This is a long-term investment with the potential for capital growth of the investment as property prices potentially increase.
- 2.5. The Net Asset Value of the Property Fund has increased from 303.64p per unit to 303.84p per unit over a 12-month period to September 2019, an increase of 0.1% in the value of the Council's investment.

2.6. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield:



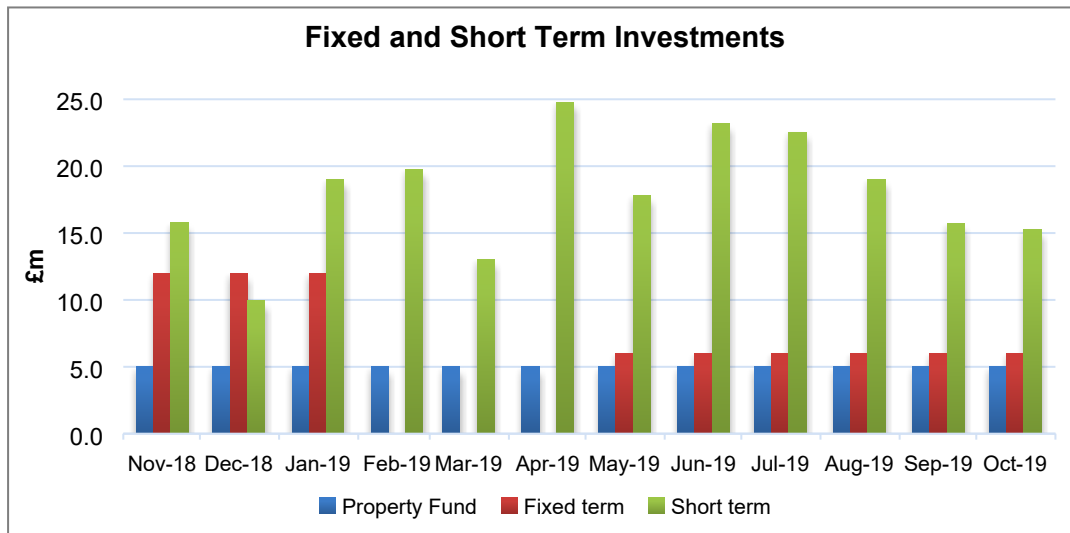
**SEFTON RISK TOLERANCE**

LOW	1 - 4
LOW – MEDIUM	5 - 9
MEDIUM	10 - 20
HIGH	21 - 36

**INVESTED**

Investment Grade	£15.24m
Investment Grade	£6.00m
Investment Grade	Nil
Speculative Grade	Nil

2.7. The ratio of overnight deposits (short term) to fixed term investments is shown below:



2.8. No new fixed term investments have been made since the last quarterly report. One fixed term investment of £3m with Coventry building society is due to mature within the next quarter. Officers from the Treasury Management Team will review the opportunities for reinvesting this amount to take advantage of any favourable rates on offer from approved counterparties.

### 3. Interest Earned

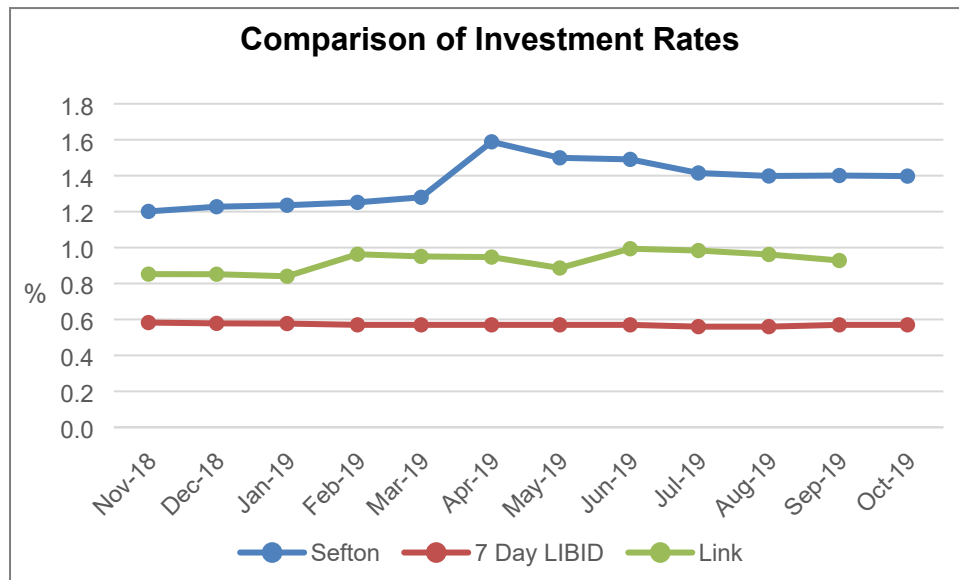
3.1. The actual performance of investments against the profiled budget to the end of October 2019 and the forecast performance of investments against total budget at year end is shown below:

	Profiled Budget £m	Actual £m	Variance £m
Oct-19	0.221	0.242	0.021

	Total Budget £m	Forecast Out-turn £m	Variance £m
2019/20	0.415	0.424	0.009

3.2. The budgeted investment return for the financial year 2019/20 was set at £0.415m on 1<sup>st</sup> April 2019. The forecast out-turn shows a minor over-achievement of this target by the end of the financial year. The Council places the majority of its investments with highly liquid Money Market Funds and the yield from these funds has remained relatively unchanged over the first quarter. It is not envisaged that any significant deviation from the budgeted level of income will occur for the remainder of the financial year.

- 3.3. The Council has achieved an average rate of return on its investments that has out-performed the 7 day LIBID and the model portfolio provided by Link:



NB: Link's October position not available at the time of writing.

#### 4. Interest Rate Forecast

- 4.1. Link Asset Services, our Treasury Advisors, have supplied the interest rate forecast and commentary below:

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

*It has been little surprise that the Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.*

## 5. Compliance with Treasury and Prudential Limits

- 5.1. During the quarter ending 31st October 2019, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.
- 5.2. The key treasury indicators compared to the actuals as at 31<sup>st</sup> October 2019 are shown below:

<b>External Debt:</b>	<b>2019/20 £m</b>
<b>Authorised limit for external debt</b>	205.000
<b>Operational boundary for external debt</b>	195.000
<b>Actual external debt 31.10.19</b>	152.832

<b>Maturity structure of fixed rate borrowing:</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual %</b>
<b>Under 12 months</b>	35	0	2
<b>12 months to 24 months</b>	40	0	1
<b>24 months to 5 years</b>	40	0	28
<b>5 years to 10 years</b>	40	0	12
<b>10 years to 15 years</b>	40	0	21
<b>15 years +</b>	90	25	35

<b>Upper limit for principal sums invested for longer than 365 days:</b>	<b>Limit %</b>	<b>Actual %</b>
<b>Principal sums invested</b>	40	24



## **6. Public Works Loan Board (PWLB) Rate Rise**

- 6.1. Members will be aware that the Public Works Loan Board (PWLB) offer a borrowing facility for all local authorities. The PWLB offer this borrowing facility at a fixed rate above the Government's cost of borrowing and this has historically been the most efficient manner of borrowing for councils.
- 6.2. On 9<sup>th</sup> October 2019, the Government increased this margin by 1% in a response to the substantial increase in PWLB loans taken out by local authorities caused by historically low interest rate levels. At the same time to reflect this demand, the cap on such lending by the PWLB has been increased from £85bn to £95bn.
- 6.3. This change was made with no prior notice and will increase the cost of future borrowing that councils may undertake if the PWLB is chosen.
- 6.4. Members are advised that this change will impact upon future borrowing activity but for Sefton this will have no impact upon the Council's current debt portfolio as all loans held are at fixed rates. The revised borrowing rates will be included in future Treasury Management reports and will be a feature in assessing the cost of future schemes viability and affordability.

## **7. Treasury Consultant Tender Exercise**

- 7.1. Members will be aware that local authorities are required under the Prudential Code to receive appropriate Treasury Management advice in order to inform effective and informed decision making in what is recognised as a complex area of council business.
- 7.2. The Council has procured this advice for some time and has ensured that decisions made by members and officers are supported by specialist expertise to reduce the risk faced by the council.
- 7.3. The current contract is due to come to an end on 31<sup>st</sup> March 2020, therefore a procurement process will now commence. Due to the size of the contract, under the Council's contract procedure rules this process will be undertaken with the final decision on contract award being made by the Head of Corporate Resources. This will be undertaken in consultation with the Cabinet Member for Regulatory Compliance and Corporate Services.
- 7.4. This process will take the form of a restricted Request for Quotation exercise with evaluation being on the basis of the Most Economically Advantageous Tender. The price/quality split of this evaluation will be 30:70 respectively and it is anticipated that the contract award will take place at the end of December 2019 with a view to commencement from 1<sup>st</sup> April 2020.