Performance and Finance Select Committee
5 December 2019
Treasury Management Mid-Year Review 2019/20
Report by Director of Finance and Support Services

Executive Summary

With regard to its treasury management activities, County Council is required by the Chartered Institute of Public Finance and Accountancy (CIPFA) to receive as a minimum each year:

- An annual strategy statement for the forthcoming year
- A mid-year review
- An annual report at year end

In accordance with governance arrangements approved in February 2014, the Performance and Finance Select Committee will receive all of the above reports for scrutiny. In addition effective governance is maintained through the submission of quarterly compliance reports to the Regulation, Audit and Accounts Committee.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations (including CIPFA Codes of Practice). Financial risks are minimised through compliance with the annual Treasury Management Strategy Statement (TMSS) which incorporates the Prudential and Treasury Indicators, approved for 2019/20 by County Council in February 2019. During the first half of 2019/20 the Council complied with all of the statutory and regulatory requirements which require the Council to identify and where possible quantify the levels of risk associated with its treasury management activities. Additionally the Council confirms that:

- Given the significant borrowing need in the approved capital programme (up to March 2024) the Council took advantage of historically low borrowing rates offered by the Public Works Loan Board (PWLB) and borrowed an additional £100m during the first quarter of 2019/20; 50-year PWLB maturity loans at an average rate of 2.22%. The Council's overall borrowing at 30 September 2019 remained within the "Authorised Borrowing Limit" approved by County Council in February 2019 (£549.9m; excluding PFI schemes and finance lease) *(Paragraphs 3.7 and 4.2)*.

- At 30 September 2019 the Council's external borrowing for capital purposes, excluding PFI schemes and finance leases, was £481.8m (£388.8m at 31 March 2019); including £7.0m (plus interest) which continues to be repaid annually to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011 *(Paragraph 4.3).*

- Following the additional £100m PWLB borrowing taken and in accordance with 2019/20 capital expenditure plans, the Council's internal borrowing (in lieu of external borrowing) is expected to decrease from £125.3m to £30.7m by 31 March 2020 *(Paragraph 4.4)*.

- Total interest (and fees applicable to new loans) payable to the PWLB during the first half of 2019/20 was £9.7m at an average rate of 4.15%. The total revenue (interest) cost of servicing the Council's PWLB debt in 2019/20 is forecast to be £19.5m. Additional costs resulting from the £100m new PWLB debt taken in 2019/20 are to be met from service contributions towards the cost of borrowing relating to income generating initiatives and increased interest receipts due to higher investment balances than originally forecast *(Paragraph 4.5).*

- Security of capital remains a primary investment objective. This continues to be maintained by following the Council's counterparty policy as set out in its Annual Investment Strategy for 2019/20 (contained within the approved TMSS). At 30 September 2019 the Council's investments totalled £305.0m (£204.8m at 31 March 2019). Gross investment interest received during the first half of 2019/20 was £1.9m, representing an investment return of 1.31% on an average investment portfolio of £284.5m. The Council forecasts that interest receipts during 2019/20 will be £0.2m higher than the currently approved £2.7m investment income revenue budget *(Paragraphs 5.6 to 5.11).*

- In December 2017, revised CIPFA Codes of Practice and Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance required additional reporting on the Council's non-treasury (commercial) activities. A schedule listing the Council's current income generating and cost avoidance activities is included in the Mid-Year Review to meet the 2019/20 reporting requirements of the Code *(Section 6)*.

The focus for scrutiny

The Committee is asked to review and comment on the treasury management mid-year position to ensure activity and performance is in line with the Treasury Management Strategy agreed in February 2019.

Treasury Management Mid-Year Review (2019/20)

1. Introduction

1.1 County Council annually approves a balanced budget which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure that cash flow is adequately planned, with surplus monies being invested in accordance with the approved Treasury Management Strategy Statement (TMSS).

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 the Council can meet its capital spending operations. The management of longer term cash may involve the arrangement of long and/or short term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing). On occasion any external debt previously drawn may be repaid and/or restructured to meet the Council's risk or cost objectives.

1.3 Accordingly, treasury management is defined as:

> *"The management of the Council'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."*

1.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) includes the requirement to produce a mid-year review covering treasury management activities and performance in the year to-date. In accordance with the revised Code and governance arrangements approved by County Council in February 2014, scrutiny of the mid-year review is delegated to the Performance and Finance Select Committee.

1.5 The attached report has been prepared in compliance with CIPFA's Code of Practice and covers the following:

- An economic and interest rate update for the first half of the 2019/20 financial year *[Section 2]*;
- The Council's 2019/20 Capital Programme and associated Prudential Indicators *[Section 3]*;
- A review of the Council's borrowing strategy for 2019/20 *[Section 4]*;
- A review of the Council's investment portfolio during the first six months of 2019/20 *[Section 5]*; and
- A schedule of the Council's non-treasury activities *[Section 6]*.

2. Economics and Interest Rates

2.1 **Economic Background**: The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty continued to take its toll; Gross Domestic Product (GDP) contracting by 0.2% in the quarter April to June 2019 (+1.3% year-on-year). In its August 2019 inflation report the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The September 2019 Monetary Policy Committee (MPC) meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth. This mirrored investor concerns around the world who are now expecting a significant downturn or possibly even a recession in some major developed economies.

2.2 The UK Consumer Price Index (CPI) measure of inflation had been hovering around the Bank of England's 2% target during 2019/20, but fell to 1.7% in August 2019 (and remained unchanged in September 2019); so does not pose any immediate concerns to the MPC at the current time. Regarding the UK labour market, despite the contraction in quarterly GDP growth, employment in the three months to August 2019 was 0.3% higher than levels recorded a year earlier. The UK unemployment rate was estimated at 3.9% in August 2019, 0.1% lower than a year earlier but marginally higher than that estimated during the first quarter of 2019/20. With unemployment hovering around 44-year lows it was unsurprising that wage inflation (excluding bonuses) picked up to a high point of 3.9% in the three months to June 2019, before easing back to 3.8% by August 2019. In real terms (after adjusting for inflation) the annual growth in regular pay was estimated to be about 2.0%; an increase in household spending power that will potentially feed through into providing support to economic growth in the coming months.

2.3 Against this economic background the MPC left UK Bank Rate unchanged at 0.75% during the first half of 2019/20 and analysts expect that no future change will be made to monetary policy until some clarity in Brexit materialises. Following a Brexit deal, together with planned fiscal policies announced by the UK Government, it is possible that growth could recover relatively quickly allowing the MPC to address the issue of whether to raise the Bank Rate at some point in the coming year to combat inflationary pressures which may be developing given limited slack left in the UK labour market. Conversely, in the event of significant disruption to the economy (say in a disorderly exit from the European Union), the MPC could still cut the Bank Rate in order to support growth.

2.4 World Growth: Recent Purchasing Managers' Index (PMI) statistics of economic health for the US, UK, European Union and China have all given forward indications of a downturn in growth; confirming investor sentiment that the growth outlook during the rest of 2019/20 will be weak. The trade war between the US and China remains a major concern to financial markets and is depressing worldwide growth, as any downturn would spill over into countries supplying raw materials to China. As a consequence concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could be a recession looming in the US.

2.5 If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited monetary policy measures available to respond as rates are already very low in most countries (apart from the US). Additionally concerns remain about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

2.6 Bond Yields (Borrowing Rates): Given the context of heightened expectations that the US could be heading for a recession and the general background of a downturn in world economic growth, together with generally low levels of inflation, conditions remained ripe for low bond yields during 2019. This resulted in government bond yields in the developed world falling significantly during the first half of 2019/20; including UK Gilts.

2.7 Accordingly, during the first half of 2019/20 there was a near halving of long-term Public Works Loan Board (PWLB) borrowing rates to unprecedented low levels. Consequently (in October 2019) HM Treasury and the PWLB announced a 1% increase in the margin over UK Gilt yields on top of the 0.8% margin over gilts local authorities had previously paid; with the aim of returning PWLB borrowing rates back to levels seen in 2018.

2.8 There is also the possibility that financial markets have gone too far in their fears about the degree of the downturn in the US and world growth. If the US only suffers a mild downturn in growth there would likely be upward pressure on bond yields (in particular US treasuries); however given Brexit uncertainties it remains uncertain how strong the correlation with UK Gilts will be over the coming months making forecasting very difficult at this point in time.

2.9 **Interest Rate Forecasts**: The Council's treasury management advisor (Link Asset Services) recently updated their interest rate forecasts based on the assumption that there will be an agreed Brexit deal at some point in time. Given the current level of uncertainties forecasts may need to be reassessed in the light of events during the remainder of 2019/20.

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

2.10 The above forecasts for PWLB borrowing rates are based on the "Certainty Rate" which has been accessible to Local Authorities since November 2012. They also include the additional 1.0% margin over UK Gilt yields which was introduced by HM Treasury and the PWLB in early October 2019 (see paragraph 4.6).

3. The Council's Capital Position (Prudential Indicators)

3.1 Capital Programme: In accordance with CIPFA's "Prudential Code" and the Council's ambitions and priorities as set out within the Future West Sussex Plan, the Council approves annually its Capital Strategy (including the five year capital programme) setting out the investment required to meet the Council's capital objectives.

3.2 Capital expenditure as contained within the approved programme may be financed from a range of internal and external sources including:

- Government grants
- External contributions (such as s106 developer contributions)
- Capital receipts
- Revenue contributions
- Transfers from reserves held for capital purpose

3.3 Borrowing is required to meet the cost of any capital expenditure not financed by these internal and external funding sources. The Council is therefore required to approve a strategy that sets-out the borrowing required to meet the cost of any unfinanced expenditure as contained within its capital programme; whilst ensuring that such borrowing remains within prudent, affordable and sustainable limits.

3.4 Capital Expenditure: In February 2019, County Council approved a Capital Strategy that set out total planned investment of £705m across the period 2019/20 to 2023/24; including £170.3m for income generating initiatives over the period. The table below details the original estimates for 2019/20 capital expenditure and the current forecast spend for the year:

Capital Expenditure by Service	2019/20 Original Estimate £'m	2019/20 Forecast Spend *(i)* £'m
Adults and Health	1.5	2.3
Economy and Corporate Resources	9.0	8.0
Education & Skills / Children and Young People	31.3	37.5
Environment	1.2	1.1
Finance	7.0	7.8
Fire & Rescue and Communities	9.0	8.8
Highways and Infrastructure	33.8	36.7
Core Programme	**92.8**	**102.2**
Income Generating Initiatives	16.2	13.3
Total Capital Expenditure	**109.0**	**115.5**

(i) Forecast spend as reported in the September 2019 Total Performance Monitor (TPM).

3.5 In line with the above, the revised forecast of 2019/20 capital financing includes £105.6m by way of government grants, external contributions, capital receipts and revenue funding; and £9.9m by way of internal and/or external borrowing (all of which relates to borrowing for income generating initiatives).

3.6 Limits to Borrowing Activity: Key indicators of prudence for the Council's treasury activity are the Prudential Indicators that ensure that over the medium-term borrowing will only be for a capital purpose (including on Balance Sheet PFI schemes and finance leases) including:

- The Council's expected external debt position over the period; termed the "Operational Boundary";
- Gross external debt should not, except in the short-term, exceed the Council's total borrowing requirement in the preceding year plus estimates of any additional borrowing in 2019/20 and over the next two financial years;
- The Council's "Authorised Borrowing Limit" is a statutory limit determined under Section 3(1) of the Local Government Act 2003 representing the limit beyond which all external debt (including overdrawn bank balances and short-term borrowing) is prohibited. The limit is approved annually by County Council and reflects the level of borrowing which could be afforded in the short-term (including borrowing in advance of capital need) but not sustainable in the longer-term. It is therefore the Council's expected maximum borrowing need over a three year period (as approved in the capital programme) with additional headroom for unexpected cash flow movements.

3.7 The Director of Finance and Support Services confirms that no difficulties are envisaged for the current year in complying with these Prudential Indicators as a consequence of the approved capital programme, as shown below:

Operational Boundary	2019/20 Original Estimate £'m	2019/20 Latest Forecast £'m
External Borrowing - Capital *(i)*	381.8	481.8
External Borrowing - Chichester Harbour	5.5	5.5
PFI Schemes and Finance Leases	100.2	100.2
Operational Boundary Limit	**487.5**	**587.5**

(i) Latest forecasts have been increased to take into account the £100m PWLB borrowing undertaken during the first quarter of 2019/20.

Authorised Borrowing Limit	2019/20 Original Estimate £'m	2019/20 Latest Forecast £'m
Gross Borrowing - Capital	509.9	509.9
Gross Borrowing - Cash Flow Requirements	40.0	40.0
PFI Schemes and Finance Leases	100.2	100.2
Authorised Borrowing Limit	**650.1**	**650.1**

3.8 Whilst no further external borrowing is currently planned during 2019/20, the approved Authorised Borrowing Limit remains unchanged allowing for the arrangement of new debt if borrowing plans relating to the Council's capital programme change during the remainder of the year.

4. Borrowing

4.1 The Council's main objective when approving new external borrowing is to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required; flexibility to renegotiate loans should the Council's long-term capital plans change being a secondary objective. Prevailing PWLB borrowing rates for maturity loans (including the 0.2% "Certainty Rate" discount available to UK local authorities) during the first six months of 2019/20 are shown below:

Date	PWLB Notice	1-Year PWLB (%)	5-Year PWLB (%)	10-Year PWLB (%)	20-Year PWLB (%)	25-Year PWLB (%)	50-Year PWLB (%)
01/04/2019	128/19	1.46	1.52	1.84	2.35	2.41	2.24
30/04/2019	167/19	1.55	1.68	2.02	2.49	2.54	2.38
31/05/2019	209/19	1.42	1.41	1.70	2.23	2.30	2.16
30/06/2019	249/19	1.43	1.41	1.68	2.23	2.30	2.16
31/07/2019	295/19	1.26	1.20	1.50	2.13	2.22	2.12
31/08/2019	338/19	1.24	1.09	1.21	1.74	1.82	1.68
30/09/2019	380/19	1.28	1.07	1.27	1.77	1.83	1.67
Minimum	n/a	1.17	1.01	1.13	1.65	1.73	1.57
Average	**n/a**	**1.40**	**1.37**	**1.62**	**2.14**	**2.20**	**2.07**
Maximum	n/a	1.58	1.73	2.07	2.53	2.58	2.41

4.2 Given the significant borrowing need in the approved capital programme (up to March 2024) the Council took advantage of the low borrowing rates offered by the PWLB (as shown above) and borrowed an additional £100m during the first quarter of 2019/20; 50-year PWLB maturity loans at an average rate of 2.22%.

4.3 At 30 September 2019 the Council's PWLB long-term borrowing therefore totalled £481.8m (£388.8m at 31 March 2019); including £7.0m (plus interest) that is repaid annually to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011. Accordingly, the Council's total PWLB debt remained within the "Authorised Borrowing Limit" approved by County Council in February 2019 (see paragraph 3.7). The maturity profile of the Council's PWLB borrowing is shown below:

Maturity	Maximum Approved Limit	31/03/19 £'m	30/09/19 £'m	30/09/19 %
Less than 1 year	25%	7.0	7.0	1.5
Between 1 and 5 years	35%	20.6	13.6	2.8
Over 5 years to 10 years	45%	74.9	74.9	15.6
Over 10 years to 15 years	65%	246.3	246.3	51.1
Over 15 years to 20 years	25%	0.0	0.0	0.0
Over 20 years to 25 years	25%	15.0	15.0	3.1
Over 25 years to 30 years	25%	0.0	0.0	0.0
More than 30 years	40%	25.0	125.0	25.9
TOTAL	**n/a**	**388.8**	**481.8**	**100.0**

4.4 Cash flow forecasts up to 31 March 2020 show that the Council will have total external borrowings of £487.3m (see paragraph 3.7) and PFI schemes

and finance lease liabilities of £100.2m against an underlying borrowing need of £618.2m; implying total internal borrowing of £30.7m at 31 March 2020 (£125.3m as at 31 March 2019). Based on current capital plans, the forecast movement in the Council's 2019/20 internal borrowing is shown below:

Internal Borrowing	£'m
Actual at 31 March 2019	**125.3**
2019/20 Capital expenditure *(to be funded through borrowing)*	9.9
Repayment of PWLB Debt (EIP Loans)	7.0
New PWLB Debt taken during Q1 2019/20	-100.0
Change (increased) Short-Term Debt – *Chichester Harbour*	-0.5
Revenue Provision for Repayment of Debt	-11.0
Forecast at 31 March 2020	**30.7**

4.5 The revenue (interest) cost of servicing the Council's PWLB debt in 2019/20 is forecast to be **£19.5m**, representing an average rate of **4.15%**. Within the approved 2019/20 Revenue Budget, the Council originally budgeted for £17.6m interest payments relating to pre-2019 PWLB loans together with £1.3m service contributions towards the cost of new borrowing relating to commercial property and Your Energy Sussex initiatives. The Director of Finance and Support Services approves funding the resulting £0.6m budget shortfall through additional income generated from higher investment balances due to the new PWLB borrowing in 2019/20.

4.6 Increase in the cost of PWLB Borrowing: On 9 October 2019, HM Treasury and the PWLB announced an increase in the margin over UK Gilt yields of 1.0% on top of the current 0.8% margin the Council has paid prior to this date for new borrowing from the PWLB. The Council has previously relied on the PWLB as its only source of funding, with approved alternative market borrowing options (including forward starting loans and bond issuance via the UK Municipal Bond Agency) being held under consideration. In light of the unexpected increase to the cost of PWLB borrowing, the Director of Finance and Support Service will reassess the benefits of market loan alternatives during the remainder of 2019/20.

4.7 Debt Rescheduling: Rescheduling opportunities for existing PWLB debt have remained very limited in the current financial year. The premium charge for early repayment of PWLB debt remains relatively expensive for all pre-2019 loans in the Council's portfolio; therefore no rescheduling of such debt is planned in 2019/20. *(Note: The additional 1% increase in PWLB rates from 9 October 2019 only applies to new borrowing rates and not to premature repayment rates).*

4.8 Borrowing for cash flow purposes: Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) no short-term borrowing was undertaken during the first half of 2019/20. All daily cash flow shortages were funded by withdrawals from the Council's instant access accounts (including Money Market Funds).

5. Investments (Treasury)

5.1 The Council's investment policy is implemented through the Council's "Annual Investment Strategy" as contained within the 2019/20 Treasury Management Strategy (approved by County Council on 15 February 2019). All treasury investments are made under statutory provisions granted to the Council by the Local Government Act 2003 (Section 12; 'Power to Invest'). The Director of Finance and Support Services confirms that during the first half of 2019/20 there were no breaches of investment limits as set out in the approved Annual Investment Strategy.

5.2 The Council has substantial amounts of investments and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Ministry of Housing, Communities and Local Government's (MHCLG) "Investment Guidance" governs that the security and liquidity of the Council's internally managed investments remain primary investment objectives. The Council's investment strategy therefore approves limits regarding the monetary amounts and time durations of deposits arranged with individual counterparties. Additionally the strategy requires that internally managed investments are not made with organisations unless they meet identified minimum credit criteria; in particular counterparty credit quality is assessed and monitored with reference to credit ratings as provided by the three main credit rating agencies, supplemented by additional market data (including credit default swap prices, bank share prices and general media alerts).

5.3 The Council defines 'high credit quality' as institutions and securities having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher (non-UK banks must hold a credit rating of A+ or higher). The 2019/20 Annual Investment Strategy further approves investments in BBB+ credit rated non-financial organisations (corporates). The total level of internally managed investments with organisations rated below A- is limited to a maximum of £30m; such investments being classified as 'non-specified' in accordance with MHCLG guidance.

5.4 Short-term investment returns (up to 12-month durations) remained low during the first half of 2019/20; as evidenced by the London Interbank Bid Rates (LIBID) in the table below:

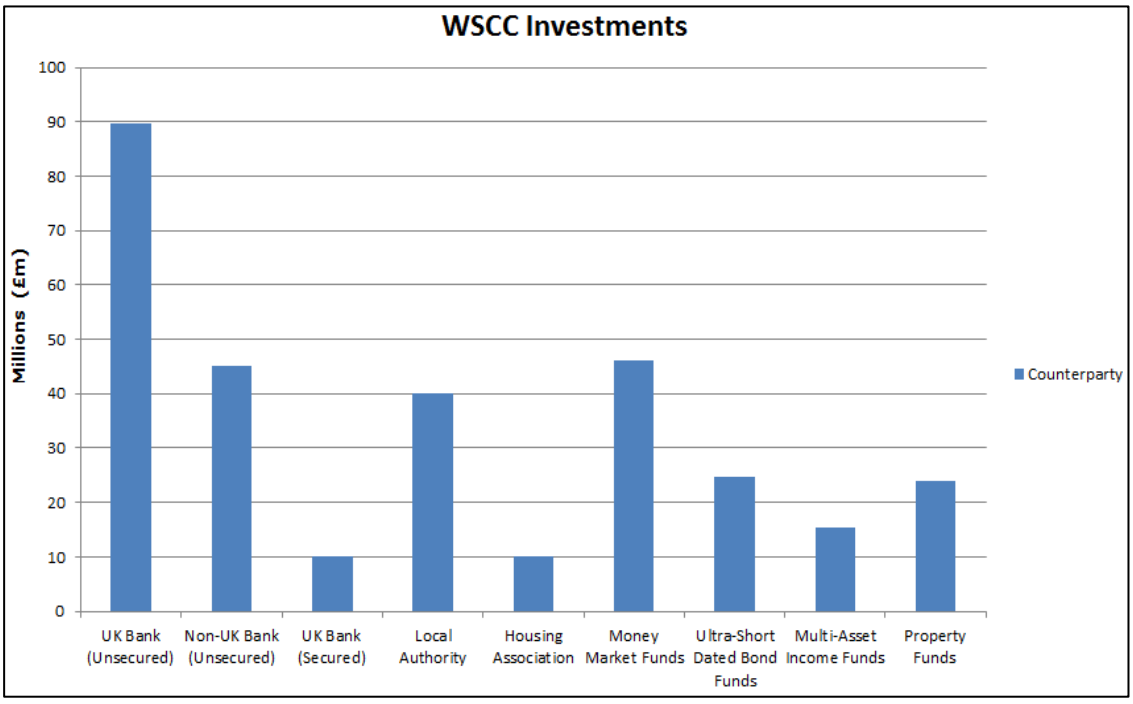
Date	Bank Rate	O/N LIBID (%)	7-day LIBID (%)	1-month LIBID (%)	3-month LIBID (%)	6-month LIBID (%)	1-year LIBID (%)
01/04/2019	0.75	0.55	0.57	0.60	0.72	0.83	0.93
30/04/2019	0.75	0.56	0.57	0.61	0.69	0.82	0.97
31/05/2019	0.75	0.56	0.58	0.60	0.67	0.75	0.87
30/06/2019	0.75	0.55	0.56	0.60	0.65	0.73	0.83
31/07/2019	0.75	0.54	0.56	0.59	0.65	0.69	0.73
31/08/2019	0.75	0.56	0.56	0.58	0.63	0.66	0.71
30/09/2019	0.75	0.54	0.57	0.59	0.63	0.70	0.76
Minimum	0.75	0.54	0.55	0.58	0.63	0.65	0.69
Average	**0.75**	**0.55**	**0.57**	**0.60**	**0.66**	**0.73**	**0.83**
Maximum	0.75	0.56	0.58	0.61	0.72	0.83	0.98

5.5 The average level of funds during the first half of 2019/20 was £284.5m (£278.6m average throughout 2018/19, compared with £308.6m average balance as at 30 September 2018). Investment levels continue to be dependent on the timing of precept payments from West Sussex Boroughs and Districts, receipt of Government grants ahead of expenditure and the progress on the Council's capital programme (including the additional £100m PWLB borrowing undertaken during April and June 2019).

WSCC Average Investments	2018/19 £'m	2018/19 %	2019/20 £'m	2019/20 %
UK Banks: Unsecured Deposits	57.1	20.5	67.2	23.6
UK Banks: Secured Deposits	8.2	2.9	4.3	1.5
Non-UK Banks: Unsecured	45.4	16.3	36.1	12.7
Non-Bank Corporates	2.2	0.8	0.0	0.0
Local Authority	59.3	21.3	31.0	10.9
Housing Associations	0.0	0.0	1.4	0.5
Money Market Funds	68.5	24.6	81.3	28.6
Externally Managed Pooled Funds	37.9	13.6	63.2	22.2
Total	**278.6**	**100.0**	**284.5**	**100.0**

5.6 At 30 September 2019 the Council's investments (including cash balances held in the Council's main Lloyds business bank accounts) amounted to £305.0m, as compared with £204.8m as at 31 March 2019. Within the Council's total invested balance (and having regard to the current environment of low short-term investment returns) approval is given for up to a maximum of £75m to be made available for long-term strategic investment based on forecast levels of earmarked reserves (£69.4m actual long-term investments as at 30 September 2019).

5.7 The full list of investments held at 30 September 2019 is shown in **Appendix 1**. Additionally a breakdown of the Council's investments by counterparty type at this point in time is shown below:



5.8 The movement in the Council's internally managed investments during the first half of 2019/20 is shown below, for comparison the balance held at 30 September 2018 was £305.0m.

Investment Activity in 2019/20	Balance on 31st March £'m	Invest-ments Made £'m	Invest-ments Sold £'m	Balance on 30th Sept £'m
UK Banks: Unsecured Deposits	31.5	102.0	-43.7	89.8
Non-UK Banks: Unsecured	15.0	40.0	-10.0	45.0
UK Banks: Secured Deposits	7.9	10.0	-7.9	10.0
Local Authority	31.0	65.0	-56.0	40.0
Housing Association	0.0	10.0	0.0	10.0
Money Market Funds	80.1	552.4	-586.3	46.2
TOTAL (Internally Managed)	**165.5**	**779.4**	**-703.9**	**241.0**
Multi-Asset Income Funds	15.3	0.1*(i)*	0.0	15.4
Property Funds	24.0	0.0	0.0	24.0
Ultra-Short Dated Bond Funds	0.0	24.6	0.0	24.6
TOTAL INVESTMENTS	**204.8**	**804.1**	**-703.9**	**305.0**

(i) Unrealised gain in fund valuations at 30 September 2019.

5.9 Investment Performance: The Council's budgeted investment income as approved in the 2019/20 Revenue Budget amounted to £2.0m; increased from £1.9m in 2018/19 reflecting the full year effect of higher yielding externally managed funds for which investment commenced between September and December 2018. Furthermore, due to increased investment balances resulting from the additional £100m PWLB borrowing undertaken in April and June 2019, the Director of Finance and Support Services approved increasing the investment income budget by an additional £0.7m in order to cover the forecast shortfalls in both 2019/20 interest payments (£0.6m; see paragraph 4.5) and other capital financing charges (£0.1m).

5.10 Gross investment interest received during the first half of 2019/20 was **£1.9m**, representing an investment return of **1.31%** on an average investment portfolio of £284.5m (see paragraph 5.5). In accordance with the approved Treasury Management Strategy, investment performance can be shown by three separate investment types representing liquidity, short-term investments (up to one year duration) and long-term investments (greater than one year), as detailed below:

Investment Type	Average £'m	Interest £'m	Rate of Return
Liquidity	81.6	0.3	0.72%
Short-Term Investments	146.4	0.7	0.94%
Long-Term Investments	56.5	0.9	3.14%
Total	**284.5**	**1.9**	**1.31%**

5.11 Updated forecasts for the remainder of 2019/20 (based on investment performance during the first six months to September 2019 together with updated interest estimates for the remainder of the year) show that for an average investment portfolio of £284.5m the Council will generate a £0.2m investment income surplus against the revised £2.7m revenue budget:

Interest earned to 30 September 2019	1.31%	£1.9m
Interest due from existing investments	1.55%	£1.6m
Forecast interest – Future investments	0.70%	£0.2m
Gross Investment Income (2019/20)	**1.31%**	**£3.7m**
Interest payable to internal/external funds held	Variable	-£0.8m
Investment Income (2019/20)	**-**	**£2.9m**
Revenue Budget (2019/20) – See Paragraph 5.9	-	£2.7m
Investment Income Surplus	**-**	**£0.2m**

5.12 The forecast £0.2m investment income surplus (together with £161,000 interest received in respect of the Materials Resource Management Contract; representing monies held by Biffa West Sussex Ltd as trustee of the Council since commencement of the contract) has been reported within the September 2019 Total Performance Monitor (TPM). Officers will continue to closely monitor investment income performance throughout the remainder 2019/20; any changes to the above projections will be included within future TPM's.

5.13 Externally Managed Pooled Funds: At 30 September 2019 the Council held investments within the following pooled funds:

Fund	Type	Original Investment	Market Valuation (31/03/19)	Market Valuation (30/09/19)
Fidelity	Multi-Asset Income	£7.5m	£7.7m	£8.0m
Investec	Multi-Asset Income	£7.5m	£7.6m	£7.4m
CCLA	Property	£10.0m	£9.8m	£9.8m
Hermes	Property	£10.0m	£9.5m	£9.5m
Lothbury	Property	£5.0m	£4.7m	£4.7m
Federated	Ultra-Short Dated Bond	£24.5m	n/a	£24.6m

5.14 An overview of the performance (income distributions) relating to the Council's externally managed investment funds during the first half of 2019/20 is shown below:

Fund	Type	Income Distributions (£'000)	Rate of Return (%)
Fidelity	Multi-Asset Income	183.3	4.87
Investec	Multi-Asset Income	171.8	4.57
CCLA	Property	202.6	4.04
Hermes	Property	146.3	2.92
Lothbury	Property	74.8	2.98
Federated	Ultra-Short Dated Bond	n/a	0.86

6. Non-Treasury (Commercial) Activity

6.1 A schedule of the Council's current income generating and cost avoidance (non-treasury) activities is attached below:

Non-Treasury (Commercial) Activity	£'m
Historic Investment Property *(i)*	20.9
2 City Park, Hove (Commercial Property)	22.4
Churchill Court, Crawley (Commercial Property)	11.6
Horsham Enterprise Park	16.3
Solar Panels (Installed 2014/15 to 2018/19)	5.7
Tangmere Solar Farm	10.5
Westhampnett Solar Farm	14.2
West Sussex Gigabit (Asset Under Construction)	1.7
Total (31 March 2019)	**103.3**
Horsham Enterprise Park	1.0
West Sussex Gigabit	5.4
Your Energy Sussex	4.8
Other Income Generating Initiatives	2.1
Total (2019/20)	13.3
2019/20 Forecast (at 30 September 2019)	**116.6**

(i) As per the Council's 2018/19 Balance Sheet; including smallholdings and other land/properties held for investment return.

7. Resource and Value for Money Implications

Covered in main body of report.

8. Risk Management Implications

Covered in main body of report.

9. Human Rights Act Implications

Not applicable.

10. Crime and Disorder Act Implications

Not applicable

Katharine Eberhart
Director of Finance and Support Services

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Appendix

A Investments as at 30 September 2019

Background Papers

None

Appendix a

Investments held with counterparty's approved within the Council's 2019/20 Treasury Management Strategy (together with prevailing credit ratings and maximum monetary and duration limits) at 30 September 2019, are set out below:

Total Investments for period = £305.0m

Table 1: UK Banks (Unsecured) – Total £89.8m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Goldman Sachs International Bank	A	£15m	6 Months	07/05/19	07/11/19	184	38	0.91%	£10.0m
Goldman Sachs International Bank	A	£15m	6 Months	06/06/19	06/12/19	183	67	0.92%	£5.0m
Handelsbanken Plc: 35-Day Notice Account	AA-	£15m	1 Year	n/a	n/a	n/a	n/a	0.69%	£15.0m
Lloyds Bank Plc: Business Account(s)	A+	£15m	1 Year	n/a	n/a	n/a	n/a	0.65%	£0.0m
Lloyds Bank Plc: 175-Day Notice Account)	A+	£15m	1 Year	n/a	n/a	n/a	n/a	1.13%	£14.9m
National Westminster Bank Plc	A	£15m	1 Year	01/04/19	01/10/19	183	1	0.94%	£5.0m
National Westminster Bank Plc	A	£15m	1 Year	01/04/19	02/01/20	276	94	1.01%	£5.0m
National Westminster Bank Plc	A	£15m	1 Year	01/04/19	31/03/20	365	183	1.07%	£5.0m
Nationwide Building Society	A	£15m *(i)*	6 Months	05/07/19	06/01/20	185	98	0.82%	£15.0m
Standard Chartered Bank	A	£15m	6 Months	12/04/19	14/10/19	185	14	0.95%	£14.9m

Table 2: UK Banks (Secured) – Total £10.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Nationwide Building Society (Covered Bond)	AAA	£10m *(i)*	10 Years	02/08/19	02/08/22	1,096	1,037	1.14%	£10.0m

(i) The total amount invested per financial institution (secured and unsecured deposits) cannot exceed £25m.

Table 3: Non-UK Banks (Unsecured) – Total £45.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	08/11/18	08/11/19	365	39	1.12%	£5.0m
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	12/04/19	09/04/20	363	192	1.14%	£5.0m
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	21/05/19	20/05/20	365	233	1.14%	£5.0m
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	12/04/19	13/01/20	276	105	0.95%	£5.0m
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	01/05/19	24/02/20	299	147	0.95%	£5.0m
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	12/04/19	09/04/20	363	192	0.98%	£5.0m
United Overseas Bank (Singapore)	AA-	£15m	1 Year	26/06/19	20/12/19	177	81	0.80%	£10.0m
United Overseas Bank (Singapore)	AA-	£15m	1 Year	02/08/19	04/11/19	94	35	0.72%	£5.0m

Table 4: Short-Term Money Market Funds – Total £46.2m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Aberdeen Standard Sterling Liquidity Fund	AAA	£25m	*Note (ii)*	n/a	n/a	n/a	n/a	0.73%	£25.0m
Blackrock Sterling Liquidity Fund	AAA	£25m	*Note (ii)*	n/a	n/a	n/a	n/a	0.68%	£21.2m

(ii) No defined maturity periods for short-term Money Market Funds; withdrawals based on cash flow liquidity requirements.

Table 5: UK Local Authorities – Total £40.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Cambridgeshire County Council	AA- *(iii)*	£25m	20 Years	11/04/19	09/04/20	364	192	0.98%	£5.0m
Doncaster Metropolitan Borough Council	AA- *(iii)*	£25m	20 Years	15/08/19	13/08/20	364	318	0.88%	£5.0m
Plymouth City Council	AA- *(iii)*	£25m	20 Years	09/04/18	09/04/20	731	192	1.40%	£10.0m
Thurrock Council	AA- *(iii)*	£25m	20 Years	03/07/19	02/07/20	365	276	0.95%	£10.0m
Thurrock Council	AA- *(iii)*	£25m	20 Years	05/08/19	04/08/20	365	309	0.92%	£10.0m

(iii) Assumed UK Local Authority credit rating if no actual rating exists (one notch lower than the UK sovereign rating).

Table 6: UK Housing Associations (RSLs) – Total £10.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Metropolitan Housing Trust (MTVH Group)	A-	£15m	5 Years	05/09/19	06/09/21	732	707	1.40%	£10.0m

Table 7: Pooled Funds (Externally Managed) – Total £64.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Federated Sterling Cash Plus Fund	AAA	£25m	*Note (iv)*	11/04/19	n/a	173	n/a	0.86%	£24.6m
Fidelity Multi-Asset Income Fund	n/a	£15m	*Note (v)*	11/12/18	n/a	294	n/a	4.87%	£8.0m
Investec Diversified Income Fund	n/a	£15m	*Note (v)*	05/12/18	n/a	300	n/a	4.57%	£7.4m
CCLA (Local Authorities' Property Fund)	n/a	£15m	*Note (vi)*	28/02/17	n/a	945	n/a	4.04%	£9.8m
Hermes Property Unit Trust (HPUT)	n/a	£15m	*Note (vi)*	28/08/18	n/a	399	n/a	3.00%	£9.5m
Lothbury Property Trust (LPT)	n/a	£15m	*Note (vi)*	03/09/18	n/a	393	n/a	2.98%	£4.7m

(iv) Up to one year investment horizon for externally managed ultra-short dated bond funds (enhanced cash).
(v) Three year investment horizon for externally managed multi-asset income funds.
(vi) Minimum five year investment horizon for externally managed property funds.