MEETING:	**PENSIONS COMMITTEE**
DATE:	**16 JANUARY 2020**
TITLE:	**TREASURY MANAGEMENT 2019/20 – MID YEAR REVIEW**
PURPOSE:	**CIPFA's Code of Practice recommends that a report on the Council's actual Treasury Management during the current financial year is produced.**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
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EXECUTIVE SUMMARY

During the six month period between 1 April and 30 September 2019, the Council's investing activity remained well within the limits originally set. There were no new defaults by banks in which the Council deposited money. Furthermore, it is estimated that the Council's actual investment income will exceed the expected income in the 2019/20 budget.

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1. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides a mid-year update.

The Council's treasury management strategy for 2019/20 was approved by full Council on 8th March 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

It was decided at the Pensions Committee, 14 March 2019 to allow the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the financial year 2019/20.

2. CONTEXT

On 30th September 2019, the Council had £36.0m of investments, compared with £34.6m on 31 March 2019, with an average return of 1.7%.

3. INVESTMENT ACTIVITY

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the 6 months, the Council's investment balance ranged between £71.2 and £33.0 million due to timing differences between income and expenditure. The investment position during the period is shown in the table below.

Treasury Investment Position

	31.3.19 Balance £m	**6 month Movement £m**	**30.9.19 Balance £m**	**30.9.19 Income Returns %**
Banks & building societies (unsecured)	15.2	(4.9)	10.3	0.9
Local authorities	0.0	9.0	9.0	0.9
Money Market Funds	9.4	(2.7)	6.7	0.8
Pooled Funds (intial investment)	10.0	0.0	10.0	5.7
Total investments	**34.6**	**1.4**	**36.0**	**1.7**

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Interest of £ 287k was received in the period 1st April to 30th September 2019.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

£10m of the Authority's investments are held in externally managed strategic pooled property and equity funds where short- term security and liquidity are lesser consideration, and the objectives instead are regular revenue income and long- term price stability. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Authority's investment objective are regularly reviewed.

The performance of our pooled property and equity funds at 30 September 2019 can be seen below:

FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility
CCLA - LAMIT PROPERTY FUND	PROPERTY	1,524,344	4,559,770	-440,231	111,699	0.6	-8.80%	2.23%	-6.57%	7.5%
INVESTEC DIVERSIFIED INCOME FUND	MULTI ASSET	1,209,599	1,224,814	-25,186	38,652	0.6	-2.01%	3.09%	1.08%	2.2%
KAMES DIVERSIFIED MONTHLY INCOME FUND	MULTI ASSET	1,158,480	1,281,164	31,164	44,299	0.6	2.49%	3.54%	6.04%	3.9%
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	4,783,773	2,261,290	-238,710	165,007	0.6	-9.55%	6.60%	-2.95%	9.5%
GRAND TOTAL			9,327,038	-672,963	359,657	0.6	-6.73%	3.60%	-3.13%	4.9%
			Capital gains and losses under one year are not annualised		Annualised Returns:		-6.73%	6.10%	-0.63%	

It is evident that the combined capital value of £9.3m is less than the initial investment at 30 September 2019 of £10m. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters, and even years; but with the confidence that over a three to five year period total returns will exceed cash interest rates. Investment in these funds will be maintained in the medium term.

Investment Benchmarking

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2019	3.96	AA-	43%	48	0.55
30.06.2019	3.85	AA-	42%	52	0.69
30.09.2019	4.97	A+	58%	43	0.86
Similar LAs	**4.22**	**AA-**	**52%**	**96**	**0.78**
All LAs	**4.19**	**AA-**	**62%**	**28**	**0.83**

Treasury Management Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

The average cash balances were £58.4m during the six months and the UK Bank base Rate has been set at 0.75% since July 2018.

The Council's budgeted investment income for the year is £0.18m, however the actual expected investment income for the year 2019/20 is estimated at £0.4m. This is based on an investment return of 1.7% for the whole year. There has been a significant increase due to the Council now investing in pooled property funds, which was not forecasted in the budget.

4. COMPLIANCE

I can confirm that all treasury management activities undertaken during the period complied fully with CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Investment Limits

	Maximum during period	**30.9.19 Actual**	**2019/20 Limit**	**Complied**
Any single organisation, except the UK Government	£6m	£5m	£8m each	✓
Any group of organisations under the same ownership	£0	£0	£8m per group	✓
Any group of pooled funds under the same management	£11m	£5m	£20m per manager	✓
Negotiable instruments held in a broker's nominee account	£0	£0	£40m per broker	✓
Limit per non-UK country	£3m	£2m	£8m per country	✓
Registered providers	£0	£0	£20m in total	✓
Unsecured investments with building societies	£4m	£4m	£8m in total	✓
Loans to unrated corporates	£0	£0	£8m in total	✓
Money Market Funds	£31.5m	£6.7m	£40m in total	✓
Real Estate Investment Trusts	£0	£0	£20m in total	✓

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating or credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	**Actual**	**Complied**
Portfolio average credit score	6.0	4.97	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments.

	30.9.19 Actual	**2019/20 Target**	**Complied**
Total cash available within 3 months	£22.0m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one year revenue impact of a 1% rise or fall in interest was:

Interest rate risk indicator	**2019/20 Limit**	**2019/20 Target**	**Complied**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£761,000	£547,000	✔
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0	£0	✔

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2019/20	**2020/21**	**2021/22**
Actual principal invested beyond year end	£2.2m	£0	£0
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓

5. INVESTMENT TRAINING

During the period, officers have attended investment training with Arlingclose and CIPFA relevant to their roles.

6. OUTLOOK FOR THE REMAINDER OF 2019/20 AND BEYOND

Remainder of 2019/20

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Readiness for Brexit

The next scheduled leave date for the UK to leave the EU is now 31st January 2020 and there remains little political clarity as to whether a deal will be agreed by this date and there is the possibility that the exit date is pushed back yet again. As 31st January approaches the Authority will ensure there are enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

Proposed changes

The Welsh Government is consulting on proposed changes to its Statutory Guidance on Local Government Investments to be effective from the 2020/21 financial year. This involves a complete re-write along the lines of the guidance issued last year by the

Ministry of Housing, Communities and Local Government (MHCLG) for local authorities in England.

The definition of investments is widened to include “all of the financial and non-financial assets a local authority has invested money into primarily or partially for the purpose of generating a surplus including investment property” providing it has been made using the power to invest contained in the Local Government Act 2003. In addition, loans to wholly-owned companies or associates, to a joint venture, or to a third party count as investments, irrespective of the purpose or legal power used.