

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Overview and Scrutiny Management Board
Date:	26 September 2019
Subject:	Treasury Management Performance Quarter 1 2019/20 (1 April to 30 June 2019)

Summary:

This report details the activities and performance of treasury management activities over the first quarter of 2019/20 (1 April to 30 June 2019), comparing this to the Treasury Management Strategy and Annual Investment Strategy 2019/20 that was approved by the Executive Councillor for Resources and Communication on 22 March 2019. This report meets the reporting requirements as detailed in the CIPFA Code of Practice for Treasury Management which we follow.

Actions Required:

The Overview and Scrutiny Management Board is invited to review the performance of treasury management activities and pass any comments onto the Executive Councillor for Resources and Communication.

1. Background

- 1.1. The Treasury Management Strategy and Annual Investment Strategy 2019/20 sets the framework for how we manage the cashflow, borrowing and treasury investments of the Council and the risks involved.
- 1.2. Actual activity and performance compared to this Strategy is reported quarterly, this report being the first quarterly report for 2019/20 covering the period up to 30 June 2019.
- 1.3. Activity and performance for Quarter 1 compared to the Strategy is detailed in the Conclusion in Section 2 below. Supporting information is detailed in the attached appendices.

2. Conclusion

Comparison of Quarter 1 Activity and Performance to Strategy

Interest Rate Forecast:

Strategy:

At the time of writing the Strategy:

- *Short term and long term rates forecast to rise during 2019/20, but not significantly.*
- *Market uncertainties, predominantly caused by Brexit, may delay or reverse any forecast increases in rates.*

Activity & Performance Quarter 1:

Short term Rates.	No movement in rates to date, as uncertainties in market delay expected increases.
Long Term Rates.	Rates fallen by around 0.20% as markets seek a safe haven in an uncertain period by switching investments into gilts, pushing up gilt prices and hence reducing yields.
Economic Review.	Concerns over global economic growth and uncertainties with the outcome of Brexit may have a negative impact to the UK economy but it is difficult to predict what may happen.

Appendix A shows graph of key interest rate movements over Quarter 1 to 30 June 2019 and an economic background review and latest interest rate forecast from Link Asset Services (TM Advisor).

Investments:

Strategy:

- *Investment priority – security first, liquidity second and finally yield.*
 - *Aim to invest in all periods up to 2 years to suit direction of interest rates, at rates in excess of market levels.*
 - *Low risk counterparty strategy adopted: minimum long term rating for approved counterparties set at 'A' (from A+) for 2019/20 for any two from three credit rating agencies.*
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Activity & Performance Quarter 1:

Investment Position and Performance.	Investments outstanding at 30 th June 2019 stood at £289m. Investment return has continued to exceed benchmark returns, for the level of risk taken. Achieved by making several 1 to 2 year investments, locking in fixed rates before falling. Weighted average maturity of investments was 146 days at end of period. For more detail see Appendix B .
Lending List Changes.	Several new counterparties were added to the lending list for 2019/20 as a result of dropping the minimum long term rating to 'A'. These are indicated by yellow on the Lending List at 30 th June 2019, shown in Appendix C .

Appendix D shows a full list of investments held at 30th June 2019, combined with the creditworthiness list provided by Link Asset Services (TM Advisor).

Borrowing:**Strategy:**

- *Long term external borrowing at start of year was £465.9m, costing 3.965%.*
- *New borrowing requirement for 2019/20 to finance capital programme was set at £118.4m.*
- *It was agreed that internal borrowing would be maintained at around 15% of the capital financing requirement for 2019/20. (Internal borrowing is using the Council's own internal cash balance to meet borrowing requirement).*
- *Any external long term borrowing would be taken with the aim to reduce the overall cost of debt and for periods to ensure an even debt maturity profile.*

Activity & Performance Quarter 1:

Revised Borrowing Requirement.	Taking into account carry forwards, internal borrowing and estimated rephasing/underspends, the borrowing requirement at 30 th June 2019 was revised to £81.7m and projected internal borrowing revised to £95.8m.
Borrowing Position and Performance.	During the quarter, £10m new external borrowing was taken from the PWLB on 29 th May 2019 for 50 years at 2.21%. This was close to the lowest rate available during the period. After this activity the balance of external debt at 30 th June 2019 was £470.2m, costing 3.9324%.

Temporary Borrowing.	£5m outstanding at quarter end taken to cover drops in liquidity during period. The cost of this debt was below current money market rate levels and hence cost neutral.
Debt Rescheduling.	No debt rescheduling was undertaken in the period.
Prudential Indicator Limits 2019/20.	All prudential limits were met with no breaches during the period.

Appendix E shows borrowing detail and latest maturity profile at 30th June 2019.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

Risk & impact analysis for treasury management forms TMP1 of the Treasury Management Practices that are required by the CIPFA Code of Practice 2017. A treasury management risk register details the main risks for treasury management and this is reviewed annually. Both the TMPs and the risk register are held in the Corporate Section of the Financial Strategy at County Offices.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Movement of Key Interest Rates to 30 th June 2019, Economic Background and Latest Interest Rate Forecast from Link Asset Services.
Appendix B	Investments: Activity & Performance at 30 th June 2019.
Appendix C	Authorised Lending List at 30 th June 2019 and Credit Rating Key.
Appendix D	Investment Analysis Review at June 2019 - Link Asset Services.
Appendix E	Borrowing: Activity & Performance and Long Term Maturity Profile at 30 th June 2019.

5. Background Papers

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2019/20 - 22/3/2019	Lincolnshire County Council, Finance and Public Protection
Council Budget 2019/20 - 22/2/2019	Lincolnshire County Council, Finance and Public Protection

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