Runnymede
BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Thursday 28 November 2019 at 7.30pm

Council Chamber
Runnymede Civic Centre, Addlestone

Members of the Committee

Councillors J Furey (Chairman), T Gracey (Vice-Chairman), M Brierley, J Broadhead, R Edis, L Gillham, C Howorth, S Mackay and I Mullens.

In accordance with Standing Order 29.1, any Member of the Council may attend the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

AGENDA

Notes:

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Overview and Scrutiny Select Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr J Gurmin, Democratic Services Section, Law and Government Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425624). (Email: john.gurmin@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please ring Mr B A Fleckney on 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

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4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

5) **Filming, Audio-Recording, Photography, Tweeting and Blogging of Meetings**

Members of the public are permitted to film, audio record, take photographs or make use of social media (tweet/blog) at Council and Committee meetings provided that this does not disturb the business of the meeting. If you wish to film a particular meeting, please liaise with the Council Officer listed on the front of the Agenda prior to the start of the meeting so that the Chairman is aware and those attending the meeting can be made aware of any filming taking place.

Filming should be limited to the formal meeting area and not extend to those in the public seating area.

The Chairman will make the final decision on all matters of dispute in regard to the use of social media audio-recording, photography and filming in the Committee meeting.

LIST OF MATTERS FOR CONSIDERATION

PART I

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a) Exempt Information

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(No reports to be considered under this heading)

1. **FIRE PRECAUTIONS**

The Chairman will read the Fire Precautions which set out the procedures to be followed in the event of fire or other emergency.

2. **NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP**

3. **MINUTES**

To confirm and sign, as a correct record, the Minutes of the meeting of the Committee held on 4 July 2019 (at Appendix ‘A’).

APPENDIX 'A'

Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

4 July 2019 at 8.17 pm.

Members of the Committee present:	Councillors J Furey (Chairman), T Gracey (Vice-Chairman), M Brierley, J Broadhead, R Edis, L Gillham, J Hulley and I Mullens.
Member of the Committee absent:	Councillor S Mackay.

Councillor M Cressey also attended.

120 FIRE PRECAUTIONS

The Chairman read out the Fire Precautions.

121 NOTIFICATION OF CHANGE TO COMMITTEE MEMBERSHIP

The Group mentioned below had notified the Chief Executive of their wish that the change listed below be made to the membership of the Committee. The change was for a fixed period ending on the day after the meeting and thereafter the Councillor removed would be reappointed.

Group	Remove from Membership	Appoint Instead
Conservative	Councillor C Howorth	Councillor J Hulley

The Chief Executive had given effect to this request in accordance with Section 16(2) of the Local Government and Housing Act 1989.

122 MINUTES

The Minutes of the meeting of the Committee held on 4 April 2019 were confirmed and signed as a correct record.

123 TREASURY MANAGEMENT ANNUAL REPORT 2018/19

The Committee considered the Treasury Management Annual Report 2018/19. The Annual Report summarised the Council's treasury management activity and performance for 2018/19. During the year the Council had operated within its Treasury Management Strategy and treasury and prudential indicators which were noted by the Committee and a prudent approach had been taken in relation to all investment activity, with priority being given to security and liquidity over yield.

The Council's underlying need to borrow for capital expenditure was termed the Capital Financing Requirement (CFR) and represented the capital expenditure of prior years that had not been paid for and the current year's unfinanced capital expenditure. One of the Council's treasury activities was to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, Officers organised the Council's cash position to ensure that sufficient cash was available to meet the capital plans and cash flow requirements.

During last year, the Council had maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, had not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow had been used as an interim measure. The policy of avoiding new borrowing by running down spare cash balances had served the Council well over the last few years. However, this would be kept under review to avoid incurring high borrowing costs in the future. During the year the Council borrowed £253m, £38m of which replaced maturing loans taken out over the short term whilst the longer term rates were deemed too high. This meant that the Council ended the year with borrowings of £571m, £102m of which related to the Housing Revenue Account (HRA) debt. The Committee noted a full list of borrowings undertaken during the year.

The Council operated two 'loan pools', one for the HRA and one for the General Fund to comply with the HRA ring fence requirements. The HRA average interest rate for the year was 3.36% and the average interest rate for the General Fund was 2.31%. Investment returns had remained low during last year. However, despite a need to keep large sums of money in short notice deposits to fulfil property acquisition requirements, the Council's actual interest rate performance during the year was 0.95% which compared favourably with the Council's benchmark rates. One of the reasons this favourable rate had been achieved was due to the Council's investment in pooled funds. These investments offered enhanced returns over the longer term but were potentially more volatile over the shorter term and small variations in market values would therefore occur. The current value of these funds was noted. The Committee noted a full list of investments totalling £53m held by the Council at 31 March 2019.

Taking both borrowings and investment together, overall the Council had made a £1.5m betterment on its original net debt forecast for the year. This variance mainly stemmed from delays to property purchases and regeneration schemes which had led to increased cash balances and a reduced borrowing requirement. In addition, when the Council had needed to borrow, it had also benefited from lower borrowing rates than originally forecast. The Council had complied with all its legislative and regulatory requirements and investment returns and borrowing rates had been better than anticipated with no additional risk to the Council. It was noted that investments had been made with Leeds City Council and South Ayrshire Council. Local authorities lent money to each other in view of a shortage of suitable counterparties as the level of risk of such investments was low.

The Committee congratulated Finance officers on very good Treasury performance for the year 2018/19

RECOMMEND to Full Council that-

the Treasury Management 2018/19 Annual Report be noted.

124 ANNUAL REPORT OF THE OVERVIEW AND SCRUTINY FUNCTION

The Committee considered a draft Annual Report for the Municipal Year 2018/19 in accordance with sub-paragraph 6.03 (d) of the Council's Constitution which stated that the Overview and Scrutiny Select Committee must report annually to Full Council.

The Committee noted Article 6 of the Council's Constitution which set out the purposes of the Committee. At paragraph 6.02 (iv) of Article 6 it was noted that the Committee could exercise the right to call-in for reconsideration, decisions made but not yet implemented by any Committee. Members of the Committee were advised that the Council's Constitution set out detailed requirements for the exercise of a call-in and were advised to read these provisions so that they would know how to call-in an item if they wished to do so.

Regarding the Review of the Council's Planning Service, it was noted that it was now envisaged that the Advisory Panel set up to conduct the core work for the review would be reporting to the Overview and Scrutiny Select Committee in the autumn. The Panel membership had changed for the Municipal Year 2019/20 and now consisted of Councillors

Furey, Gillham and T Gracey and the Committee expressed its thanks to Councillor Dennett and former Councillor Taylor, who were no longer on the Panel, for their work on the review.

Regarding illegal encampments, it was noted that the Corporate Management Committee, having received recommendations from the Overview and Scrutiny Select Committee, had noted and supported the new police protocol for dealing consistently with illegal encampments. The Corporate Management Committee had noted that the police could direct some or all of travellers in a particular party to vacate a site provided that a suitable alternative facility was available. A transit site would be a suitable alternative facility. The Corporate Management Committee had agreed to support, subject to the provision of full cost benefit analysis, one or more transit sites being established in Surrey.

The Overview and Scrutiny Select Committee noted that the question of suitable transit sites in Surrey continued to be the subject of discussion between Surrey District Councillors and Chief Executives. The political leadership of a number of those Surrey districts had changed for the Municipal Year 2019/20. It was suggested that in view of these changes to political control, whilst the various Surrey districts would continue to work towards providing transit sites, dealing with illegal encampments might not be a high priority for many of these Councils. It was noted that it would be difficult to recover from travellers the cost of clearing up sites that they had occupied and that Councillors should not go onto traveller sites unaccompanied as this was a potentially dangerous course of action and they would not be covered by the Council's Insurance Policies if they did so.

RECOMMEND to Full Council that –

the Overview and Scrutiny Annual Report be noted.

Chairman

(The meeting ended at 8.51.p.m.)

4. **APOLOGIES FOR ABSENCE**

5. **DECLARATIONS OF INTEREST**

If Members have an interest in an item, please record the interest on the form circulated with this Agenda and hand it to the Legal Representative or Democratic Services Officer at the start of the meeting. A supply of the form will also be available from the Democratic Services Officer at the meeting.

Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.

Members are reminded that a non-pecuniary interest includes their appointment by the Council as the Council's representative to an outside body and that this should be declared as should their membership of an outside body in their private capacity as a Director, trustee, committee member or in another position of influence thereon.

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when attending the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must leave the room if the interest is a disclosable pecuniary interest or if the interest could reasonably be regarded as so significant as to prejudice the Member's judgement of the public interest.

6. **TREASURY MANAGEMENT MID-YEAR REPORT 2019/20 (FINANCE – PAUL FRENCH)**

Synopsis of report:

The report sets out the treasury activity for the first six months of the 2019/20 financial year.

Recommendations:

For information

1. Context of report

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 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 that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

1.3 The Chartered Institute of Public Finance Accountants (CIPFA) define treasury management as:

"The management of the local authority's 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.”

1.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:

- Prudential and Treasury Indicators and Treasury Management Strategy (TMS)
- A mid year Treasury Management Report (this report)
- An annual Treasury Management Report

1.5 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council’s Treasury Policy Statement and Treasury Management Practices (TMP).

1.6 These reports are required to be adequately scrutinised. This role is undertaken by the Overview and Scrutiny Select Committee.

1.7 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition (the TM Code) and the Prudential Code and this report fulfils the Council’s legal obligation under the *Local Government Act 2003* to have regard to both the relevant CIPFA Codes and Ministry for Housing, Communities and Local Government (MHCLG) Guidance.

1.8 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council’s Corporate Plan, Medium Term Financial Strategy, Capital Strategy (including the Property Investment Strategy) and Treasury Management Strategy.

1.9 The Council’s Treasury Management Strategy, Annual Investment Strategy and Prudential indicators for 2019/20 were considered by the Corporate Management Committee at its meeting held on 24 January 2019, and the Overview and Scrutiny Select Committee at its meeting on 6 February 2019 before final approval by full Council on 7 March 2019.

2. Economy and Outlook for Interest Rates

Treasury Management Consultants

2.1 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Following a tendering exercise carried out during the summer of 2016, Link Asset Services (Link) were awarded a new contract from 1 October 2016. This contract is for the period of five years. Although Link provide advice to the Council, responsibility for final decision making remains with the Council and its Officers at all times.

Economic Update

2.2 The Council’s treasury advisor, Link Asset Services, has provided the economic update in the following paragraphs.

2.3 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 before 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. 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, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of a possible general election, any interest rate forecasts are subject to material change as the situation evolves.

2.4 If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The Monetary Policy Committee (MPC) could then need to address the issue of whether to raise Bank Rate when there is very 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 government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

2.5 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 the 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 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.

2.6 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.

2.7 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.

2.8 In the political arena, if there is a general election soon, this 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.

2.9 The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

Outlook for Interest Rates

2.10 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-19	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	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	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	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

2.11 The above forecasts have been based on an assumption that there is an agreed deal on Brexit. 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.

2.12 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 last 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 is 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.

2.13 **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.

2.14 What we have seen during the last half year is a near halving of longer term PWLB rates to completely unprecedented historic low levels. 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.

2.15 One potential danger that may be lurking in investor minds is that Japan has failed for twenty years 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 anxious that this condition might become contagious.

2.16 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.

3 Annual Investment Strategy

3.1 The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.2 The Council will 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.

3.3 The Council held £69.2m of investments as at 30 September 2019 (£52.7m at 31 March 2019) and the investment activity during the first six months of the year can be seen from the table on the next page:

Investment Sector	Outstanding at 1 April 2019	New Investments	Investments Recalled	Outstanding at 30 Sept 2019
	£000	£000	£000	£000
Specified Investments				
Banking sector	22,000	4,000	17,000	9,000
Building societies	10,000	12,500	11,500	11,000
Local Authorities	4,000	28,000	4,000	28,000
Central Government	0	0	0	0
Money Market Funds	12,270	71,585	67,105	16,750
Unspecified Investments				
Pooled & Collective Investment Schemes	4,000	0	0	4,000
Funding Circle	458	6	3	461
	52,728	**116,091**	**99,608**	**69,211**

3.4 Traditionally, the amount of income the Council has to invest increases during the year before dropping back down in February and March. This is predominantly due to Council Tax and Business Rates being collected over ten monthly instalments but paid over to preceptors over a twelve month cycle.

3.5 A full list of investments held at the 30 September is set out at Appendix ‘B’.

3.6 The current investment counterparty criteria selection approved in the Treasury Management Strategy is meeting the requirement of the treasury management function.

Investment income and debt interest

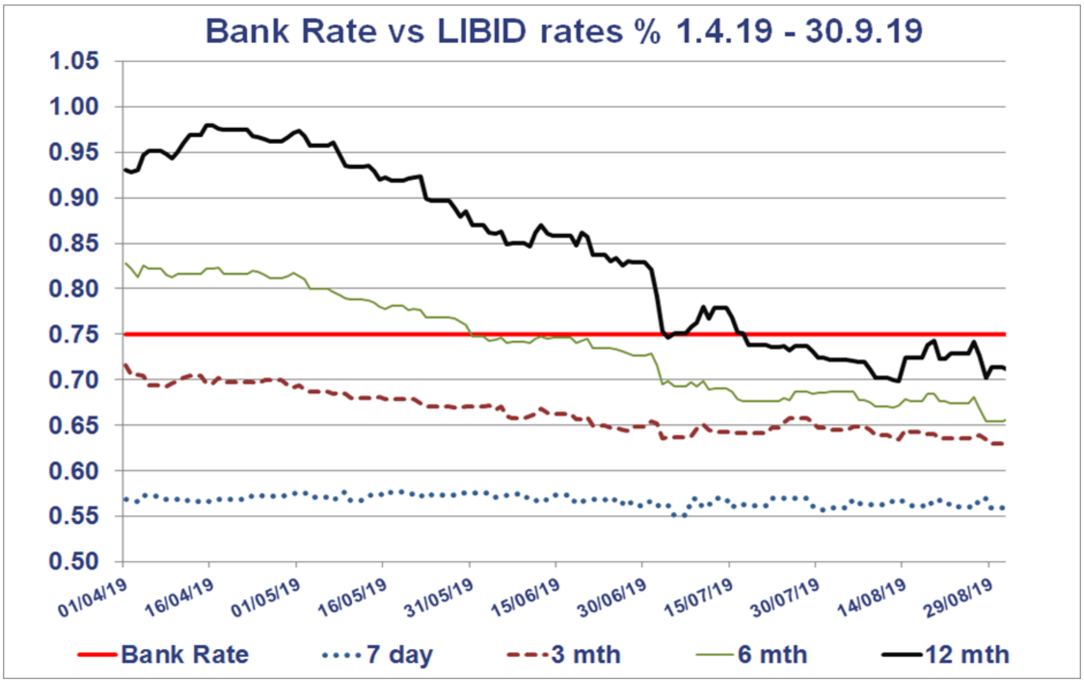
3.7 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income gained by the Council are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales, and timing of capital projects – also has a significant impact on cash flows.

3.8 The original estimate for investment income for 2019/20 was based on the Council achieving an **average** interest rate of 0.85%. This took into account a base rate of 0.75% through to June 2019 where it was anticipated to rise to 1.00% and remain there for the remainder of the year.

3.9 The following table shows the average interest rates generated during this period (excluding loans to RBC Companies):

	Average Interest Rate (%)
April	1.04
May	1.04
June	1.07
July	1.01
August	1.00
September	0.99
2019/20 average	**1.02**

3.10 The average rate of interest generated is in line with the Council's benchmark rates and follows a similar downward pattern as follows:



Averages for the Council's benchmark rates were:

Index	Annualised Return %
7 day LIBID average	0.57
Average Bank Base rate	0.60
3 month LIBID average	0.66
6 month LIBID average	0.73
12 month LIBID average	0.83

LIBID (The London Interbank Bid Rate) is the rate bid by banks on deposits i.e. the rate at which a bank is willing to borrow from other banks.

3.11 One of the reasons for the favourable interest being received is due to the Council's investment in pooled funds. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. These offer enhanced returns over the longer term but are potentially more volatile over the shorter term. The market value of these investments at 30 September and their returns for the first 6 months were as follows:

Pooled Funds & Funding Circle	Original Investment £	Value 30 Sept 2019 £	Annualised Return %
CCLA Property Fund	2,000,000	2,348,739	3.21
CCLA Diversified Income Fund	2,000,000	2,082,180	3.11

3.12 Based on current interest and borrowing rates, the revised estimate for investment income and debt interest for the current year is now estimated to be as follows:

	Original Estimate £'000	Revised Estimate £'000
Gross external investment income	484	478
Interest on loans to RBC companies	1,414	1,436
Interest paid on deposits and other balances	(6)	(6)
Net Investment Income	**1,892**	**1,908**
Debt Interest	(17,961)	(15,072)
Management Expenses	(35)	(35)
Net Investment Income / (Debt interest)	**(16,104)**	**(13,199)**

Attributable to:		
Housing Revenue Account	(3,194)	(3,194)
General Fund	(12,910)	(10,018)
Net Investment Income / (Debt interest)	**(16,104)**	**(13,199)**

4 Debt Management Strategy

4.1 Due to slippage in the Capital Programme there has been no need to borrow so far this year as can be seen from the following table:

Investment Sector	Outstanding at 1 April 2019	New Borrowing	Borrowing Repaid	Outstanding at 30 Sept 2019
	£000	£000	£000	£000
HRA - PWLB	101,956	-	-	101,956
General Fund – PWLB	469,336	-	-	469,336
General Fund – Non PWLB	-	-	-	-
	571,292	**-**	**-**	**571,292**

4.2 A full list of borrowings held at the 30 September is set out at Appendix 'C'.

4.3 During the summer, there was generally a pickup in PWLB lending as the benchmark gilt rates have fallen to historic lows. As at the end of September the PWLB had £83.80bn of loans in place, close to the £85bn total amount allowable. On 9 October, the Treasury and PWLB announced the following:

- An increase to the statutory limit on how much the PWLB can have lent out at once, from £85bn to £95bn; and
- An increase in the interest rates offered on new Public Works Board Loans by 100 basis points (1%).

4.4 There was no prior warning that this increase would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. The effect of this change on new maturity loan rates was as follows:

	1 year %	5 year %	10 year %	20 year %	30 year %	40 year %	50 year %
08/10/2019	1.47	1.19	1.42	1.93	1.96	1.85	1.81
09/10/2019	2.49	2.22	2.45	2.94	2.97	2.86	2.82

4.5 Whereas the Council has previously relied on the PWLB as its main source of funding, it will now have to reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

5. Treasury Management Indicators

5.1 The CIPFA Code on Treasury Management requires the Council to approve a set of treasury management indicators by which the Council can measure its exposure to risk. The Council's treasury indicators were approved by Council on 7 March 2019.

5.2 During the financial year to date, 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. The following paragraphs show the position as at 30 September against each of the indicators.

Interest rate exposures

5.3 This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding are:

Upper limits proposed on fixed and variable rate interest rate exposures expressed as the principal sums outstanding in respect of borrowing		
	Target £'000	**Actual £'000**
Upper limit on fixed interest rate exposures	710,940	571,292
Upper limit on variable interest rate exposures	0	(69,211)

5.4 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

5.5 The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. As all the Council's investments mature within the year they are classed as variable and the Council has no variable rate borrowings to offset these against, hence the negative figure in the table above.

Maturity structure of borrowing

5.6 This indicator is set to control the Council's exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing was set at their maximum because at the time the proposals for taking on the housing debt had not been finalised and it was therefore important to maintain this flexibility to allow the optimum debt structure to be put in place.

Proposed upper and lower limits on the maturity structure of fixed rate borrowing			
	Upper	**Lower**	**Actual**
Under 12 months	25%	0%	1%
12 months and within 24 months	25%	0%	7%
24 months and within five years	25%	0%	2%
Five years and within 10 years	50%	0%	8%
10 years and above	100%	0%	82%

5.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

5.8 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 proposed limits on the total principal sum invested to final maturities beyond the period end are:

Principal sums invested for periods longer than 364 days		
	Target £'000	**Actual £'000**
Limit on principal invested beyond one year	1,000	0

Borrowing limits

5.9 The Council's borrowing limits were set at the start of the financial year and are as follows:

Borrowing Limits	
	Target £'000
Approved Authorised Limit	720,939
Approved Operational Boundary	712,939
Actual borrowing as at 30 September	**571,292**

5.10 The Authorised Limit is a limit on the maximum amount the authority expects to borrow at any one point in time. The limit includes short-term borrowing. The Operational Boundary is the term used to describe the most likely scenario of cash flow movements and equates to the maximum level of external debt projected by the authority's estimates. The Authorised Limit differs in that it provides over and above the operational boundary for unusual cash movements (hence, one is a limit, the other a boundary).

6. Other Treasury Related Items

6.1 In order to streamline some of its back office processes and to assist in closing the Council's accounts Officers have purchased a new computerised treasury management system. The new system has the capability of recording all the Council's treasury deals and contains a cashflow module that will replace the manual processes and spreadsheets currently being used. Officers are currently dual running the new system with existing manual records and once satisfied the Council's Treasury Management Practices (TMP) and Schedules (TMS) for 2019/20 will be updated accordingly.

7. Legal Implications

7.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code when carrying out their treasury management functions.

7.2 Section 15 of the Local Government Act 2003 provides the power for the Government to issue guidance about investments to which authorities are to have regard. This report takes account of the current and proposed guidance issued by the Government.

7.3 The Government has issued Regulations to require investment in share capital to be treated as capital expenditure. The Government state that this acts as a disincentive to local authorities to make such investments, as they would consume the authority's capital resources. However, the Government has excluded investments in money market funds, multilateral development banks and real estate investment trusts from this definition, as it has no wish to deter authorities from considering these investments.

8. Conclusion

8.1 With the continued uncertainty over Brexit and global market uncertainty generally, investment rates have been slowly declining throughout the year. Despite this, by tapping into medium term interest rates with Local Authorities, the Council has managed to achieve above average returns for the first half of the year.

8.2 During the period the Council has operated within the treasury and prudential indicators set out in the Council's Treasury management Strategy and in compliance with its Treasury Management Practices.

(For information)

Background Papers

None stated

Investments as at 30 September 2019					
	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Access Accounts					
Santander Business Reserve Account	1,800		**** 95 Day Notice A/C ****		0.900
Santander Business Reserve Account	2,200		**** 95 Day Notice A/C ****		0.900
Goldman Sachs International Bank	3,000		**** 35 Day Notice A/C ****		0.820
Term Deposits					
Lloyds Bank PLC	4,000		6 mth	03 Jan 2020	1.000
Certificates of Deposit					
DBS	1,000		9 mth	03 Apr 2020	0.910
Nat West Bank	1,000		1 yr	03 Jul 2020	0.870
Total Banks	**13,000**	**19%**			
Building Societies					
Coventry BS	1,000		6 mth	11 Oct 2019	0.920
Nationwide BS	2,000		6 mth	20 Jan 2020	0.810
Nationwide BS	1,000		6 mth	11 Oct 2019	0.820
Nationwide BS	1,000		6 mth	30 Dec 2019	0.820
Yorkshire BS	2,000		3 mth	18 Oct 2019	0.710
Total Building Society	**7,000**	**10%**	(50% Limit)		
Local Authorities					
City of Kingston upon Hill	5,000		6 mth	16 Mar 2020	0.78
Corby Borough Council	1,000		1 yr	22 Apr 2020	1.000
Fife Council	3,000		1 yr	29 Jun 2020	0.900
Lancashire County Council	2,000		1 yr	13 May 2020	0.920
Lancashire County Council	2,000		1 yr	11 May 2020	0.920
Leeds City Council	5,000		6 mth	19 Feb 2020	0.720
London Borough of Croydon	2,000		1 yr	01 Jul 2020	0.880
North Lanarkshire Council	3,000		9 mth	20 Apr 2020	0.800
Rugby Borough Council	2,000		9 mth	17 Feb 2020	0.850
Salford CC	3,000		1 yr	29 Jul 2020	0.870
Total Local Authorities	**28,000**	**40%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	6,000		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	6,000		********** On Call **********		Variable
CCLA - Public Sector Deposit Fund	2,000		********** On Call **********		Variable
Insight Liquidity Fund PLC	2,750		********** On Call **********		Variable
Total Money Market Funds	**16,750**	**24%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 1 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 1 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**6%**			
Funding Circle					
Lending to small and medium sized companies	461		**** up to 5 years ****		Variable
Total Other Investments	**461**	**1%**	(with the ability to sell loans)		
Total Investments	**69,211**				

Borrowings as at 31 October 2019

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500502 (part)	1,956	10	46,944	28 Mar 2022	2.40%
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	101,956		**3,425,944**	**Average Rate:**	**3.36%**
General Fund					
PWLB - 504311	5,000	5	98,500	17 Aug 2020	1.97%
PWLB - 507406	40,000	43	672,000	02 May 2021	1.68%
PWLB - 500502 (part) - Appropriated from HRA	1,336	10	32,064	28 Mar 2022	2.40%
PWLB - 507919	10,000	5	195,000	17 Oct 2023	1.95%
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
	469,336		**10,849,764**	**Average Rate:**	**2.31%**
Total Borrowings	**571,292**		**14,275,708**	**Annual Interest**	

Advance Loan Deal (Refinancing existing loan)	£'000	(Years)		MATURITY	%
Phonenix Life Limited	40,000	40	Annuity Basis	02 May 2061	2.88%

	£'000	
Authorised Borrowing Limit 2019/20	720,939	(approved 12 Feb 2019 - Full Council)
Borrowing to date	(571,292)	
Authorised Borrowing remaining	**149,647**	

7. **EXCLUSION OF PRESS AND PUBLIC**

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following reports under Section 100A(4) of the Local Government Act 1972 on the grounds that the reports in question would be likely to involve disclosure of exempt information of the description specified in paragraph 3 of Part I of Schedule 12A of the Act.

(To resolve)

PART II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection

a)	Exempt Information	Para
8.	PROJECT VIABILITY APPRAISALS IN A LOCAL GOVERNMENT SETTING	3
9.	NOTICE FROM THE HOUSING REGULATOR – REVIEW (TO FOLLOW)	3

b) Confidential Information

(No reports to be considered under this heading)