

Treasury Management Briefing Broadland District Council

14th March 2019

Presented by:
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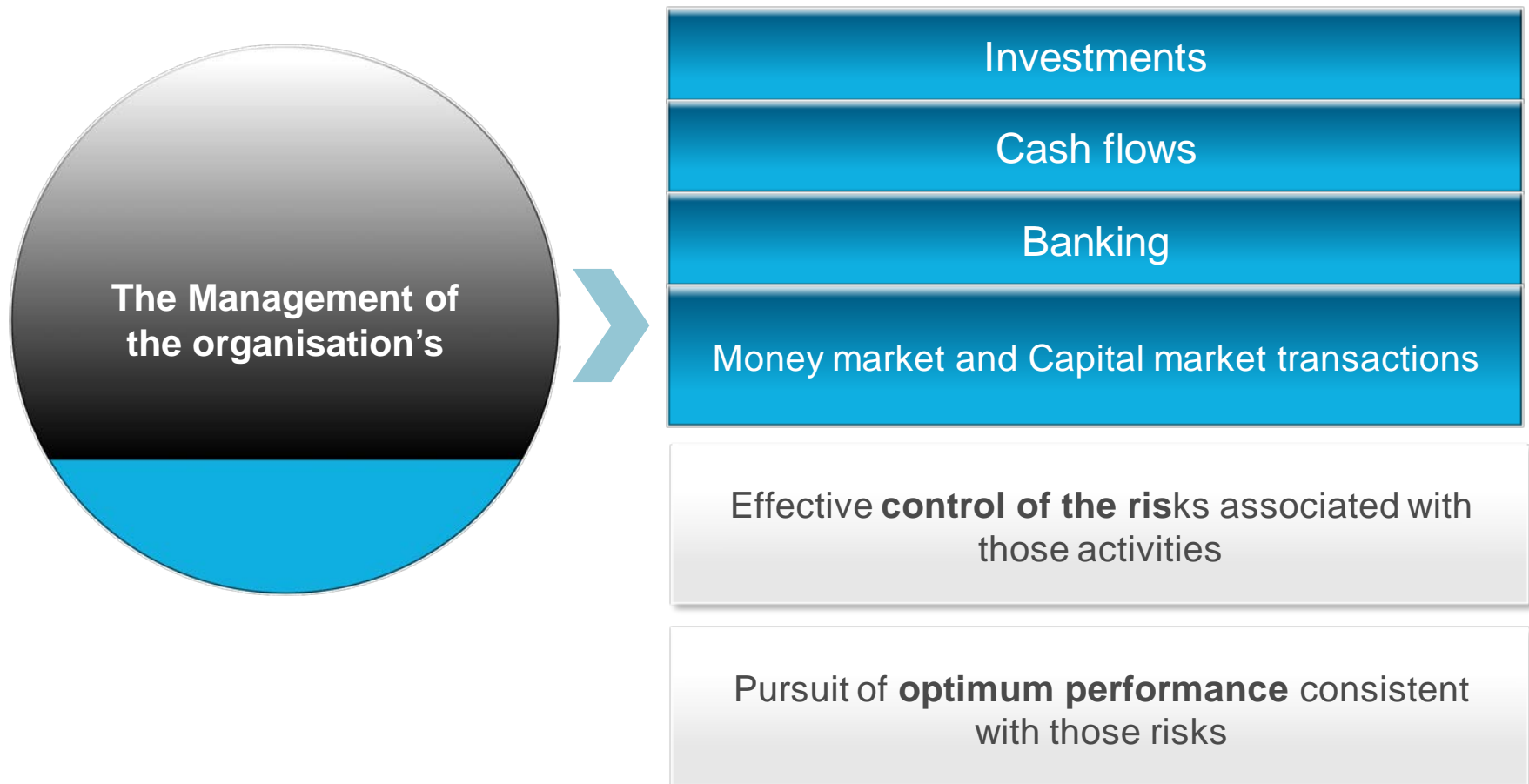
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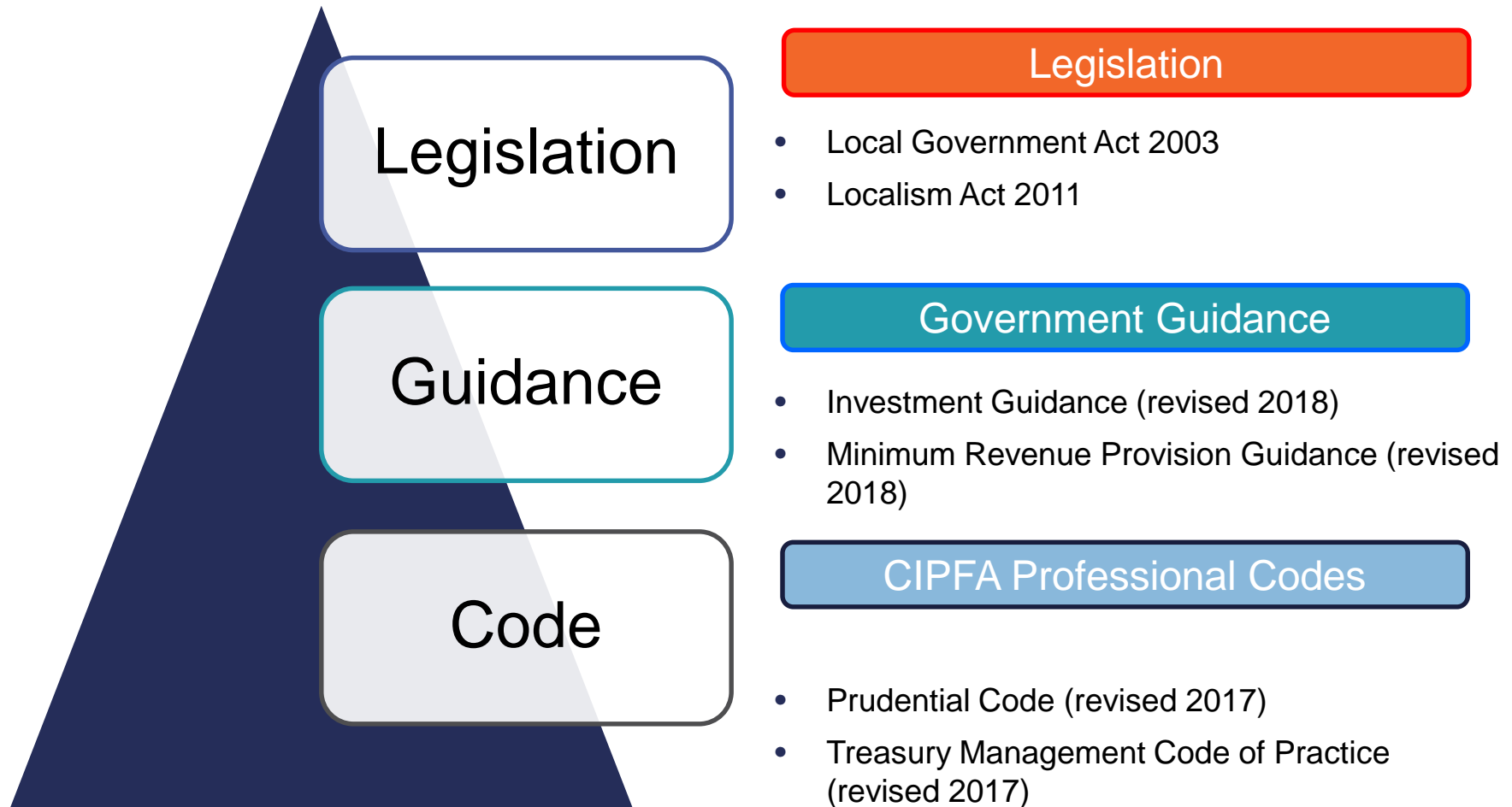


Background to Treasury Management & Reporting

Definition of Treasury Management (TM) – What does it mean ?



Legal and Regulatory requirements



What do you need to do?

Council required to receive and approve, as a minimum:

Before the year

- Prudential & treasury indicators and treasury strategy



Capital strategy

During the year

- Mid-year treasury management report (LCC quarterly)

After the year

- Annual treasury report

- Capital plans & Pls
- MRP policy
- TM and investment strategy & Indicators
- TM policies & practices

- Progress report
- Update on capital position
- Any changes to Indicators or policies

- Comparison of outturn position and Indicators to estimates

Current Treasury Management Developments

Recent updates to CIPFA Treasury Management Code and Prudential Code

- Aim is to review, improve and strengthen both Codes
- Requirement to produce a Capital Strategy from 2019-20
- More consideration to be given towards risk management / longer-term view of non treasury investments
- Aims to address “commercialism” agenda and “non-treasury” investments – covered in Capital Strategy

Management of risk

- Per CIPFA TM Code Guidance Notes:

“the ongoing activity of adjusting the authority’s treasury exposures due to changing market or domestic circumstances, in order to manage risks and achieve better value in relation to the authority’s objectives”

- Doing nothing does not avoid or minimise risk
- Risk can be failure to take advantage of opportunities



- ! Credit & counterparty risk
- ! Liquidity risk
- ! Interest rate risk
- ! Exchange rate risk
- ! Refinancing risk
- ! Legal & regulatory risk
- ! Fraud, error, corruption & contingency management
- ! Market risk

Economy & Interest Rates

Financial Markets / Economy – Why is it important?

Economic view impacts on:

- **Forecast for borrowing interest rates**
 - Expected to fall – borrow later
 - Expected to rise – borrow early
 - But, how does market perception fit the Council's view and budgetary constraints
- **Forecast for investment interest rates**
 - Expected to fall – invest early & long
 - Expected to rise – invest short and wait
 - But, how does market perception fit the Council's view?
- **Link provide the Council with a wide range of forecasts**

Key Economic Indicators Comparison

	UK	EZ	US
Bank Rate	0.75%	0%	2.25%-2.50%
GDP	(+1.3%y/y)	(+1.6%y/y)	2.6% annual rate
Inflation	(1.8%y/y)	(1.6%y/y)	2.2% annual rate
Unemployment Rate	4.0%	8.1%	3.9%

Current Key Economic Themes

- UK Brexit negotiations - impact on consumer & investor confidence
- Various outcomes for the economy and interest rates possible dependent on how things progress
- Eurozone – low growth, interest rates and political uncertainty in some member states
- United States
 - Donald Trump and new trade arrangements
 - Interest rate rises less likely?
- China – slowdown, how will that impact on the rest of us?
- Geo-political events

UK Interest Rate Forecast (Brexit deal)

Bank Rate														
	NOW	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	1.75%	1.75%	-	-	-	-	-
5yr PWLB Rate														
	NOW	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	1.66%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	1.66%	1.80%	1.90%	2.00%	2.20%	2.50%	2.50%	2.60%	2.60%	-	-	-	-	-
10yr PWLB Rate														
	NOW	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	2.00%	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
Capital Economics	2.00%	2.20%	2.30%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	-	-	-	-	-
25yr PWLB Rate														
	NOW	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	2.53%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.53%	2.70%	2.80%	3.00%	3.10%	3.30%	3.20%	3.20%	3.10%	-	-	-	-	-
50yr PWLB Rate														
	NOW	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.40%	2.60%	2.70%	2.80%	2.90%	3.20%	3.20%	3.20%	3.10%	-	-	-	-	-



Investment Management (Treasury)

Why do you have treasury investments?

What are the resources that back the investments?

- Provisions – cash put aside for a liability of uncertain timing or amount
- Grants and Contributions – cash received and yet to be spent
- Capital receipts – cash received and yet to be spent
- Earmarked reserves – cash put aside for specific purpose
- Balances – general cash not yet allocated
- Working Capital – debtors / creditors

Borrowing activity may impact upon the position as it will reduce / increase cash balances (and therefore investments)

Managing Risk – Security v Liquidity v Yield (SLY)

In order of importance:

Security

- **Likelihood of getting investment back on terms invested**
 - Strong = low return
 - Weak = high return

Liquidity

- **Length of investment**
 - Return linked to
 - status of counterparty
 - Interest rate outlook

Yield

- **Combination** of the above

Investment Decision Information

Market Indicators

- Credit Ratings
- Credit Default Swaps (CDS)
- Equities
- Bond “spreads”

All tradeable instruments in their own right

Link Asset Services Analysis

- Direct affect of counterparty rating changes
- Weekly Newsletter on Investments
 - Economic outlook
 - Rating Changes
 - Market indicators / intelligence

Investment Position – 28/2/2019

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating
Barclays Bank Plc (NRFB)	3,159,000	0.50%		Call	A
Santander UK Plc	2,016,500	0.40%		Call	A
Bank of Scotland Plc (RFB)	2,230,500	0.65%		Call	A+
Qatar National Bank	1,000,000	1.01%	03/01/2019	04/03/2019	A
Qatar National Bank	1,000,000	0.92%	05/02/2019	05/03/2019	A
Credit Industriel et Commercial	2,000,000	0.85%	14/09/2018	19/03/2019	A
Qatar National Bank	1,000,000	1.01%	25/01/2019	19/03/2019	A
Qatar National Bank	2,000,000	0.95%	04/02/2019	19/03/2019	A
National Westminster Bank Plc (RFB)	2,000,000	0.91%	22/01/2019	04/04/2019	A-
Sumitomo Mitsui Banking Corporation Europe Ltd	2,000,000	0.81%	04/02/2019	30/04/2019	A
Goldman Sachs International Bank	2,000,000	1.08%	11/01/2019	11/07/2019	A
Lloyds Bank Plc (RFB)	1,000,000	1.10%	09/11/2018	11/11/2019	A+
Lloyds Bank Plc (RFB)	1,000,000	1.15%	05/10/2018	15/11/2019	A+
Lloyds Bank Plc (RFB)	1,000,000	1.10%	16/01/2019	16/01/2020	A+
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date	
Payden	3,230,013				
Investec	10,181,684				
Total Investments	£36,817,697				
Total Investments - excluding Funds	£23,406,000	0.83%			
Total Investments - Funds Only	£13,411,697				

Comments on current position

- UK banks being used for liquidity management – Possible use of Money Market Funds to improve this?
- High quality UK and non-UK banks used for term deposits
- Rate of 0.83% achieved on treasury investments
- Compares to 0.80% across the client base
- A credible performance considering the low risk approach taken

Any improvements to be made ?

- Is there an appetite to look at other **longer term** options?

Longer term investment options?

Tend to be externally managed Property, Multi Asset or Bond Funds – non specified investments

- Do you have cash available for the longer term (5yrs+)?
- If so how much? Use the forward balance sheet
- These investments are a long term commitment
- Are you happy with the risks and rewards?
- If so a proper selection process should be undertaken to examine all available funds – risk assessment
- Usually more than one fund manager is desirable
- With some funds it is possible to avoid entry costs

Asset Class Returns – 2005 to 2018

Asset Class (IA Sector unless stated)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average Annual Return
UK All Companies	20.80%	17.30%	1.90%	-32.20%	30.50%	17.30%	-7.10%	15.10%	26.20%	0.60%	4.90%	10.80%	14.00%	-11.20%	7.78%
UK Equity Income	21.00%	18.40%	-1.50%	-29.00%	23.90%	13.80%	-3.10%	13.20%	25.20%	3.20%	6.20%	8.80%	11.30%	-10.60%	7.20%
UK Index Linked Gilts	8.10%	1.60%	7.30%	3.30%	5.90%	8.20%	21.80%	0.30%	-0.10%	18.60%	-1.30%	25.40%	2.20%	-0.60%	7.19%
Mixed Investments 40-85% Shares	19.90%	9.90%	4.20%	-21.70%	19.80%	12.40%	-5.60%	9.90%	14.60%	4.90%	2.70%	12.90%	10.00%	-6.10%	6.27%
UK Equity & Bond Income	16.00%	11.40%	0.50%	-22.40%	19.50%	11.80%	-1.10%	11.50%	16.80%	3.70%	3.70%	10.60%	8.80%	-7.60%	5.94%
UK Property (IPD, Other Balanced Fund Index) *	18.80%	19.80%	-5.40%	-26.00%	-3.60%	12.20%	6.70%	0.30%	9.00%	16.30%	12.40%	2.80%	9.70%	7.33%	5.74%
Mixed Investments 20-60% Shares	12.40%	6.90%	1.30%	-16.30%	15.70%	8.70%	-2.10%	8.20%	8.90%	4.90%	1.20%	10.30%	7.20%	-5.10%	4.44%
UK Gilts	7.50%	-0.80%	3.00%	11.90%	-2.40%	5.90%	15.30%	1.50%	-5.30%	14.50%	-0.30%	11.10%	1.70%	0.20%	4.56%
iBoxx £ 0-5yr Corporate Bond Index **	5.76%	2.55%	4.76%	-0.75%	10.82%	6.16%	1.52%	11.36%	3.87%	4.84%	1.38%	4.85%	2.21%	-0.37%	4.21%
£ Corporate Bond	7.10%	-0.90%	-0.70%	-10.00%	14.60%	6.90%	3.80%	12.30%	0.60%	9.80%	-0.30%	9.10%	5.10%	-2.20%	3.94%
Mixed Investments 0-35% Shares	8.73%	5.30%	-0.04%	-10.64%	11.28%	7.29%	0.91%	6.30%	4.40%	4.80%	0.40%	8.50%	4.80%	-3.40%	3.47%
RPI **	2.20%	4.40%	4.00%	0.90%	2.40%	4.80%	4.80%	3.10%	2.70%	1.60%	1.20%	2.50%	4.10%	3.20%	2.99%
FTSE Conventional Gilt up to 5yr Index **		2.59%	6.75%	9.92%	2.72%	3.57%	4.70%	0.98%	-0.55%	2.90%	0.97%	2.58%	-0.25%	0.23%	2.85%
12 month LIBID	4.65%	4.94%	5.96%	5.51%	1.57%	1.28%	1.52%	1.44%	0.78%	0.85%	0.89%	0.77%	0.77%	0.87%	2.27%
3 month LIBID	4.64%	4.76%	5.89%	5.39%	1.09%	0.58%	0.75%	0.70%	0.39%	0.42%	0.45%	0.37%	0.50%	0.60%	1.89%
Ultra-Short Dated Bond Funds (internal calculation)			5.48%	4.56%	2.98%	0.88%	1.29%	1.69%	0.61%	0.90%	0.57%	0.90%	0.55%	0.52%	1.74%
Money Market Funds	3.40%	2.90%	3.90%	2.40%	0.40%	0.40%	0.20%	0.60%	0.20%	0.10%	0.10%	0.20%	0.10%	0.50%	1.10%

Equity Assets

Multi-Asset

Physical Assets

Fixed Income
Assets

Money Market
Assets

Economic data
Index

* These asset classes have data only available up to the end of September 2018.

** These asset classes have data only available up to the end of November 2018.

Source: Investment Association, Bloomberg, Morningstar and internal calculations. Note that Mixed Investments were previously called active, balanced and cautious for 40-85%, 20-60% and 0-35% respectively.

Borrowing

Why do Local Authorities borrow?

- Borrowing is there to provide funding for long term capital investment
- The Capital Financing Requirement (CFR) indicates the theoretical need to borrow
- CFR calculated from the Balance Sheet
- Strategic borrowing considerations:
 - Level of debt?
 - Type of debt?
 - Prudence, affordability and sustainability
- Debt strategy will impact on level of investments

Borrowing Options & Strategy

- Most popular borrowing options
 - Other Local Authorities short term (fixed up to 3yrs) 0.80% to 1.5%
 - PWLB (1 to 50yrs) 1% to 2.40%
- Other key pointers
 - Borrow loans to reflect future profile (Maturity, EIP, Annuity)
 - Borrow some short term debt (cheapest) from Local Authorities
 - If long term, borrow in tranches when rates dip. Set an achievable trigger points
 - Maintain an even debt maturity profile

Questions?

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