	Treasury Management
	Borrowing and Investments
1.	The table below shows the year's opening balance of borrowing and investments, current levels and those predicted for year-end.
2.	(table below)

Borrowings and Investments	**01.04.2019 Balance £M**	**30.06.2019 Balance £M**	**Average Yield/Rate %**	**31.03.2020 Estimated Balance £M**
External Borrowing				
Public Works Loan Board (PWLB)	197.34	194.59	3.36	160.87
Market Loans	9.00	9.00	4.86	9.00
Total Long Term Borrowing	**206.34**	**203.59**	**3.44**	**169.87**
Temporary Borrowing	40.00	20.36	0.98	95.36
Total External Borrowing	**246.34**	**223.95**	**3.36**	**265.23**
Table 4 Borrowings and Investments	**01.04.2019 Balance £M**	**30.06.2019 Balance £M**	**Average Yield/Rate %**	**31.03.2020 Estimated Balance £M**
Investments				
Cash (Instant access)	(26.06)	(17.72)	(0.74)	(10.00)
Fixed Term Deposits	(9.00)			
Short Term Bonds	(1.60)			
Long Term Bonds	(6.03)	(6.02)	(4.06)	(3.00)
Property Fund	(27.00)	(27.00)	(4.39)	(27.00)
Total Investments	**(69.69)**	**(50.74)**	**(4.40)**	**(40.00)**
Net Borrowing	**176.65**	**173.21**		**253.23**

3.	After taking into account maturing and new debt requirements in year and a reduction in investment balances, there is an estimated increase in net borrowing of £41.3M for 2019/20.
4.	The interest cost of financing the council's long term and short term loan debt is charged to the general fund revenue account and is detailed below together with a summary of performance to date.
	Borrowing
5.	The forecast cost of financing the council's loan debt is £14.4M of which £5.4M relates to the HRA however this will be subject to movement as the need for further borrowing becomes more certain. As short term interest rates have remained low and are likely to do so for the remainder of the year, we do not anticipate taking any long term debt and will finance the 2019/20 capital programme via short term debt. This is the most cost effective way of managing treasury and also reduces risk as investments also fall. We currently have £25M in short term debt and this is expected to increase to £95M to replace maturing long term debt and to fund the current capital programme.

	Investment
6.	Balances initially increased at the beginning of the year rising from £70M to £87M in mid-April, but have since fallen back to £51M and are expected to fall further throughout the year, to an estimated £40M by the end of the year.
	External Managed investments
7.	The council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term and are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. As at the 30th June 2019 the sell price of our total investments were valued at £27.47M a notional “gain” of £0.47M against an initial investments of £27M. The estimated yield for the year is £1.15M if yields remain around current levels.
	Financial Review and Outlook for 2019/20
8.	A summary of the external factors, which sets the background for Treasury, is provided by the council’s treasury advisors, Arlingclose Ltd, is provided below. The low for longer interest rate outlook theme that has been at the core of the recommended strategic advice for over a decade remains.
9.	The UK economy continues to face a challenging outlook as the government negotiates the country's exit from the European Union.
10.	With the deterioration in the wider economic environment, compounded by Brexit-related uncertainty and the risk of a no-deal Brexit still alive, the speech by Bank of England Governor Mark Carney in early July signalled a major shift to the Bank’s rhetoric and increased the possibility of interest rate cuts, rather the Bank’s previous ‘gradual and limited’ rate hike guidance.
11.	UK Consumer Price Inflation (CPI) for June 2019 was 2.0% year/year, coming in at consensus and meeting the Bank of England’s inflation target. The most recent labour market data for the three months to May 2019 showed the unemployment rate remain at a low of 3.8% while the employment rate of 76.0% dipped by 0.1%, the first quarterly decrease since June to August 2018. The 3-month average annual growth rate for pay excluding bonuses was 3.6% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.7%. The MPC has downgraded its growth forecast for 2019.
12.	The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. There appears no near-term resolution of the trade dispute between China and the US. The US has also targeted other countries. With the 2020 presidential election a year away, Donald Trump is unlikely to want to display perceived weakness in trade negotiations to his supporters. Amid low inflation and a weak economy in the Eurozone Mario Draghi signalled in late June that another round of stimulus (QE) may be likely. The US and EU have also carved the path for interest rates to be cut in the future.
13.	Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. The US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) in March 2019 and this relationship remained and broadened throughout the period. History has shown that a recession hasn’t been far behind a yield curve inversion. Germany sold 10-year Bunds at -0.24% in June, the lowest yield on record. Bund yields had been trading at record lows in the secondary market for some time, however the negative yield in the primary market suggests that if investors were to hold until maturity, they are guaranteed to sustain a loss - highlighting the uncertain outlook for Europe’s economy.

14. Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Credit background

15. There were few credit rating changes during the quarter, none of which have impacted on our investment strategy.

16. **Investment Performance**

17. The council's advisors undertake quarterly investment benchmarking across its client base. As reported previously our portfolio was more diversified and at higher interest rates than the average as a result of moving into the bond programme earlier than most clients, but there is now more competition for bonds from both government bodies and other local authorities, so opportunities to replace maturing bonds are limited and we will see a fall in suitable instruments. With this in mind, and following discussions with our advisors, it was decided to move more into property funds, which are a longer term investment, and to restrict temporary borrowing and therefore run our short term investments down.

18. During the last quarter further bonds matured and our investments in bonds is now £6.02M and is expected to fall to £3.01M by the end of the year. We have maintained the property funds at £27M, with all other cash being placed in either Money Market Funds (MMF) or instant access bank accounts. As a result we had 30% (£15.6M) of our overall investment in Money Market which is in line with other Unitary Authorities for this time of year but our target is to reduce this £10m to reduce borrowing and therefore net interest costs.

19. Due to earlier investment decisions our income return on investments managed internally is 1.38% which is higher than the average of 0.85% whilst still maintaining the average credit rating of AA-. Total income return at 2.99% is also higher than the average for both unitary (1.57%) and LA's (1.41%). Our total investment return at 3.67% is again higher than both unitary (1.35%) and LA's (1.37%) across Arlingclose's client base and is mainly due to the investments made in property funds, but as previously reported the value of the funds are more volatile and can go down as well as up but are less risky than buying individual properties and do not constitute capital spend and it is the income return at 4.39% that is the driver to invest.