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| Report for: | Cabinet |
| Date of meeting: | 14 January 2020 |
| Part: | I |
| If Part II, reason: | |

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| Title of report: | Treasury Management 2019/20 Mid-Year Performance Report |
| Contact: | Cllr Graeme Elliot – Portfolio Holder for Finance & Resources Nigel Howcutt, Assistant Director (Finance and Resources) Fiona Jump, Group Manager Financial Services. |
| Purpose of report: | To provide Members with mid-year information on Treasury Management performance for 2019/20. |
| Recommendations | That Cabinet recommends to Council acceptance of this report on mid- year treasury management performance and prudential indicators for 2019/20. |
| Corporate objectives: | Dacorum Delivers – Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objective of delivering an efficient and modern Council. |
| Financial Implications: | <u>Financial</u> A summary of performance against the Council’s budgeted investment income is included in Section 5 of the report. <u>Value for Money</u> The Council is required to invest surplus funds to ensure it maximises the benefit of cash flows. |
| Risk Implications: | Failures in the banking sector have increased the risk of investment being lost. A prudent approach to investment is required to minimise the risk to the Council of investment losses. Currently all DBC investments are in prime UK banks or in UK Government bodies; such as the Debt Management Office (DMO) and other local authorities. |

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| Community Impact Assessment | The content of this report relates to the Council's treasury management performance. The content of this report does not require a Community Impact Assessment to be undertaken. |
| Health And Safety Implications: | There are no Health and Safety implications arising from this report. |
| Monitoring Officer / S151 Officer Comments: | <p>Monitoring Officer:</p> <p>No comments to add to the report.</p> <p>Deputy S.151 Officer</p> <p>This is a Deputy Section 151 Officer Report.</p> |
| Consultees: | Link Asset Services |
| Background papers: | Treasury Management Strategy (Budget Report Appendix K) - Cabinet 12 February 2019 |
| Glossary of acronyms and any other abbreviations used in this report: | <p>Chartered Institute of Public Finance and Accountancy (CIPFA)</p> <p>Capital Financing Requirement (CFR)</p> <p>Monetary Policy Committee (MPC)</p> <p>Treasury Management Strategy Statement (TMSS)</p> <p>Debt Management Office (DMO)</p> <p>Public Works Loan Board (PWLB)</p> <p>Housing Revenue Account (HRA)</p> <p>London Interbank Bid Rate (LIBID)</p> |

1. Background

1.1 The purpose of this report is to update Cabinet on the performance of this Council's treasury management function during the first half of 2019/20. This mid-year report provides the following:

- An economic update for the first six months of 2019/20;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

1.2 Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of

the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council's Treasury Management team manages the Council's cash-flows in order to strike the optimal balance between the following three elements:

- The liquidity requirements for the Council's day-to-day business;
- Funding the Council's capital programme;
- Investing surplus monies in line with the Treasury Management Strategy.

2. Governance

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in the Public Services (The Code).

2.2 The Code requires:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
- This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

3. Economic overview

Inflation

3.1 Inflation measures how much the prices of goods and services have changed over a time period. The Consumer Price Index (CPI) has remained close to the Bank of England's target of 2% during 2019. This target of 2% is set by the Government and is held to represent a low and steady level of inflation. At September 2019, CPI stood at 1.7%.

Interest rates

- 3.2 The base rate ('Bank Rate') is the rate of interest set by the Bank of England to influence other interest rates. The Bank Rate was increased to 0.75% at the August 2018 meeting of the Bank of England's Monetary Policy Committee (MPC). The Bank Rate has remained unchanged since then.

The first half of 2019/20 has seen UK economic growth fall, as uncertainties around the timing and outcome of Brexit continued. At the time of writing this report, the United Kingdom is scheduled to leave the European Union on 31 January 2019.

- 3.3 The Council's treasury management advisor, Link Asset Services has provided the following interest rate forecast:

| 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 |

4. Treasury Management Strategy Statement and Annual Investment Strategy update

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Council on 20 February 2019.
- 4.2 The Council's Annual Investment Strategy, which is incorporated within the TMSS, outlines the Council's investment priorities as follows:
- Security of capital;
 - Liquidity;
 - Return on investment.
- 4.3 The Council aims to achieve the optimum return on investments within the context of the first two priorities. A breakdown of the Council's investment portfolio, as at 30 September 2019, is shown in Appendix 1 of this report.
- 4.4 Link Asset Services' full counterparty credit list as at September 2019 identifies those organisations with which the Council is able to place funds and is shown in Appendix 2.
- 4.5 All the Council's investments during the first six months of the year have been placed in accordance with the approved strategy.

5. Investment Performance 2019/20

- 5.1 It is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Forecast interest rates, shown at section 3.3, remain at relatively low levels compared to the level of interest rates commonly seen in previous decades. This presents a challenge to the level of return generated on the Council's investments
- 5.2 The Council held £95.83m of investments as at 30 September 2019 (£92.10m at 31 March 2019). The average investment return for the first six months of the year was 0.84% in comparison DBC achieved 0.61% in the first 6 months of 2018/19.
- 5.3 The Council's investment return for Q1 and Q2 2019/20 displays a £64k favourable variance against half- yearly budgeted figure of £312k. This reflects the higher than expected balances available for investment as well as an increased rate of return.
- 5.4 The forecast investment position for the full year is higher than budget due to the forecast slippage of the Council's capital expenditure programme that has occurred both in 18/19 and 2019/20. The higher rate of interest obtained on a small percentage of longer-term investments placed during the first half of the year.

6. Borrowing

The Capital Financing Requirement

- 6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes. The CFR is currently forecast to be £353.765m as at 31/03/20. This includes the fixed interest rate borrowing from the Public Works Loan Board (PWLB) following the introduction of HRA Self Financing, and fixed interest rate borrowing taken up for General Fund capital expenditure requirements.

Current Borrowing Arrangements

- 6.2 As a Local Authority, the Council is able to borrow funds from PWLB, which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.
- 6.3 The PWLB charges interest on the loans it issues to local authorities. In October 2019 the Treasury and PWLB announced an increase of 1% on borrowing rates for new loans issued by the PWLB. This unexpected increase in the cost of new borrowing has required local authorities to reassess how to finance their future external borrowing needs and the financial viability of capital projects in their capital programme.

The Council has historically looked to the PWLB as its key source of borrowing. The expectation of the Council's treasury management advisors is that various financial institutions will enter the market or make products available to local authorities. These options will be reviewed as they arise. Any borrowing undertaken by the Council will be carried out in line with its approved Treasury Management Strategy. Members will be updated as this area evolves. If required, the Council is in a position to be able to utilise existing cash balances to fund some of its future capital programme instead of undertaking new external borrowing.

Debt rescheduling

- 6.4 Debt rescheduling opportunities have been very limited in the current economic climate and following the increase in PWLB borrowing rates in October 2019 not cost effective. No debt rescheduling has therefore been undertaken to date in the current financial year.

7. The Council's Capital Expenditure (Prudential Indicators)

- 7.1 Prudential indicators are set each year as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing, and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.

Prudential Indicators for Capital Expenditure

- 7.2 The table below shows the revised estimates for capital expenditure with the changes since the capital programme was agreed at the Budget in February 2019, and the expected financing arrangements of this capital expenditure.

| Capital Expenditure by Service | 2019/20 Original Budget £M | 2019/20 Revised Forecast £M |
|---------------------------------------|---|--|
| General Fund | 16.743 | 20.042 |
| HRA | 42.289 | 40.742 |
| Total | 59.032 | 60.784 |
| Financed by: | | |
| Capital grants & S106 | 1.394 | 2.380 |
| Capital receipts & reserves | 31.714 | 47.755 |
| Revenue | 5.48 | 5.830 |
| Borrowing | 20.444 | 4.819 |
| Total financing | 59.032 | 60.784 |

- 7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to revision of the Capital Programme, and incorporation of the actual outturn position from 2018/19.

| | 2019/20 Original Estimate £M | 2019/20 Revised Forecast £M |
|--|---|--|
| Prudential Indicator – Capital Financing Requirement | | |
| CFR – General Fund | 16.237 | 13.247 |
| CFR – HRA | 354.261 | 340.518 |
| Total CFR | 370.498 | 353.765 |
| Net movement in CFR | 16.47 | 0.996 |
| Prudential Indicator – External Debt / the Operational Boundary | | |
| Borrowing | 362.747 | 358.441 |
| Other long term liabilities | 0.188 | 0.188 |
| Total debt 31 March | 362.935 | 358.629 |

Prudential Indicator for Borrowing Activity

- 7.4 The key control over treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year, plus the estimates of any additional CFR for 2019/20 and the next two financial years.
- 7.5 The table below highlights that in the short term the Council's gross borrowing is forecast to slightly exceed its CFR, and is due to a combination of capital slippage and unanticipated capital receipts.

| | 2019/20 Original Estimate £M | 2019/20 Revised Estimate £M |
|----------------------------------|---|--|
| Gross borrowing | 358.441 | 358.441 |
| Plus other long term liabilities | 0.188 | 0.188 |
| Less investments | -33.893 | -66.305 |
| Net borrowing | 324.736 | 292.324 |
| CFR (year-end position) | 370.498 | 353.765 |

- 7.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised annually by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is

not sustainable in the longer term. The Council currently has borrowing of £362.383m, which is £15.617m under the authorised limit.

| Authorised limit for external debt | 2019/20 Original Indicator £M | Current Position £M |
|---|--------------------------------------|----------------------------|
| Borrowing | 378.000 | 378.000 |
| Other long term liabilities* | 1.00 | 1.00 |
| Total | 379.000 | 379.000 |

Appendix 1 - Investment Portfolio as at 30 September 2019

| Borrower | Deposit Type | Principal | Date Lent | Date Repayable | Interest Rate | Duration (Days) | Approved Duration | DBC Limit(M) |
|--------------------------------------|--------------|-----------|------------|----------------|---------------|-----------------|-------------------|--------------|
| National Westminster Bank PLC (RFB) | Call Account | 331,874 | 30/09/2019 | 01/10/2019 | 0.15% | 1 | 12 months | 12.5 |
| Goldman Sachs MMF | MMF | 5,000,000 | 30/09/2019 | 01/10/2019 | 0.67% | 1 | 100 days | 7 |
| Insight Liquidity MMF | MMF | 7,000,000 | 30/09/2019 | 01/10/2019 | 0.71% | 1 | 100 days | 7 |
| Lloyds Bank Plc (RFB) | Investment | 1,000,000 | 29/11/2018 | 29/11/2019 | 1.10% | 365 | 12 months | 10 |
| Santander UK PLC | Investment | 1,000,000 | 15/01/2019 | 14/01/2020 | 1.15% | 364 | 6 months | 9 |
| Barclays Bank PLC (NRFB) | Investment | 1,000,000 | 25/04/2019 | 25/10/2019 | 0.83% | 183 | 6 months | 9 |
| Coventry Building Society | Investment | 1,500,000 | 26/04/2019 | 21/10/2019 | 0.92% | 178 | 6 months | 9 |
| National Westminster Bank PLC (RFB) | Investment | 5,000,000 | 15/05/2019 | 14/05/2020 | 0.87% | 365 | 12 months | 12.5 |
| Coventry Building Society | Investment | 2,000,000 | 17/05/2019 | 08/11/2019 | 0.91% | 175 | 6 months | 9 |
| Coventry Building Society | Investment | 1,500,000 | 17/06/2019 | 16/12/2019 | 0.89% | 182 | 6 months | 9 |
| Coventry Building Society | Investment | 1,000,000 | 21/06/2019 | 18/12/2019 | 0.89% | 180 | 6 months | 9 |
| Santander UK PLC | Investment | 1,000,000 | 28/06/2019 | 20/12/2019 | 0.81% | 175 | 6 months | 9 |
| Nationwide Building Society | Investment | 3,000,000 | 10/07/2019 | 19/12/2019 | 0.79% | 162 | 6 months | 9 |
| Barclays Bank PLC (NRFB) | Investment | 4,500,000 | 12/07/2019 | 03/01/2020 | 0.72% | 175 | 6 months | 9 |
| Santander UK PLC | Investment | 2,000,000 | 16/07/2019 | 16/01/2020 | 0.80% | 184 | 6 months | 9 |
| Dumfries & Galloway Council | Investment | 1,500,000 | 19/07/2019 | 25/10/2019 | 0.68% | 98 | 60 months | NA |
| London Borough of Barking & Dagenham | Investment | 5,000,000 | 19/07/2019 | 21/10/2019 | 0.68% | 94 | 60 months | NA |
| Nationwide Building Society | Investment | 1,000,000 | 19/07/2019 | 17/01/2020 | 0.79% | 182 | 6 months | 9 |
| Lloyds Bank Plc (RFB) | Investment | 4,000,000 | 25/07/2019 | 17/07/2020 | 1.24% | 358 | 12 months | 10 |
| National Westminster Bank PLC (RFB) | Investment | 2,500,000 | 06/08/2019 | 05/08/2020 | 0.83% | 365 | 12 months | 12.5 |
| Lloyds Bank Plc (RFB) | Investment | 2,000,000 | 09/08/2019 | 07/08/2020 | 1.10% | 364 | 12 months | 10 |
| National Westminster Bank PLC (RFB) | Investment | 2,000,000 | 14/08/2019 | 13/08/2020 | 0.79% | 365 | 12 months | 12.5 |
| Santander UK PLC | Investment | 5,000,000 | 16/08/2019 | 07/02/2020 | 0.77% | 175 | 6 months | 9 |
| Yorkshire Building Society | Investment | 1,000,000 | 23/08/2019 | 22/11/2019 | 0.71% | 91 | 100 days | 7 |
| Coventry Building Society | Investment | 1,500,000 | 02/09/2019 | 28/02/2020 | 0.78% | 179 | 6 months | 9 |
| Yorkshire Building Society | Investment | 3,000,000 | 06/09/2019 | 13/12/2019 | 0.71% | 98 | 100 days | 7 |
| Yorkshire Building Society | Investment | 3,000,000 | 06/09/2019 | 13/12/2019 | 0.71% | 98 | 100 days | 7 |
| Leeds Building Society | Investment | 4,000,000 | 06/09/2019 | 29/11/2019 | 0.76% | 84 | 100 days | 7 |
| Debt Management Office | Investment | 2,500,000 | 10/09/2019 | 17/10/2019 | 0.51% | 37 | 60 months | NA |
| Debt Management Office | Investment | 2,000,000 | 11/09/2019 | 17/10/2019 | 0.51% | 36 | 60 months | NA |
| Lloyds Bank Plc (RFB) | Investment | 2,000,000 | 18/09/2019 | 17/09/2020 | 1.10% | 365 | 12 months | 10 |
| Barclays Bank PLC (NRFB) | Investment | 2,500,000 | 19/09/2019 | 17/03/2020 | 0.72% | 180 | 6 months | 9 |
| Dumfries & Galloway Council | Investment | 5,500,000 | 19/09/2019 | 19/12/2019 | 0.62% | 91 | 60 months | NA |
| Leeds Building Society | Investment | 3,000,000 | 26/09/2019 | 03/01/2020 | 0.75% | 99 | 100 days | 7 |
| Nationwide Building Society | Investment | 5,000,000 | 27/09/2019 | 19/03/2020 | 0.75% | 174 | 6 months | 9 |
| Lloyds Bank Plc (RFB) | Investment | 1,000,000 | 30/09/2019 | 28/09/2020 | 1.10% | 364 | 12 months | 10 |

Appendix 2 – Link Asset Services’ Approved Lending List – UK Banks and Financial Institutions

| Country | Counterparty | Approved Duration | DBC Limit (M) |
|----------------|--|--------------------------|----------------------|
| U.K | Abbey National Treasury Services plc | 6 months | 9 |
| U.K | Bank of Scotland PLC (RFB) | 6 months | 9 |
| U.K | Barclays Bank PLC (NRFB) | 6 months | 9 |
| U.K | Barclays Bank UK PLC (RFB) | 6 months | 9 |
| U.K | Close Brothers Ltd | 6 months | 9 |
| U.K | Goldman Sachs International Bank | 6 months | 9 |
| U.K | HSBC Bank PLC (NRFB) | 12 months | 10 |
| U.K | HSBC UK Bank Plc (RFB) | 12 months | 10 |
| U.K | Lloyds Bank Corporate Markets Plc (NRFB) | 6 months | 9 |
| U.K | Lloyds Bank Plc (RFB) | 12 months | 10 |
| U.K | Santander UK plc | 6 months | 9 |
| U.K | Standard Chartered Bank | 6 months | 9 |
| U.K | Sumitomo Mitsui Banking Corporation Europe Ltd | 6 months | 9 |
| U.K | UBS Ltd | 12 months | 10 |
| U.K | Coventry BS | 6 months | 9 |
| U.K | Leeds BS | 100 days | 7 |
| U.K | Nationwide BS | 6 months | 9 |
| U.K | Yorkshire BS | 100 days | 7 |
| U.K | National Westminster Bank PLC (RFB) | 12 months | 12.5 |
| U.K | The Royal Bank of Scotland Plc (RFB) | 12 months | 12.5 |