REPORT TO:	Executive Board
DATE:	18 July 2019
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Annual Report 2018-19
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market during 2018/19 as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

3.1 The following analysis of the economic situation has been provided by Link Asset Services, the Council's treasury management advisors.

3.2 During the six months ended 31st March 2019

- Brexit was delayed beyond 29th March, but all four Brexit options remain on the table; deal, no deal, no Brexit, or a lengthy delay;
- The economy weathered the political crisis at home and the slowdown overseas remarkably well;
- The labour market remained surprisingly strong;
- Inflation started to edge up again;
- The Monetary Policy Committee (MPC) was stuck in a state of Brexit inertia.
- Global forces dragged down gilt yields;
- The Chancellor announced that he has more money to spend if a Brexit deal is agreed;
- The yield curve inverted in the US, signalling weaker global growth.

3.3 The original Brexit day, (29th March 2019), has come and gone, yet the end point and the consequences for the economy and the financial markets are as unclear as ever. Even so, the economy appears to be weathering the Brexit merry-go-round reasonably well. The rolling three-month GDP growth rate remained at 0.2% in January 2019, which was no worse than growth in the previous quarter. Annual growth picked up to 1.4%, putting the UK third in the G7 leader board of individual countries, behind only the US and Canada. It was encouraging too that January's increase in GDP was broad based across the services, construction and manufacturing sectors.

3.4 It was reassuring that households increased their spending on the high street at a decent rate in February 2019. The 0.4% month on month rise in retail sales volumes was particularly encouraging after sales had leapt by 0.9% month-on-month in January 2019.

3.5 The economy may have weakened in February and March if Brexit had caused consumers and firms to reach for the handbrake. But even if GDP doesn't increase at all in these months, the solid rise in January means that the economy would still grow by 0.4% quarter-on-quarter in the January to March 2019 quarter as a whole, above the previous quarter's 0.2% rate.

3.6 The labour market remained a bright spot for the economy. The annual growth rate of employment reached a two-year high of 1.5% in January 2019 and the unemployment rate fell to 3.9%, its lowest since 1975. Admittedly, Brexit uncertainty may be having less of an influence on the labour market than on other areas of the economy, since hiring decisions are less costly to reverse than spending on new capital. Equally, though, Brexit uncertainty may not yet have had its full impact on firms' hiring decisions. So it wouldn't be too surprising if employment growth slowed in the coming months.

3.7 Meanwhile, after averaging 2.9% in 2018, the annual growth of average weekly earnings has risen to 3.4% in the three months to January 2019, and surveys of pay settlements point to that strength continuing. Admittedly, with CPI inflation rising again, this might be as good as it gets for consumers' real earnings. Inflation picked up from 1.8% in January 2019 to 2.0% in April 2019 and we expect inflation to remain there for the rest of the year.

3.8 Nonetheless, the far more influential factor for the interest rate outlook will be how Brexit pans out. In light of the recent Brexit chaos, it was unsurprising that the MPC voted unanimously to keep the Bank Rate on hold at 0.75% in March. Meanwhile, concerns about slowing global growth mean that the markets are now pricing in only one rate rise in the UK over the next two years and two rate cuts in the US. Link Asset Services considers that if there is a Brexit deal, or even a long delay to Brexit, the MPC could agree another rate increase this Summer. If, on the other hand, the UK were to leave the EU without a deal, we have become more confident in the view that the MPC would cut interest rates. The Bank of England this month revised its line that it might have to raise rates in a no deal scenario.

3.9 Meanwhile, investors ruling out further interest rate rises in the US, as well as ongoing concerns about global growth, have prompted a fall in the 10-year gilt yield from 1.3% at the start of March 2019 to a two-year low of 1.0% currently. With the downward pressure on UK gilt yields from the weaker global economy unlikely to fade, the 10-year gilt yield may fall further in the near term. But a Brexit deal in some form or other should mean that the UK's financial markets buck the global trend with money markets, gilt yields and the pound all rising by more than is widely expected. The FTSE 100, however, which has fared well relative to overseas equities over the past month, probably won't be able to shake off the drag from overseas and is likely to fall sharply this year.

3.10 Internationally, the continued weakness in key economic data has prompted renewed questions about the health of the global economy. We expect world GDP growth to fall below 3% year-on-year over the course of 2019/20, a worse outcome than most analysts currently anticipate. Meanwhile, some commentators have warned that the recent inversion of the US yield curve signals that a US recession is coming. While this doesn't necessarily suggest a recession is imminent, a swift upturn in global growth is not likely either.

Interest Rate Forecast

3.11 The following forecast has been provided by Link Asset Services.

Link Asset Services Interest Rate View	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%
5yr PWLB Rate	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.20%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

Short Term Borrowing Rates

3.12 The bank base rate has remained at 0.75% since August 2018.

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
Call Money (Market)	0.70	0.69	0.68	0.67	0.67	0.68	0.67
1 Month (Market)	0.72	0.73	0.74	0.73	0.73	0.73	0.73
3 Month (Market)	0.80	0.82	0.89	0.91	0.91	0.85	0.85

Longer Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
1 Year (Market)	2.37	2.25	2.19	2.12	2.09	2.13	1.89
10 Year (PWLB)	2.40	2.29	2.24	2.16	2.12	2.16	1.92
25 Year (PWLB)	2.74	2.69	2.87	2.65	2.56	2.64	2.40

3.13 Market rates are based on LIBOR rates and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

Borrowing and Investments

Turnover During the Period

	No of deals	Turnover £m
Short Term Borrowing	-	-
Short Term Investments	8	50

Position at Month End

	Sep £m	Oct £m	Nov £m	Dec £m	Jan £m	Feb £m	Mar £m
Total Borrowing	172	172	172	172	172	172	172
Total Investments	(100)	(100)	(95)	(95)	(85)	(80)	(75)
Call Account Balance	(20)	(17)	(23)	(22)	(23)	(22)	(17)

Investment Benchmarking October 2018 - March 2019

Benchmark	Benchmark Return %	Performance Oct - Mar %	Investment Interest Earned £000
7 day	0.58	0.65	64
1 month	0.61	-	-
3 month	0.76	0.80	18
6 month	0.87	0.92	145
12 month	1.00	1.02	164
Over 12 months	-	1.34	111
Property Fund	-	4.26	106
Total			**608**

3.14 This shows the Council has exceeded the benchmark for all investments between October 2018 and March 2019 ensuring the maximum yield for all funds invested.

3.15 At 31st March 2019 Halton Borough Council hold £5m in the CCLA Local Authority Property Fund. There is no benchmark available for this income.

Budget Monitoring

	Net Interest at 31st March 2019		
	Budget Year to Date £000	**Actual Year to Date £000**	**Variance £000**
Investments	(599)	(1,214)	615
Borrowings	1,099	1,099	-
Total	**500**	**(115)**	**615**

New Long Term Borrowing

3.16 The Council has not borrowed any new funds during 2018/19.

Policy Guidelines

3.17 The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 07 March 2018. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.18 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in in line with Sector's credit rating methodology.

Treasury Management Indicators

3.19 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 were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

Debt Rescheduling

3.20 No debt rescheduling was undertaken during the quarter.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 FINANCIAL IMPLICATIONS

5.1 The financial implications are as set out in the report.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Council operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 There are no background papers under the meaning of the Act.

Appendix 1

Treasury and Prudential Indicators – 2018/19

	2017/18	2018/19	
Prudential Indicators	**Full Year Actual £000**	**Original Estimate £000**	**Full Year Actual £000**
Capital Expenditure	748,476	36,253	21,901
Net Financing Need for the Year *(Borrowing Requirement)*	729,019	21,161	3,254
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	722,946	18,274	(14,816)
Ratio of Financing Costs to Net Revenue Stream *(Proportion of cost of borrowing to Council's net revenue)*	1.9%	2.4%	2.0%
Incremental Impact on band D Council Tax (£) *(net cost of borrowing compared to tax base)*	2.17	2.50	5.05
External Debt	172,000	172,000	172,000
Operational Boundary *(Limit of which external debit is not epected to exceed)*	254,164	212,500	856,312
Authorised Limit *(Limit beyound which external debit is prohibited)*	270,000	282,500	926,312

Due to the valuation of the Mersey Gateway Bridge being required to be included during the preparation of the 2017/18 Statement of Accounts, an additional £644m was added to the Council's Capital Financing Requirement. This represents the capital element of the future Unitary Payments the Council are due to make over the next thirty years, funded from toll income. It should be noted that this is purely an accounting adjustment and doesn't reflect any additional borrowing over and above what is already taken. This has the impact of £644m being added to the Operational Boundary and Authorised Limit as reflected in the above table.

Upper Limit for Interest Rate Exposure	**Exposure Limit %**	**2017/18 Actual %**	**2018/19 Actual %**
Fixed Rate	100	85	87
Variable Rate	30	15	13

Maturity Structure of Fixed Rate Borrowing	Exposure Limit %	2017/18 Actual %	2018/19 Actual %
Under 12 months	40	0	0
12 months to 24 months	40	0	0
24 months to 5 years	40	0	0
5 years to 10 years	40	0	0
10 years and above	100	100	100

Maximum Principal invested > 365 days	Investment Limit £000	2017/18 Actual £000	2018/19 Actual £000
Principal Sums Invested over 365 days	30,000	10,000	25,000