



AGENDA ITEM 06

**JOINT AUDIT COMMITTEE
27th SEPTEMBER 2019**

**2019/20 TREASURY MANAGEMENT UPDATE
REPORT**

1. PURPOSE OF REPORT

- 1.1 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management. The report provides a summary of macroeconomic factors and also an update of the Police and Crime Commissioner's (PCC) position.
- 1.2 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The PCC and their treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

2 ECONOMIC BACKGROUND

- 2.1 Sterling levels are at low levels as the uncertainty over Brexit continues. The Monetary Policy Committee (MPC) maintained Bank Rate at 0.75% on 31 July 2019. The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The significant points of the MPC meeting were:
- The MPC decision to keep interest rates at 0.75% was unanimous.
 - GDP growth forecast for 2019 and 2020 were downgraded following stagnation in quarter 2 of 2019.
 - Inflation is expected to fall below the 2% target in the near term largely due to a weaker contribution from energy prices.
 - The MPC believe from 2020 the economy will be operating at a small amount of excess demand as Brexit uncertainties dissipate. This is likely to generate an increase in domestic inflationary pressures, increasing CPI.
 - The unemployment rate fell to 3.8% and may drop further (equilibrium rate forecast to be 4.25%). There are signs that demand for labour may have eased.
 - The MPC expect in the event of a Brexit deal, sterling would be likely to appreciate and market interest rates and UK-focused equity prices to rise.

3. INTEREST RATE FORECAST

3.1 The following forecast (as at 04/09/19) of interest rates has been provided by Link Asset Services, our treasury management advisors

Forecasts	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Bank Rate	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00
5 year PWLB	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90
10 year PWLB	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20
25 year PWLB	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80
50 year PWLB	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70

Note: PWLB is the Public Works Loans Board which is the main body through which the PCC borrows money against capital requirements. The rates shown in the table are for interest only loans over different loan periods, with the principal repayable as a lump sum at the end of the loan period.

3.2 Long term PWLB borrowing rates (50 years) are expected to steadily increase to reach 2.60% by the end of 2020 due to high levels of gilt issuance and investor concerns over inflation.

4. ANNUAL INVESTMENT STRATEGY

4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by the PCC in March 2019. The PCC's Annual Investment Strategy which is included in the TMSS outlines the PCC's investment priorities as "Security of Capital and Liquidity".

4.2 The best possible return on investments will be pursued but only to the extent that this is consistent with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a proportion of investments short term, and only invest longer with other local authorities and highly credit rated financial institutions, using Link Asset Services' suggested creditworthiness approach.

4.3 This creditworthiness approach includes credit rating and Credit Default Swap information collected on a daily basis by Link Asset Services. A full list of investments held as at 6 September 2019 is shown in **Appendix 1**.

4.4 The level of funds invested at 6 September 2019 was £185.6m with maturity dates ranging between 1 day and 3 years. This is high because the PCC received the full year's police pensions top up grant of £92m in July and the monthly grant of £38m has been received for September.

4.5 The average cumulative interest rate achieved on temporary investments maturing by 31 August 2019 was 0.83% which compares well with benchmarks of 0.57% for 7 day London Interbank Bid Rates (LIBID) and 0.79% for 3 month London Interbank Offered Rate (LIBOR) over the same period as shown in **Appendix 2**.

4.6 The PCC's budgeted investment return for 2019/20 is £1.0m and performance for the year to date is in line with the budget expectation.

4.7 The investment returns for 2019/20 will include returns from the £5m invested with the CCLA property fund. A longer term investment that both boosts average returns and diversifies the portfolio of investments.

5 PRUDENTIAL INDICATORS

- 5.1 It is a statutory duty for the PCC to determine and keep under review the affordable borrowing limits that were part of the Prudential Indicators agreed in the Treasury Management Strategy Statement approved in March 2019.
- 5.2 The Prudential Indicators were not breached during the first 5 months of 2018/19, as shown in the table below:

<i>Prudential Indicator</i>	<i>2019/20 Indicator</i>	<i>Actual to 31/08/19</i>
Capital Financing Requirement (CFR)	£65.6m	£57.6m
Gross Borrowing	£82.2m	£82.2m
Authorised Limit for External Debt	£100.0m	£82.2m
Operational Boundary for External Debt	£90.0m	£82.2m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%
<i>Maturity Structure of Borrowing Limits</i>	<i>2019/20 Indicator</i>	<i>Actual to 31/08/19</i>
Under 12 Months	25%	1%
12 Months to 2 Years	25%	3%
2 Years to 5 Years	50%	5%
5 Years to 10 Years	75%	5%
10 Years and Above	100%	86%

- 5.3 All of the PCC's borrowing to date, £82.2m has been obtained from the PWLB as shown in **Appendix 2**. No additional borrowing has been undertaken so far in 2019/20. It is anticipated that additional borrowing will be required in line with the Estates Strategy but this will be kept under review against the actual capital spend and receipts in year.
- 5.4 The approved estates programme in 2018 is being funded through a mix of financing, including capital receipts and borrowing. This will be closely monitored and reported at the end of the year.

6 RECOMMENDATIONS

- 6.1 The Committee is recommended to note the report which complies with the CIPFA Code of Practice for Treasury Management.
- 6.2 The Committee is advised of the plan for borrowing long term described in 5.4 above.

Mark Kenyon
Chief Financial Officer
Police and Crime Commissioner

Neil Chamberlain
Director of Commercial Services
West Midlands Police

INVESTMENTS AS AT 06/09/19

Maturity	Borrower	Broker	Principal	Rate	Rating
09-Sep-19	Nat West	DIRECT	23,600,000	0.05	A+ F1 a
16-Sep-19	Walsall MBC	CDB	10,000,000	0.80	Local Authority
25-Sep-19	Leeds City Council	BUTLERS	5,000,000	0.60	Local Authority
25-Sep-19	Derbyshire County Council	BUTLERS	13,000,000	0.55	Local Authority
25-Sep-19	Coventry BS	PREBON	5,000,000	0.51	A- F1
17-Oct-19	Leeds City Council	BUTLERS	10,000,000	0.65	Local Authority
18-Nov-19	London Borough of Barking & Dagenham	PREBON	5,000,000	0.70	Local Authority
25-Nov-19	London Borough of Barking & Dagenham	PREBON	5,000,000	0.70	Local Authority
06-Dec-19	Slough BC	BUTLERS	5,000,000	1.00	Local Authority
19-Dec-19	Slough BC	PREBON	5,000,000	1.00	Local Authority
20-Dec-19	London Borough of Southwark	CDB	10,000,000	1.00	Local Authority
20-Dec-19	Surrey Heath BC	CDB	10,000,000	1.00	Local Authority
07-Jan-20	Northumberland County Council	CDB	10,000,000	0.75	Local Authority
08-Jan-20	Darlington Borough Council	BUTLERS	5,000,000	1.15	Local Authority
24-Jan-20	Blackpool Borough Council	CDB	10,000,000	0.95	Local Authority
24-Jan-20	London Borough of Croydon	CDB	10,000,000	1.00	Local Authority
24-Jan-20	Salford City Council	BUTLERS	5,000,000	0.99	Local Authority
24-Jan-20	Blaenau Gwent BC	PREBON	3,000,000	0.82	Local Authority
06-Jul-20	London Borough of Croydon	PREBON	10,000,000	1.30	Local Authority
08-Jul-20	Isle of Wight County Council	PREBON	15,000,000	1.15	Local Authority
13-Aug-20	Staffordshire Moorlands DC	BUTLERS	1,000,000	2.05	Local Authority
28-Aug-20	Fife Council	BUTLERS	5,000,000	1.75	Local Authority
25-Mar-22	Wokingham BC	PREBON	5,000,000	1.45	Local Authority
		TOTAL	185,600,000		
5 to 10 years	CCLA		5,000,000		Property Fund

- Long Term Ratings AAA to DDD the best quality to junk bonds
- Short Term Ratings F1+ to F3 the safest to the riskier
- Viability Rating aaa to bbb
- Local Authorities are assumed to have the same ratings as UK Government

TREASURY MANAGEMENT REPORT: AUGUST 2019**1. LONG TERM EXTERNAL
BORROWING**

	JULY		AUGUST	
	£000	%	£000	%
Balance b/fwd	82,167		82,167	
Loans raised in month	0		0	
Loans repaid in month	0		0	
Balance c/fwd	82,167		82,167	
Average Fixed Interest Rate		3.66%		3.66%
Average Variable Interest Rate		0.00%		0.00%
Average Overall Interest Rate		3.66%		3.66%
Loan No.		Maturity		
480123 F	550	15/10/2019	550	6.5000%
480124 F	800	15/10/2023	800	6.6250%
480125 F	2,200	15/10/2024	2,200	6.6250%
480126 F	2,000	15/10/2025	2,000	6.6250%
480785 F	580	31/03/2023	580	6.1250%
480784 F	2,420	31/03/2023	2,420	6.1250%
485901 F	2,000	01/09/2061	2,000	4.8750%
490558 F	2,830	01/09/2020	2,830	4.3500%
491185 F	15,000	23/01/2051	15,000	3.7000%
491764 F	5,587	15/06/2056	5,587	4.4500%
493148 F	8,200	01/03/2057	8,200	4.3500%
494753 F	5,000	15/08/2058	5,000	4.3900%
508139 F	10,000	07/12/2068	10,000	2.6400%
508154 F	10,000	10/12/2068	10,000	2.5400%
508496 F	5,000	12/02/2069	5,000	2.3700%
509005 F	10,000	28/03/2069	10,000	2.1600%
	82,167		82,167	
Proportion Variable		0.00%		0.00%
Proportion Fixed		100.00%		100.00%

2. TEMPORARY EXTERNAL BORROWING

	JULY		AUGUST	
	£000		£000	
Balance b/fwd	23,000		0	
Loans raised in month	0		0	
Loans repaid in month	(23,000)		0	
Balance c/fwd	0		0	
Month end cash overdrawn balance (Nat-West)	0		0	
Average value of overdrawn balance	0		2,408,177	
Number of days overdrawn	0		2	
Avg. Int. Rate (excluding O/D balance)		0.80%		0.80%
Cumulative Interest Rate (year to date)		0.79%		0.79%
Bank Base Rate	No meeting	0.75%	No meeting	0.75%

3. TEMPORARY INVESTMENTS

	JULY		AUGUST	
	£000		£000	
Balance b/fwd	100,900		182,400	
Investments made in month	253,200		51,600	
Investments realised in month	(171,700)		(84,500)	
Unrealised Investments				
Balance c/fwd	182,400		149,500	
Month end cash deposit balance (Nat-West)		311		321
Average value of deposit balance		241		237
Number of days in credit		31		29
Average WMPA Interest Rate for month		0.79%		0.89%
* LIBID 7 day rate in month		0.57%		0.57%
* LIBOR 3 month rate in month		0.80%		0.79%
Cumulative WMPA Interest Rate (year)		0.82%		0.83%
Cumulative LIBID 7 day rate		0.57%		0.57%
Cumulative LIBOR 3 month rate		0.81%		0.79%
Bank Base Rate	No meeting	0.75%	No meeting	0.75%

	No.	Total £000	Individual Maximum	No.	Total £000	Individual Maximum
Major Banks & Subsidiaries	1	28,400	28,400	1	5,500	5,500
Overseas Institutions	0	0	0	0	0	0
Building Societies	0	0	0	0	0	0
Other Local Authorities	18	154,000	20,000	16	144,000	20,000
		182,400			149,500	
CCLA		5,000			5,000	
		187,400			154,500	

* LIBID – London Interbank Bid Rate

* LIBOR – London Interbank Offered Rate