

APPENDIX A**TREASURY MANAGEMENT POSITION FOR THE THIRD 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 2019 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 31st December was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	807	722
Operational Boundary - the maximum amount of borrowing that is expected	777	722

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%	7%	22%	8%	25%	32%

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 31st December 2019 was:

	Limit	Quarter 1 Actual
	£m	£m
Maturing after 31/3/2020	205	155
Maturing after 31/3/2021	144	42
Maturing after 31/3/2022	117	15

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 31st December 2019.

A3. BORROWING ACTIVITY

There was 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 matured after the expected completion date for acquiring Lakeside North Harbour Business Park.

With a lack of clarity over Brexit, trade uncertainty and global growth concerns, market expectations for an increase in interest rates before May 2020 were close to zero. Market expectations for a cut in the Bank Rate before May 2020 had picked up on the dovishness of the Bank of England and the Federal Reserve at their recent policy meetings although this was 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 and has now been repaid.

Overall there was a near halving of longer term PWLB rates to completely unprecedented historic low levels over the first half of 2019/20. As a consequence of this the Council borrowed a further £77m from the PWLB at an average interest rate of 1.78%.

On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 1.00% on top of the previous margin of 0.80% which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.

In the short term, the Council can fund its capital programme from either external borrowing or internal borrowing. Internal borrowing is the practice of using the Council's cash backed reserves to fund the capital programme in the short term. It should be noted that this defers the need to borrow externally rather than avoiding the need to borrow completely, as the Council will ultimately be forced to borrow externally as it spends its cash backed reserves. However, the Council is forecast to have sufficient funds to defer having to borrow externally until 2023/24.

No further borrowing was undertaken during the third quarter of 2019/20.

Whereas this authority has previously relied on the PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. Various financial institutions have entered the market and made products available to local authorities. However, the market has yet to settle down. Members will be updated as this area evolves.

The Municipal Bonds Agency plans to offer loans to local authorities in 2020. This Authority may make use of this new source of borrowing as and when appropriate.

The Council's gross borrowing at 31st December 2019 of £722m 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 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".

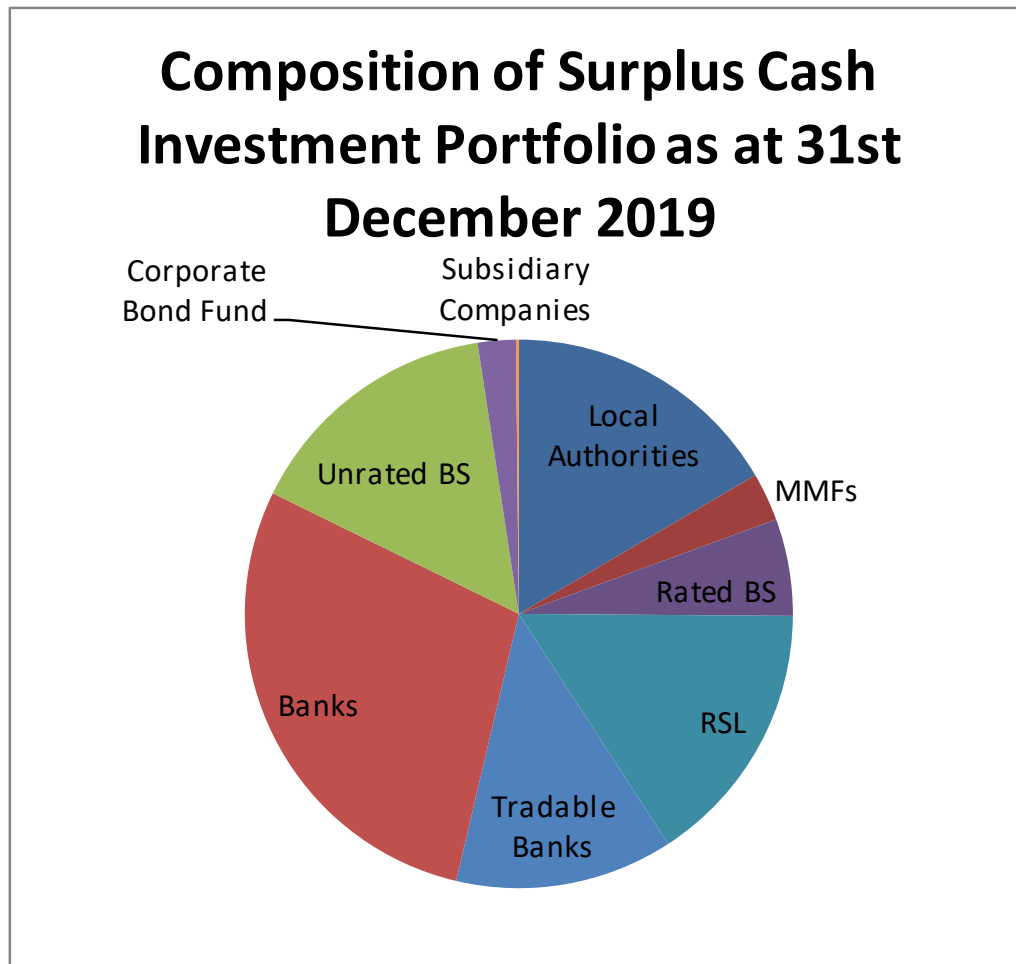
At 31 March 2019 the Council was over borrowed by £29m. Whilst the Council borrowed £77m in the first half of 2019/20, the Council will be under borrowed by the end of 2019/20 following the acquisition of Lakeside North Harbour Business Park.

A4. INVESTMENT ACTIVITY

It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, means that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low. Appendix B shows the actual market rates available for the first three quarters 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 decreased by £68m from £417m at 31st March 2019 to £349m at 31st December 2019. This is due to 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 to 1.37% in the first three quarters 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 with returns that cannot be matched in the current low interest rate environment. Investment returns may fall as these current investments mature, unless the interest rates offered on new investments improve.

A summary of the Council's surplus cash investment portfolio is shown in the graph below. These investments totaled £349m as at 31st December 2019.



Money Market Funds (MMFs)

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 31st December 2019
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£722m	2.73%	£14.8m
Investments	(349m)	(1.37%)	(£4.2m)
Net Debt	£373m		£10.6m

*Although the Council's investments had fallen to £349m at 31st December 2019, the average sum invested over this period was £407m.

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

