

APPENDIX A**TREASURY MANAGEMENT POSITION FOR THE FIRST QUARTER OF 2019/20****A1. SUMMARY OF TREASURY MANAGEMENT INDICATORS**

The City Council originally approved the authorised limit (the maximum amount of borrowing permitted by the Council) and the operational boundary (the maximum amount of borrowing that is expected) on 12th February 2019. On 17th June the City Council increased the authorised limit and the operational boundary in order to facilitate the acquisition of the city's out of town business park, Lakeside North Harbour for a sum substantially in excess of £100m to be financed by borrowing. The Council's debt at 30th June was as follows:

Prudential Indicator	Original Limit £m	Revised Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	737	807	703
Operational Boundary - the maximum amount of borrowing that is expected	707	777	703

The maturity structure of the Council's fixed rate borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	30%	40%	40%
Actual proportion of loans maturing	1%	1%	4%	6%	23%	7%	28%	30%

The maturity structure of the Council's variable rate borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	30%	30%	30%
Actual proportion of loans maturing	2%	2%	6%	10%	22%	23%	21%	14%

Surplus cash invested for periods longer than 365 days at 30th June 2019 was:

	Limit	Quarter 1 Actual
	£m	£m
Maturing after 31/3/2020	205	110
Maturing after 31/3/2021	144	22
Maturing after 31/3/2022	117	10

A2. GOVERNANCE

The Treasury Management Policy approved by the City Council on 19th March 2019 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2019/20 up to the period ending 30th June 2019.

A3. BORROWING ACTIVITY

There has been a slight reduction in Public Works Loans Board (PWLB) rates in the first quarter of 2019/20 with continued uncertainty over the Conservative Party leadership election and a lack of clarity around Brexit.

Although the Council had cash investments of £417m at the start of 2019/20, most of these investments mature after the expected completion date for acquiring Lakeside North Harbour Business Park and are not tradable. Therefore £50m was borrowed to facilitate the acquisition of Lakeside North Harbour Business Park.

On 29 May the Council borrowed £20m from the PWLB at 2.28% repayable over 35 years on an annuity basis to help fund the acquisition of Lakeside, North Harbour Business Park.

With a lack of clarity over Brexit, trade uncertainty, global growth concerns and political tensions, market expectations for an increase in interest rates before May 2020 are close to zero. Market expectations for a cut in Bank Rate before May 2020 have picked up on the dovishness of the Bank of England and the Federal Reserve at their recent policy meetings although this is still not a strong view. With the likelihood of an interest rate cut exceeding the likelihood of an increase in interest rates, the remaining £30m required to facilitate the acquisition of Lakeside North Harbour Business Park was borrowed short term as follows:

- On 7 June the Council borrowed £10m for 7 Weeks at 0.65%
- On 10 June the Council borrowed £10m for 1 month at 0.68%
- On 20 June the Council borrowed £10m for 1 month at 0.68%

This short term borrowing will need to be replaced with long term fixed rate borrowing at some point in the future in line with the objective in the Capital Strategy approved by the City Council on 19th March 2019 to borrow as cheaply as possible for the long term at a fixed rate.

The average interest rate payable on the £50m borrowed in the first quarter of 2019/20 is 1.31%. These funds have been placed in money market funds and an instant access deposit account at Barclays Bank earning an average return of 0.69%. Therefore the Council will be bearing a cost of carry of 0.62%.

The acquisition of Lakeside North Harbour Business Park will increase the Council's underlying need to borrow, as measured by its capital financing requirement, by well in excess of £100m. Therefore the Council will ultimately need to undertake long term borrowing substantially in excess of a further £80m to finance the acquisition of Lakeside North Harbour Business Park.

The Council's gross borrowing at 30th June 2019 of £703m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £807m and also within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £777m.

The Council plans for gross borrowing to have a reasonably even maturity profile. This is to ensure that the Council does not need to replace large amounts of maturing borrowing when interest rates could be unfavourable.

The actual maturity profile of the Council's borrowing is within the limits contained within the Council's Treasury Management Policy (see paragraph A1).

Early Redemption of Borrowing

With the exception of two loans all the Council's borrowings to finance capital expenditure are fixed rate and fixed term loans. This reduces interest rate risk and provides a high degree of budget certainty.

The Council's borrowing portfolio is kept under review to identify if and when it would be financially beneficial to repay any specific loans early. Repaying borrowing early invariably results in a premium (early repayment charges) by the PWLB that are sufficiently large to make early repayment of borrowing financially unattractive to the Council.

No debt rescheduling or early repayment of debt has been undertaken during 2019/20 as it has not have been financially advantageous for the Council to do so.

Under/Over Borrowing

The extent to which the Council is "under" or "over" borrowed is determined by comparing the actual value of long term borrowing outstanding with the value of capital expenditure that has been incurred and was financed by borrowing (after deducting Minimum Revenue Provision that has been made in respect of that capital expenditure).

If the Council has borrowed less than it requires to fund the total value of capital expenditure to be funded from borrowing the Council is "under borrowed" and if the value of borrowing is greater than the value of capital expenditure incurred which is to be financed from borrowing it is "over borrowed".

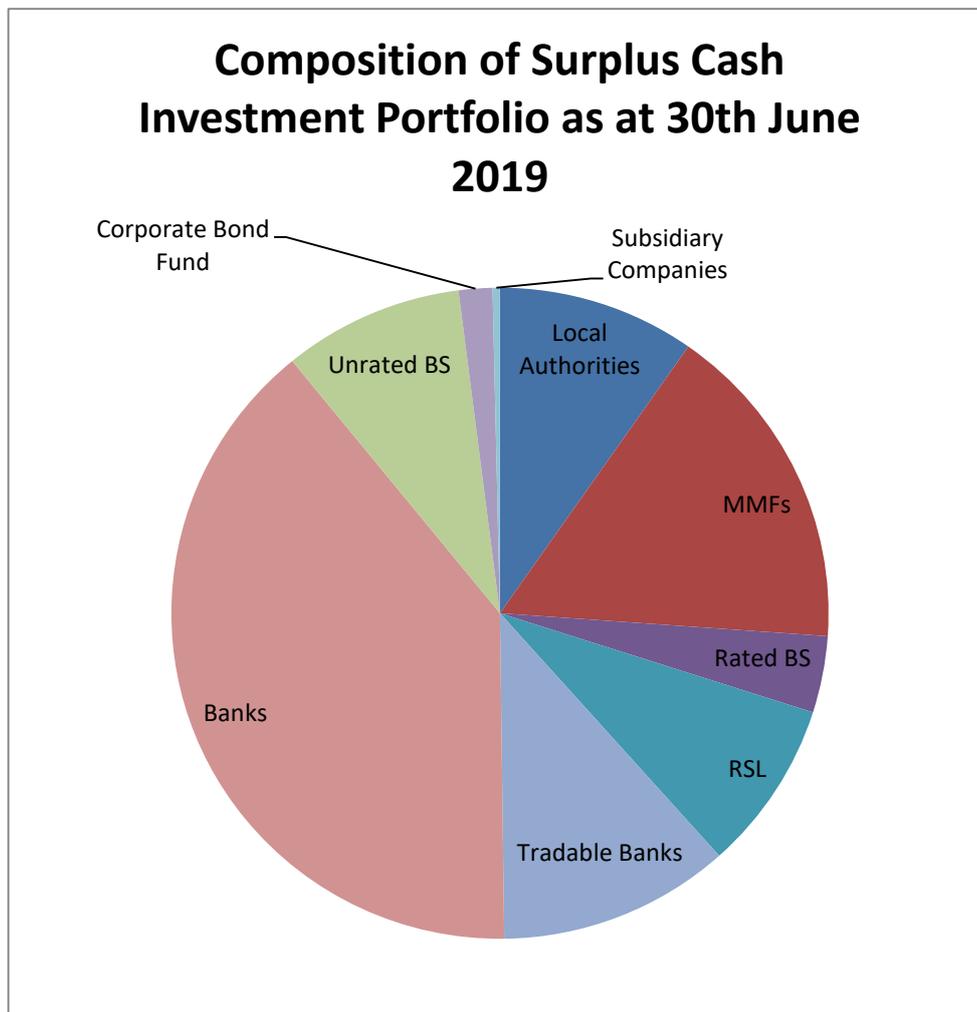
At 31 March 2019 the Council was over borrowed by £29m. The £50m borrowed in the first quarter of 2019/20 will increase the Council's over borrowing to £79m. However, the Council will be under borrowed following the acquisition of Lakeside North Harbour Business Park.

A4. INVESTMENT ACTIVITY

Investment rates for terms of less than a month have remained constant at less than 0.70% in the first quarter of 2019/20. Investment rates for terms in excess of 3 months have followed a falling trend in the first quarter of 2019/20. Appendix B shows the actual market rates available for the first quarter of 2019/20. Bank base rate is not expected to rise again this financial year and then to only rise slowly thereafter.

The Council's surplus cash investments have increased by £60m from £417m at 31st March 2019 to £477m at 30th June 2019. This is due to funds being borrowed to fund the acquisition of Lakeside North Harbour Business Park. The average rate of return on the Council's cash investments has risen from 1.12% in 2018/19 (before providing for defaults) to 1.20% in the first quarter of 2019/20. The improvement in the return on the Council's cash investments is due to an increase in the market value of tradable investments as they near maturity. The Council's budgeted investment return for 2019/20 is £4.2m and performance for the year to date is £0.3m above budget. This is also a result of having higher cash balances than originally anticipated in order to fund the acquisition of Lakeside North Harbour Business Park. All the Council's investments have been in accordance with the Council's Treasury Management Policy approved by Full Council in March 2019 and there are no breaches to report.

A summary of the Council's surplus cash investment portfolio is shown in the graph below. These investments totaled £477m as at 30th 2019.



Money Market Funds

Money market funds are instant access investments in AAA rated pooled funds.

Tradable Investments in Banks and Corporates (Commercial Companies)

Some investments in banks and corporates (commercial companies) are tradable. This means that the Council can sell the investments at any time to a third party. This contrasts with bank and building society term deposits which can only be repaid by the bank or building society.

Externally Management Corporate Bond Holdings

The Council has some externally managed corporate bond holdings. These consist of tradable debt issued by commercial companies.

Rated Building Societies

These are building societies with at least two credit ratings from Standard and Poor, Moody's or Fitch.

Unrated Building Societies

These are building societies that do not have at least two credit ratings from Standard and Poor, Moody's or Fitch.

A5. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position at 30th June 2019 is summarised in the table below.

	Principal	Average Interest Rate	Interest to 30th June 2019
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£638m	3.07%	£4.9m
Investments	(477m)	(1.20%)	(£1.3m)
Net Debt	£161m		£3.6m

APPENDIX B

LIBID rates are London inter-bank bid rates and give an indication of the rates available in the London money market

Some of the Council's cash is invested for longer than a year for which there is no comparable published LIBID rate

