

Gloucester City Council

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|-------------------------|---|------------------------------------|
| Meeting: | Cabinet | 4 December 2019 |
| Subject: | Treasury Management Update – Annual Report 2019/20 | |
| Report Of: | Cabinet Member for Performance and Resources | |
| Wards Affected: | All | |
| Key Decision: | No | Budget/Policy Framework: No |
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| Appendices: | 1. Prudential and Treasury Indicators 2. Interest Rate Forecasts | |

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1st April 2019 to 30th September 2019 and therefore, ensures this Council is implementing best practice in accordance with the Code.
- 1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Link Asset Services.
- 1.3 The body of the report provides an overview of the Council's performance for the first half 2019/20;
 - **Appendix 1** highlights the key performance indicators in line with the Council's Treasury Management Strategy.
 - **Appendix 2** Interest Rate Forecast.

2.0 Recommendations

- 2.2 Cabinet is asked to **RESOLVE** that the contents of the report be noted.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 21st March 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

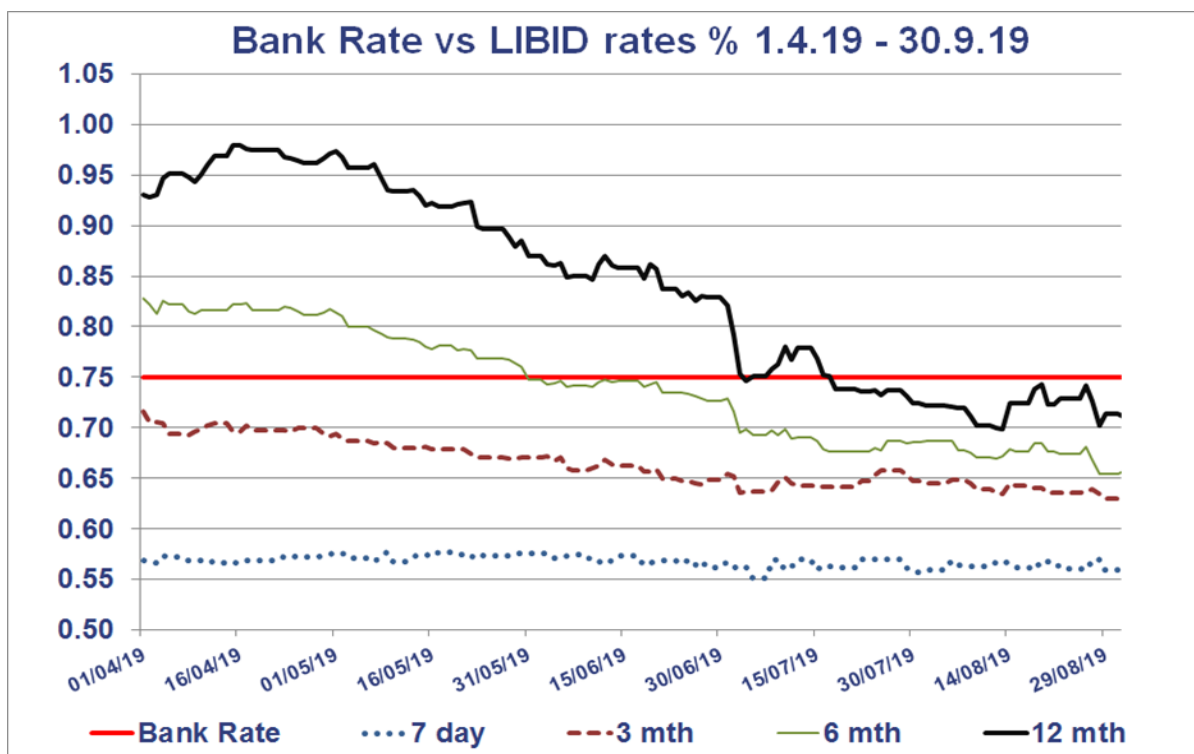
- 3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.
- 3.2 The average level of funds available for investment purposes during the year was £6.1m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds £11m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for the financial year to date as at 30th September 2019

| Benchmark | Benchmark Return | Council Performance | Investment Interest Earned |
|-----------|------------------|---------------------|----------------------------|
| 7 day | 0.57% | 0.77% | £22,866 |
| 1 month | 0.60% | 0.95% | £4,216 |
| 3 month | 0.66% | 0.97% | £24,880 |
| 6 month | 0.73% | 1.10% | £10,247 |
| 12 month | 0.83% | N/A | N/A |

As illustrated, the Council outperformed the benchmark by 20 bps on 7 day investment returns, by 35 bps on 1 month, 31 bps on 3 month and 37 bps on 6 month investment returns.

Interest Rate Profile - Half year ended 30 September 2019

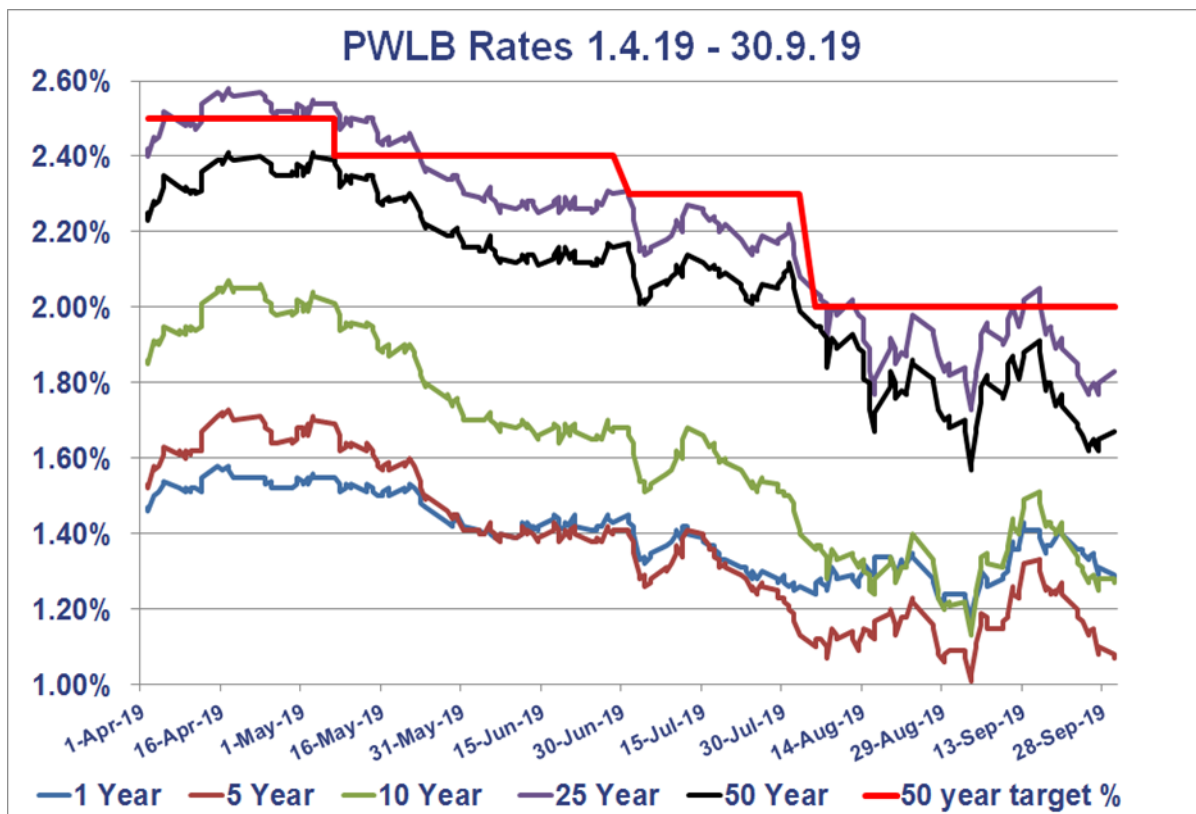


| | Bank Rate | 7 day | 1 mth | 3 mth | 6 mth | 12 mth |
|-----------|------------|------------|------------|------------|------------|------------|
| High | 0.75 | 0.58 | 0.61 | 0.72 | 0.83 | 0.98 |
| High Date | 01/04/2019 | 09/05/2019 | 15/04/2019 | 01/04/2019 | 01/04/2019 | 15/04/2019 |
| Low | 0.75 | 0.55 | 0.58 | 0.63 | 0.65 | 0.69 |
| Low Date | 01/04/2019 | 05/07/2019 | 08/08/2019 | 29/08/2019 | 04/09/2019 | 04/09/2019 |
| Average | 0.75 | 0.57 | 0.60 | 0.66 | 0.73 | 0.83 |
| Spread | 0.00 | 0.03 | 0.03 | 0.09 | 0.18 | 0.29 |

4.0 New Borrowing

4.1 No long term borrowing was undertaken during the period ended 30 September 2019.

4.2 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period.



| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---------|------------|------------|------------|------------|------------|
| Low | 1.17% | 1.01% | 1.13% | 1.73% | 1.57% |
| Date | 03/09/2019 | 03/09/2019 | 03/09/2019 | 03/09/2019 | 03/09/2019 |
| High | 1.58% | 1.73% | 2.07% | 2.58% | 2.41% |
| Date | 15/04/2019 | 17/04/2019 | 17/04/2019 | 17/04/2019 | 17/04/2019 |
| Average | 1.40% | 1.37% | 1.62% | 2.20% | 2.07% |

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since

October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6.0 Compliance with Treasury and Prudential Limits

- 6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.
- 6.3 The Council debt profile is currently structured on short term borrowing. The Council is able to benefit from reduced costs associated with short term borrowing compared to longer term rates while operating within the Council's borrowing requirements, this strategy will continue to be reviewed in line with market expectations. The prudential and treasury Indicators are shown within appendix 1.

7.0 Other

- 7.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.
- 7.2 The Council continued to maintain an under-borrowed position in 2019/20.
- 7.4 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.
- 7.5 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

8.0 Asset Based Community Development (ABCD) Considerations

- 8.1 This report notes the treasury management performance of the Council. There are no anticipated ABCD implications from this report.

9.0 Financial Implications

- 9.1 Contained in the report

(Financial Services have been consulted in the preparation of this report.)

10.0 Legal Implications

10.1 There are no legal implications from this report
(Legal Services have been consulted in the preparation of this report.)

11.0 Risk & Opportunity Management Implications

11.1 There are no specific risks or opportunities as a result of this report

12.0 People Impact Assessment (PIA):

12.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

13.0 Other Corporate Implications

Community Safety

13.1 None

Sustainability

13.2 None

Staffing & Trade Union

13.3 None