Appendix B

Treasury Management Update

Quarter Ended 30 June 2018

Report of Chief Officer (Resources)

Treasury Management Update

Quarter Ended 30 June 2018

1. Introduction

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (through the reporting of the Treasury Management Strategy, and annual and midyear reports). This report is in line with best practice in accordance with that Code, to help demonstrate transparency and promote accountability.

2. Economic Background (provided by Link Asset Services)

Growth in 2017 was disappointingly weak in the first half of the year but picked up to 0.5% in quarter 3 and 0.4% in quarter 4. Growth in quarter 1 of 2018 was again disappointing, although on the first revision the rate improved from 0.1 to 0.2% to allay fears that the economy may have started a prolonged period of very weak growth. Initial indications in quarter 2 are that growth may have picked up speed to around 0.4%. The main reason for weak growth during 2017 and 2018 has been that inflation has been exceeding pay growth until recently, meaning that there has been negative growth in consumer disposable income when consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP.

The manufacturing sector was the bright spot in the economy in 2017 in terms of strong growth but quarter 1 was the weakest quarter for one and a half years and forward indicators do not suggest a return to strong growth is likely.

During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around and the MPC did not disappoint by leaving rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip. Since May, opinion has again turned to suggest that an August Bank Rate increase is back on the cards.

However, there remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it is still far too early to be confident about how strong growth and inflationary pressures will be over the next two years, and therefore the pace of any rate increases.

3. Interest Rate Forecast

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

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-20
Bank Rate	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
10yr PWLB View	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%
50yr PWLB View	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

Link Asset Services undertook its last review of interest rate forecasts on 11 May after the quarterly Bank of England Inflation Report and MPC meeting at which the MPC kept the Bank

Rate unchanged at 0.50%. The MPC Minutes indicated they wanted to see whether the slowdown in growth in quarter 1 had been a temporary blip or a potential first sign of a prolonged period of weak growth.

The overall balance of risks to economic recovery in the UK is probably even. However, given the uncertainties around Brexit in particular, but also other uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which the Bank Rate could go up.

4. Annual Investment Strategy

The Treasury Management Strategy (TMS) for 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 28 February 2018. It sets out the Council's investment priorities as being:

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

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using Link's suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2018.

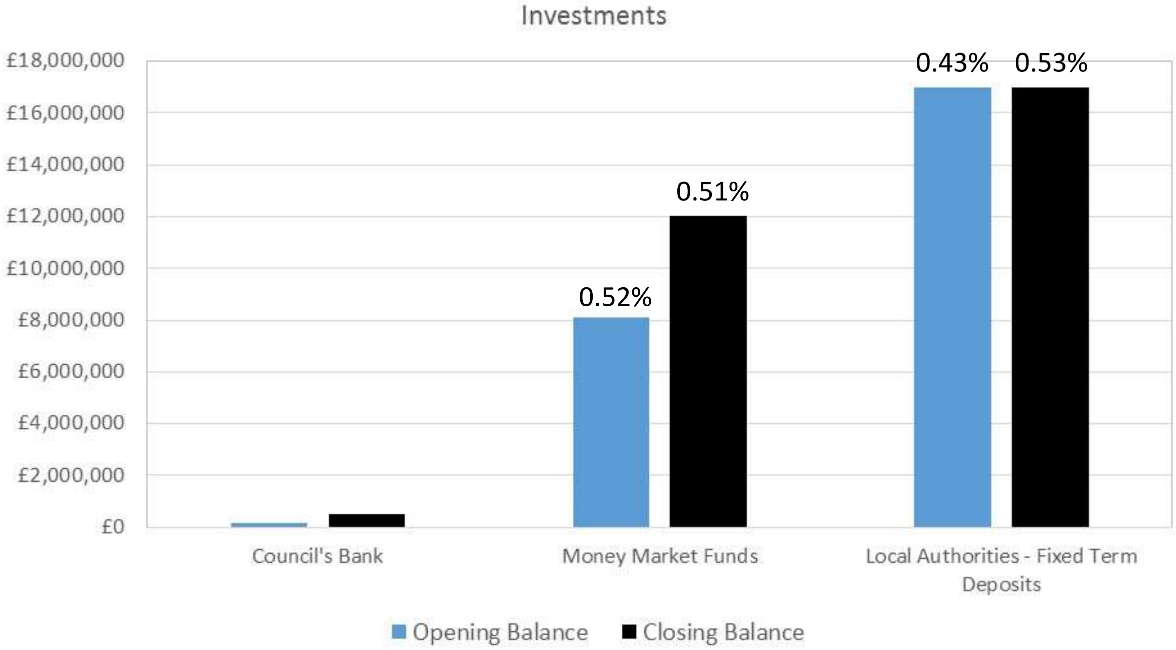
The average level of funds available for investment purposes during the quarter was £27M. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme. Unfortunately, it had been anticipated that cash levels would be higher in the quarter and that interest rates would have been increased again, however this has not been the case and as a result investment interest is currently £22K behind target.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows. This is viewed as reasonable performance, given the need to prioritise security of investments, and liquidity (i.e. making sure that the Council's cashflow meets its needs):

Base Rate	0.50%
7 day LIBID	0.36%
Lancaster City Council investments	0.52%

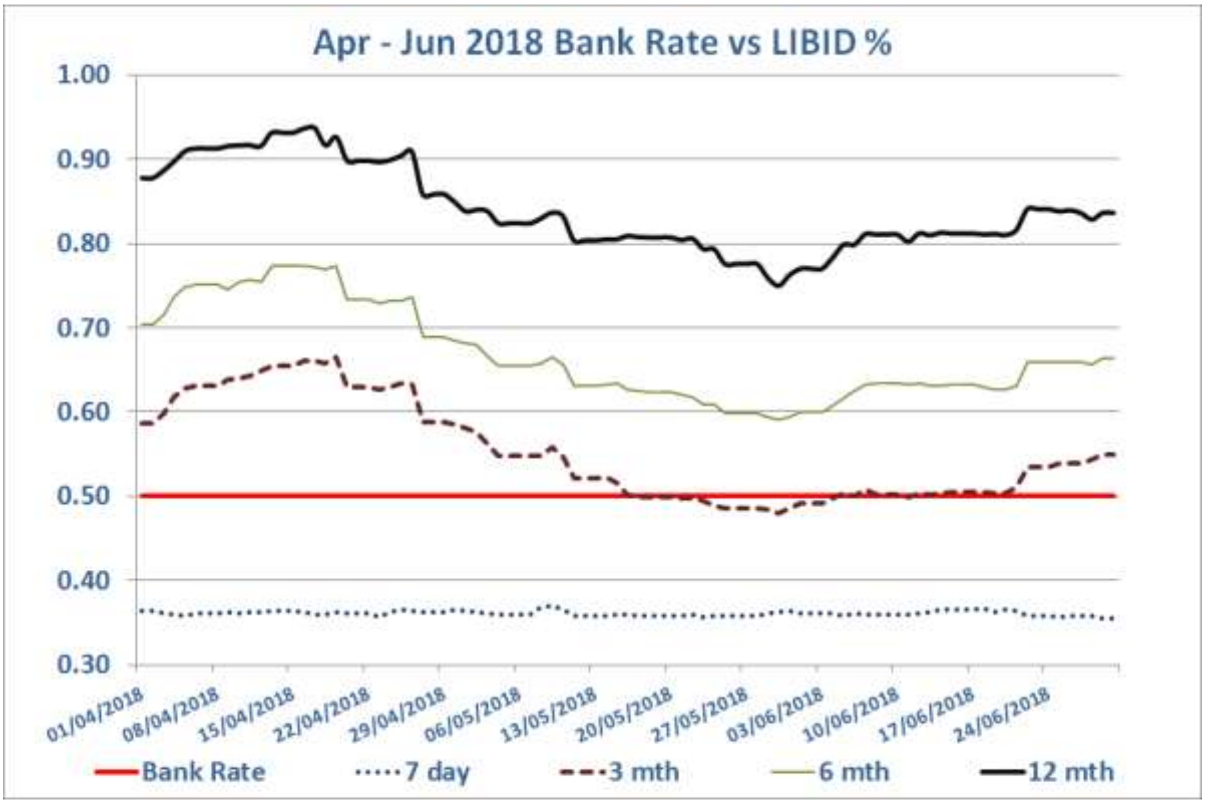
Investments Balances - quarter ended 30 June 2018

At the start of the quarter investments totalled £25M rising to £29.5M by 30 June. Fixed term investments with local authorities remained at £17M whilst Money Market Funds increased by £4M.



Other Investments	Term	Maturity Date	Opening £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			131,602	527,635		0.01%	23
Money Market Funds							
Fund			0	6,000,000	0.50%		4,954
LGIM			2,100,000	0	0.51%		4,272
Ignis			6,000,000	6,000,000	0.52%		7,512
Insight			0	0	0.45%		194
Fixed Term Deposits							
Guildford Borough Council	364 days	17/07/2018	5,000,000	5,000,000		0.53%	6,607
Rugby Borough Council	11 months	29/06/2018	1,000,000	0		0.35%	853
Antrim & Newtown Abbey BC	364 days	06/08/2018	3,000,000	3,000,000		0.37%	2,767
Broxtowe Borough Council	364 days	28/09/2018	1,000,000	1,000,000		0.40%	997
London Borough of Islington	364 days	01/10/2018	2,000,000	2,000,000		0.40%	1,995
Surrey Heath Borough Council	44 days	15/05/2018	5,000,000	0		0.50%	3,014
Surrey Heath Borough Council	183 days	16/11/2018	0	1,000,000		0.75%	904
Northamptonshire County Council	363 days	01/04/2019	0	1,000,000		0.70%	1,688
Telford & Wrekin Council	123 days	25/09/2018	0	4,000,000		0.55%	2,230
Sub-total			**25,231,602**	**29,527,635**			**38,010**
						Budgeted income	**59,750**
							(21,740)

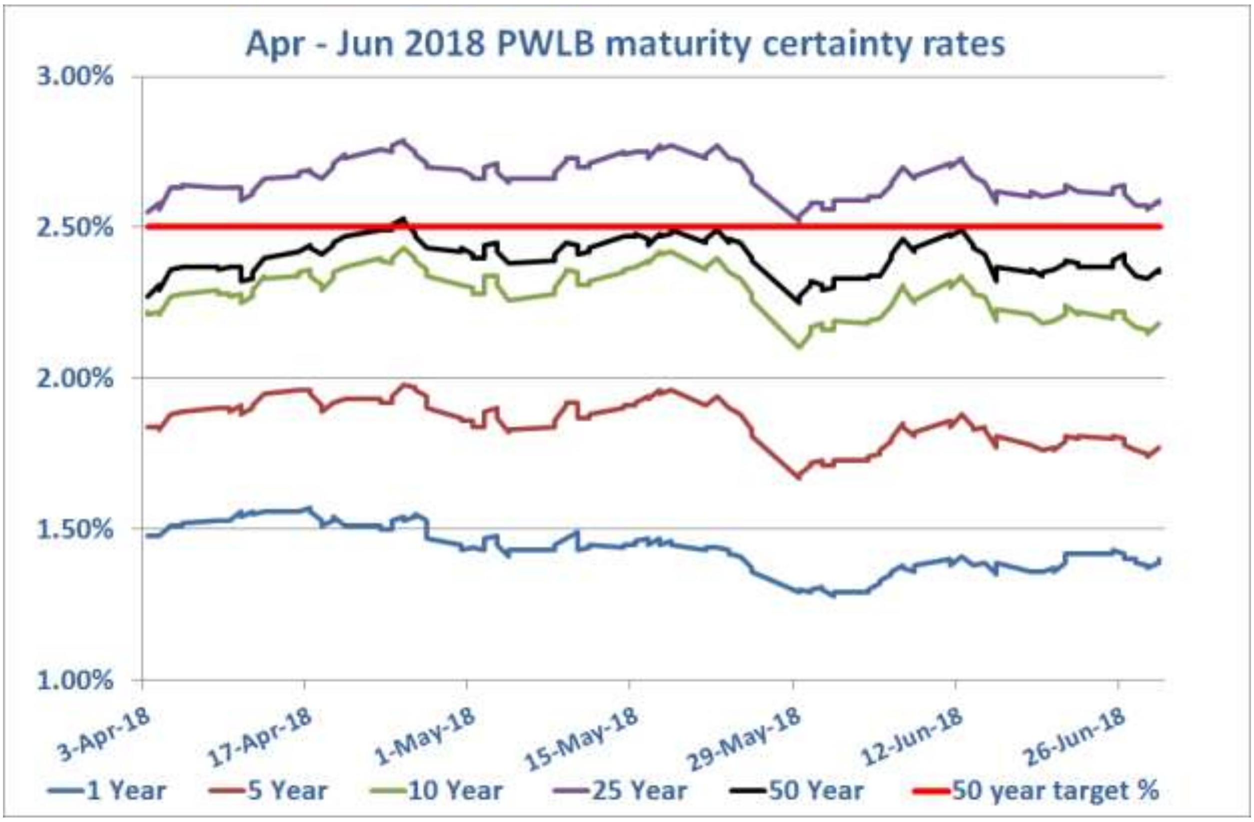
*Regarding Northamptonshire and their s114 notice, that does not affect the security of the investment. A s114 notice does not enable an authority simply to renege on its contractual obligations, such as repaying an investment, and if reorganisation occurs, then any successor organisation/s would pick up those repayment obligations. Local authorities cannot go into liquidation in the same way that banks etc. can; the requirement to provide (and therefore manage the cash to fund) statutory public services remains.



5. Borrowing (commentary provided by Link Asset Services)

As depicted in the graph(s) below, PWLB rates have not been on any consistent trend in this quarter.

During the quarter ended 30 June 2018, the 50 year PWLB target (certainty) rate for new long term borrowing was marginally reduced to 2.40%.



Due to the overall financial position there is no underlying need to borrow further for capital purposes (the Capital Financing Requirement – CFR), therefore no new borrowing was undertaken.

6. Debt Rescheduling

Officers continue to monitor potential saving opportunities associated with the early repayment of existing debt. This takes into account the premiums or discounts associated with early repayment and the projected cost of refinancing or loss in investment interest. Debt rescheduling opportunities have been limited in the current economic climate. At present, it would still not be financially prudent to repay any debt based on the current rates being offered.

7. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy.

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 and in compliance with the Council's Treasury Management Practices.

8. Risk Management

Many of the risks in relation to treasury management are managed through the setting and monitoring of performance against the relevant Prudential and Treasury Indicators and the approved investment strategy.

The Authority's Investment Strategy is designed to engineer risk management into investment activity by reference to credit ratings and the length of deposit to generate a pool of counterparties, together with consideration of other creditworthiness information to refine investment decisions, including consideration of the nature and status of counterparty groups (eg. MMFs, banks, local asuthorities).