REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2019

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Wards Affected: All

Key Decision No

PURPOSE OF REPORT

1. The report attached as Appendix 1 sets out the Council's treasury management activity for the half year to 30 September 2019.

SUMMARY

2. All transactions are in order and the performance of the service has met the requirements of the Service Level Agreement (SLA) with our shared services provider.

RECOMMENDATIONS

3. **The Committee is asked to recommend the following to the full Council:**

   (i) that no new borrowing has been necessary in the 6 months to 30th September 2019 and the outstanding borrowing has reduced from £16.112m at 31 March 2019 to £10.185m.

   (ii) the increase in investments from £25.21m at 31 March 2019 to £31.88m at 30 September 2019 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund).

BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2019.

5. The 2019-20 Treasury Management Mid-Year Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

6. For those Members seeking a summary, the key points are that the shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement, other than as set out in 7. below; interest earned on investments is lower than forecast, due to the re-profiling of an expected £20m capital receipt, whilst interest on borrowing is in line with the budget.

BACKGROUND

7. The counterparty limit with the Council's own banker, Lloyds, was breached on the 23rd July 2019 due to a £1.2m receipt in the afternoon, too late to be invested onwards. This related to a joint project with other local authorities and Southern Water.

8. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

9. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a mid year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

OTHER OPTIONS CONSIDERED

10. None – this report is statutorily required.

FINANCIAL IMPLICATIONS

11. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

RISK MANAGEMENT IMPLICATIONS

12. This report has no specific implications for the risk profile of the Authority.

EQUALITY AND CUSTOMER SERVICE IMPLICATIONS

13. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (Council 27th March 2019), and Review of Treasury Management Activity 2018/19 (Audit Committee July 22nd 2019)

- Code of Practice on Treasury Management (CIPFA, 2017) and Treasury Management in the Public Services Guidance Notes (CIPFA, 2018)

- The Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017).

- Department for Communities & Local Government Investment Guidance (Revised) April 2018)

- Statutory MRP guidance (2018)

- Link Asset Services report template (October 2019)

APPENDIX 1

1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2019. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. BACKGROUND

2.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

2.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, 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."

3. INTRODUCTION

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 (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the 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 and an Annual Report (stewardship report) covering activities during the previous year.

4. 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.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2019/20 financial year;
- 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 any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

4. ECONOMICS AND INTEREST RATES

*The following commentary has been supplied by **Link Asset Services Ltd**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

4.1 Economics update

4.1.1 **UK.** This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though the date has now been set for the 12th December 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly.

4.1.2 The MPC could then need to address the issue of whether to **raise Bank Rate** at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be

likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy.

4.1.3 The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

4.1.4 As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

4.1.5 With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

4.1.6 In the **political arena**, the general election could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

4.2 Interest rate forecasts

4.2.1 The Council's treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9.10.19.

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

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left 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.

4.2.2 **Bond yields / PWLB rates.** There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

4.2.3 What we saw during the last half year up to 30 September is a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 4.2.1 for comments on the increase in margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence.

4.2.4 One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

4.2.5 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

4.3.1 The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

4.3.2 Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.

- Weak capitalisation of some **European banks**, particularly Italian banks.

- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.

- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

4.3.3 Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.

- **The Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by this Council on 27 March 2019. There are no policy changes to the TMSS; the details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure since the Budget as a result of amendments to the capital programme as detailed in the Budget Management reports.

	2019/20 Original Estimate	Actual at 30 Sept 2019	2019/20 Revised Estimate
	£m	£m	£m
Total capital expenditure	2.426	2.984	5.068

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

It is no longer anticipated that the £20m capital receipt will be received in 2019/20.

	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
Total Capital Expenditure	2.426	5.068
Financed by:		
Capital receipts	0.000	0.257
Capital grants, S106 etc.	1.084	1.686
Reserves and revenue contributions	1.342	3.125
Total financing	2.426	5.068
Borrowing requirement	0.000	0.000

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The table also shows the expected debt position over the period, which is termed the Operational Boundary. The CFR is higher than the original estimate due to the re-profiling of the £20m capital receipt.

	2019/20 Original Estimate	Actual at 30 Sept 2019	2019/20 Revised Estimate
	£m	**£m**	**£m**
Prudential Indicator: Capital Financing Requirement			
CFR – non housing	7.437	27.438	27.438
Net movement in CFR	(20.510)	(0.510)	(0.510)
Prudential Indicator: The Operational Boundary for external debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.000	7.505	28.000
Other long term liabilities*	4.000	2.680	4.000
Total debt (year-end position)	32.000	10.185	32.000

*finance leases

6.4 Limits to Borrowing Activity: debt compared with the Capital Financing Requirement

The first key control over the 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 next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2019/20 Original Estimate	Actual at 30 Sept 2019	2019/20 Revised Estimate
	£m	**£m**	**£m**
Borrowing	7.437	7.505	7.437
Other long term liabilities*	2.541	2.680	2.541
Total debt	9.978	10.185	9.978
CFR (year-end position)	7.437	27.438	27.438

*finance leases

6.5 Limits to Borrowing Activity: debt compared with the Authorised Limit

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 by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for external debt	**2019/20 Original Indicator**	**Actual at 30 Sept 2019**	**2019/20 Revised Indicator**
	£m	**£m**	**£m**
Borrowing	30.000	7.505	30.000
Other long term liabilities	4.000	2.680	4.000
Total	34.000	10.185	34.000

7 INVESTMENT PORTFOLIO 2019/20

7.1 In accordance with the Code, 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. As shown by forecasts in section 4.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

7.2 Excluding £6m in the Local Authority Property Fund, the Council held £31.88m of investments as at 30 September 2019, (£25.21m at 31 March 2019) and the investment portfolio yield for the first 6 months of the year is 1.07% p.a. against a benchmark rate of 0.83% for 12 month deposits (supplied by Link Asset Services). The Local Authority Property Fund average return was 4.2% pa.

7.3 The Head of Corporate Resources confirms that the approved limits within the Annual Investment Strategy were breached on only one occasion during the first 6 months of 2019/20. The counterparty limit with the Council's own banker, Lloyds, was breached on the 23rd July 2019 due to a £1.2m receipt in the afternoon, too late to be invested onwards. This related to a joint project with other local authorities and Southern Water.

7.4 The Council's budgeted investment return for 2019/20 is £357k and performance for the year is currently forecast to be £41k under budget, due to a delay in a large capital receipt, which has reduced the average cash balance.

7.5 Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

7.6 Investments at 30 September 2019

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Blackrock MMF	n/a	n/a	£10,000	Var	AAA
Cambridge Building Society	26.06.19	25.06.20	£2,000,000	1.25%	Unrated
Cambridge Building Society	10.07.19	10.07.20	£1,000,000	1.20%	Unrated
CCLA MMF	n/a	n/a	£1,270,000	Var	AAA
Close Brothers Ltd	29.03.19	30.03.20	£2,000,000	1.25%	A
Close Brothers Ltd	05.09.19	07.09.20	£2,000,000	1.10%	A
Federated MMF	n/a	n/a	£2,925,000	Var	AAA
Goldman Sachs MMF	n/a	n/a	£10,000	Var	AAA
Handelsbanken	n/a	n/a	£10,000	0.50%	AA
Invesco MMF	n/a	n/a	£655,000	var	AAA
Lloyds Bank (RFB)	10.05.19	11.05.20	£1,000,000	1.25%	A+
Lloyds Bank (RFB)	05.06.19	05.06.20	£1,000,000	1.25%	A+
Lloyds Bank (RFB)	27.06.19	29.06.20	£1,000,000	1.25%	A+
Monmouthshire Building Soc.	10.09.19	05.03.20	£2,000,000	0.95%	Unrated
National Counties B'ding Soc.	11.04.19	14.04.20	£2,000,000	1.26%	Unrated
National Counties B'ding Soc.	16.05.19	18.05.20	£1,000,000	1.26%	Unrated
Newcastle Building Society	07.11.18	07.11.19	£1,000,000	1.15%	Unrated
Newcastle Building Society	17.04.19	17.04.20	£1,000,000	1.25%	Unrated
Newcastle Building Society	23.05.19	22.05.20	£1,000,000	1.30%	Unrated
Nottingham Building Society	13.06.19	12.06.20	£1,000,000	1.15%	Baa1
Principality Building Society	14.08.19	14.02.20	£2,000,000	0.95%	Baa2
Saffron Building Society	15.03.19	16.03.20	£2,000,000	1.25%	Unrated
Saffron Building Society	30.05.19	29.05.20	£1,000,000	1.25%	Unrated
West Bromwich B'ding Soc.	21.08.19	05.03.20	£2,000,000	0.95%	Ba3
West Bromwich B'ding Soc.	29.08.19	05.03.20	£1,000,000	0.92%	Ba3
TOTAL			**£31,880,000**		

8. BORROWING

8.1 The Council's revised Capital Financing Requirement (CFR) for 2019/20 is £27.438m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 6.4 shows the Council has borrowings of £10.185m. Capital expenditure in 2019/20 is funded from grants, capital receipts, contributions, reserves and revenue contributions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

8.2 No new external borrowing was undertaken from 1 April to 30 September 2019 and it is not anticipated that further borrowing will be undertaken during this financial year.

9 DEBT RESCHEDULING

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.

10 OTHER

10.1 Changes in risk appetite

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.

10.2 Member Training

The treasury advisors for the shared treasury management service, Link Asset Services, provided a training session for Members on the 2nd July 2019. The session included reviews of the Council's Balance Sheet and current debt and investment portfolios, as well an overview of developments in local government treasury management and UK economic data.