

Committee: Accounts, Audit and Risk Committee
Date: Wednesday 25 September 2019
Time: 6.30 pm
Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor Mike Kerford-Byrnes (Chairman)	Councillor Hugo Brown (Vice-Chairman)
Councillor Hannah Banfield	Councillor Nathan Bignell
Councillor Nicholas Mawer	Councillor Les Sibley
Councillor Tom Wallis	Councillor Sean Woodcock

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Minutes (Pages 1 - 4)

To confirm as a correct record the Minutes of the meeting of the Committee held on 31 July 2019.

5. Chairman's Announcements

To receive communications from the Chairman.

6. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

7. Internal Audit Progress Report 2019/20 (Pages 5 - 12)

Report of the Executive Director – Finance (Interim)

Purpose of report

To receive CW Internal Audit Services progress report for 2019/20.

Recommendations

The meeting is recommended:

- 1.1 To note the contents of the 2019/20 internal audit progress report from CW Audit Services.

8. Work Programme 2019/20 and 2020/21 (Pages 13 - 14)

To consider and review the Work Programme.

9. Treasury Management Report - Q1 2019/20 (Pages 15 - 22)

Report of the Executive Director of Finance (Interim)

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2019/20 as required by the Treasury Management Code of Practice.

Recommendations

The meeting is recommended:

- 1.1 To note the contents of the June 2019 Treasury Management Report.

10. Exclusion of Press and Public

The following items contain exempt information as defined in the following paragraphs of Part 1, Schedule 12A of Local Government Act 1972.

3– Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following items have been marked as exempt, it is for the meeting to decide whether or not to consider each of them in

private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to resolve as follows:

“That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

11. **Q1 Treasury report- Appendix 1-EXEMPT** (Pages 23 - 24)

12. **Closure of Accounts**

Exempt Verbal Update by Executive Director Finance (Interim) and Assistant Director (Interim) Finance

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence

Apologies for absence should be notified to democracy@cherwellandsouthnorthants.gov.uk or 01295 221554 prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Evacuation Procedure

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

Access to Meetings

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

Mobile Phones

Please ensure that any device is switched to silent operation or switched off.

Queries Regarding this Agenda

Please contact Sharon Hickson, Democratic and Elections
democracy@cherwellandsouthnorthants.gov.uk, 01295 221554

Yvonne Rees
Chief Executive

Published on Tuesday 17 September 2019

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 31 July 2019 at 6.30 pm

Present: Councillor Mike Kerford-Byrnes (Chairman)
Councillor Hugo Brown (Vice-Chairman)

Councillor Nathan Bignell
Councillor Les Sibley
Councillor Tom Wallis
Councillor Sean Woodcock
Councillor Barry Wood

Also Present: Neil Harris, Ernst Young (External Audit)

Apologies for absence: Councillor Hannah Banfield
Councillor Nicholas Mawer

Officers: Adele Taylor, Executive Director: Finance (Interim) & Section 151 Officer
Dominic Oakeshott, Assistant Director (Interim) - Finance
Hedd Vaughan Evans, Assistant Director Performance and Transformation
Louise Tustian, Acting Performance and Communications Manager
Aaron Hetherington, Democratic and Elections Officer

16 **Declarations of Interest**

There were no declarations of interest.

17 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

18 **Minutes**

The Minutes of the meeting of the Committee held on 29 May 2019 were agreed as a correct record and signed by the Chairman.

19 **Chairman's Announcements**

The Chairman made the following announcements:

1. Following discussion with officers, the date of the September meeting would now be held on 25 September 2019.
2. The work programme would be circulated to members at the next meeting, 25 September 2019.

20 **Urgent Business**

There were no items of urgent business.

21 **Review by Those Charged with Governance**

The Executive Director: Finance (Interim) which set out the response to Ernst & Young (EY) regarding the review of management assurance.

Resolved

- (1) That it be agreed that the Chairman of the Accounts, Audit and Risk Committee sign the response relating to management assurances from Those Charged with Governance.

22 **External Audit – Annual Audit Opinion 2018-19**

The Executive Director: Finance (Interim) submitted a report which set out the External Audit Opinion for 2018/19.

Resolved

- (1) That the contents of the External Audit Opinion (ISA260) for 2018/19 from the council's External Auditors, Ernst & Young (EY) be noted.

23 **Statement of Accounts, Annual Governance Statement 2018-19 and Letter of Representation**

The Executive Director, Finance (Interim) submitted a report to ask members to consider: The Statement of Accounts 2018/19, Annual Governance Statement 2018/19 and the Letter of Representation 2018/19.

In introducing the report, The Executive Director, Finance (Interim) provided an update sheet which set out some clarifications to the Statement.

The Executive Director, Finance (Interim) and the Chairman recorded their thanks to her team: To the former Deputy Section 151 Officer, Kelly Watson, Assistant Director - Finance (Interim), Dominic Oakeshott, Project Manager,

Isaac Aisu and Business Partner, Atilla Pek for their work on the Statement of Accounts 2018/19.

Resolved

- (1) That the Statement of Accounts 2018/19 be endorsed and once the final audit opinion is received the Interim Executive Director Finance (S151 Officer), in consultation with the Chairman of the Accounts, Audit and Risk Committee (or Vice Chairman in case the Chairman is unavailable) be authorised to sign the accounts and it be noted that if any material changes to the accounts are required, then an additional committee meeting would be convened to consider the changes.
- (2) That the Annual Governance Statement 2018/19 be endorsed.
- (3) That the Letter of Representation 2018/19 be approved.

24 **Monthly Performance, Risk and Finance Monitoring Report - May 2019**

The Assistant Director: Performance and Transformation and Assistant Director: Finance (Interim) submitted a report which summarised the Council's Performance, Risk and Finance monitoring position as at the end of each month.

Resolved

- (1) That the monthly Performance, Risk and Finance Monitoring Report be noted.
- (2) That having given due consideration, the Leadership Risk Register be noted and no issues be identified for further consideration.

25 **2018-19 Treasury Management Annual Report**

The Report of the Executive Director: Finance (Interim) submitted a report which presented information on treasury management performance and compliance with treasury management policy during 2018/19 as required by the Treasury Management Code of Practice.

Resolved

- (1) That the contents of the report in line with the Treasury Management Strategy be noted.

The meeting ended at 7.47 pm

Chairman:

Date:

Cherwell District Council

Accounts, Audit and Risk Committee

25 September 2019

Internal Audit Progress Report 2019/20

Report of the Executive Director – Finance (Interim)

This report is public

Purpose of report

To receive CW Internal Audit Services progress report for 2019/20.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the 2019/20 internal audit progress report from CW Audit Services.

2.0 Introduction

- 2.1 Internal Audit undertakes a programme of work each year which is produced in consultation with senior management. The plan is monitored for progress during the year and regular reports and updates are provided to the Committee.

3.0 Report Details

- 3.1 Internal Audit is planning 163 audit days for the Council and is on track to deliver its planned programme of work for the 2019/20 year, as detailed in Appendix 1. The phasing of the plan is in line with target, taking into account financial review activity, which is aligned with later in the year when there are a greater number of transactions to audit.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The Annual Plan set out the work programme for Internal Audit 2019/20 and provides the framework for assessing the internal control framework in place. This work programme will assist the Committee is gaining further assurance on the Councils internal controls.

5.0 Consultation

5.1 None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Members may choose to seek additional information from CW audit services and officers.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from this report.

Comments checked by:

Dominic Oakeshott – Assistant Director – Finance (Interim), 01295 227943

dominic.oakeshott@cherwell-dc.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

Richard Hawtin, Team Leader – Non-contentious, 01295 221695

richard.hawtin@cherwell-dc.gov.uk

Risk Management Implications

7.3 There are no risk management implications arising from this report.

Comments checked by:

Louise Tustian, Acting Performance and Communications Manager

01295 221786 Louise.tustian@cherwell-dc.gov.uk

8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	CW Audit Services Update Report 2018-19
Background Papers	
None	
Report Author	Leanne Lock, Group Accountant
Contact Information	leanne.lock@Cherwellandsouthnorthants.gov.uk 01295 227098

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Cherwell District Council

**Internal Audit
Progress Report 2019/20**

August 2019



1. Introduction

The purpose of this report is to update the Accounts, Audit and Risk Committee on progress made in delivering the 2019/20 audit plan to the end of August 2019. As previously reported to this Committee, the 2019/20 plan of 163 days relates solely to Cherwell District Council, having previously been a joint plan with South Northamptonshire Council. Appendix A provides details of the audit assignments included in the plan and an update on progress where assignments have commenced.

Two 2019/20 audits have thus far been fully delivered (details below) and a number of others are either in progress or have had scopes of work agreed. Progress made in delivering the 2019/20 plan is as expected at this point in the year given that financial, income and expenditure reviews cannot be completed until quarters three or four. In addition, we have refrained from booking too many audits in the early part of the year in order to allow changes brought about by the requirement to move away from the joint management structure previously shared with South Northamptonshire Council an opportunity to bed down.

2. Summary of reviews completed

Review	Key issues arising from audit	Assurance level
Homes England Grant	Homes England Compliance Audit Programme completed and submitted in respect of grant received for the Banbury Ambulance Station Scheme.	N/A

Review	Key issues arising from audit	Assurance level
Disabled Facilities Grant	Testing completed to confirm that the conditions set by OCC for the 18/19 Disabled Facilities Grant have been met.	N/A

3. Recommendation tracking

For the 2018/19 year, we provided a joint on-line recommendation tracking system for Cherwell District Council and South Northamptonshire Council. We have recently undertaken an exercise to split the recommendation tracker in order to create separate trackers for each Council. Actions that have already been self-assessed as implemented have been retained in the previous tracker, with only those recommendations that remain pending, or for which action has been started but not yet complete, now included on the new CDC recommendation tracker. The structural changes that the Council has recently gone through, as well as new staff appointments made, has required us to amend the details of a number of the officers responsible for taking action to implement recommendations. Access to provide on-line updates to specific recommendations has now been granted to all relevant officers. There are currently a total of 71 recommendations showing as requiring implementation and officers have therefore been requested to access and update the new recommendation tracking system by the end of September 2019. An update on progress made in implementing these recommendations will be provided to the next meeting of the Accounts, Audit and Risk Committee.

Appendix A - 2019/20 Internal audit plan

Area	Audit Assignment	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Current Status	Assurance Level
Governance & Risk	Risk Management			✓		Scope agreed and audit booked	
	MOT Income			✓		Scope agreed and audit booked	
	Commercial Waste Income			✓		Scope agreed and audit booked	
	Development Management				✓		
Financial Assurance	Budget Management and Reporting				✓		
	Payroll			✓	✓		
	Finance Systems			✓	✓		
	Revenues & Benefits			✓	✓		
	Anti-Fraud & Corruption			✓		Fieldwork ongoing	
	Disabled Facilities Grant Certification		✓			Certification provided.	N/A
	Homes England Grant Certification	✓				Audit Compliance Checklist submitted.	N/A
Follow Up & Rec Tracking		✓	✓	✓	✓	New recommendation tracking system set up	
Management & Advice		✓	✓	✓	✓	Ongoing throughout the year.	

Agenda Item 8

Accounts, Audit and Risk Committee Work Programme 2019/20 and 2020/21

Date	Agenda Items
20 November	Performance, Finance and Risk Monitoring Report - Q2 - September 2019 Treasury Management Q2 Finance Business Plan 2020/21 Corporate Fraud Q1 Work Programme
22 January	Internal Audit Progress Report Council Tax Reduction Scheme - Final Proposal Draft Treasury Management Strategies 2020/21 Treasury Management Q2 Work Programme Update
18 March	Performance, Finance and Risk Monitoring Report - Q3 - January 2020 Housing Benefit Subsidy Council Tax Reduction Scheme - Final Proposal Internal Audit Plan 2020/21 and Progress Update External Audit Update Finance System Replacement Project Treasury Management Q3 Update Work Programme Update
Early May 2020	Appointment of Chair and Vice Chair
Late May 2020	Performance, Finance and Risk Monitoring Report - Q4 - March 2020 Internal Audit Annual Report 2019/20 External Audit Update Draft Statement of Accounts 2019/20 Draft Report of Those Charged with Governance External Audit Fees - 2020/21

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Cherwell District Council

Accounts, Audit and Risk Committee

25 September 2019

Treasury Management Report – Q1 2019/20

Report of the Executive Director of Finance (Interim)

This report is public

Appendix 1 is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2019/20 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the June 2019 Treasury Management Report.

2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 2.2 The Council's treasury management strategy for 2019/20 was approved at a meeting on 25 February 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 2.3 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice; the local authority specific Guidance Notes for the Codes were published in July 2018. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.
- 2.4 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is a summary document approved by full

Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 25 February 2019.

3.0 Report Details

2019/20 Performance

- 3.1 As at the end of June 2019 the Council had borrowing of £108m and investments of £20.4m– a net borrowing position of £87.6m.

Appendix 1 details the schedule of borrowing and investments as at 30 June 2019.

Strategy

- 3.2 The Treasury Management Strategy for 2019/20 includes the Annual Investment Strategy which sets out the Council's investment priorities.

Security of capital has remained the Council's main investment objective, followed by liquidity of capital, and then by yield. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

- 3.3 Counterparty credit quality is assessed and monitored with reference to:
- Credit Ratings - the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's
 - Credit default swaps – a type of insurance to protect against default risk
 - GDP of the country in which the institution operates
 - The country's net debt as a percentage of GDP
 - Sovereign support mechanisms or potential support from a well-resourced parent institution
 - Share price
- 3.4 The Arlingclose ratings and advice encompass all of these and other factors and is the Council's primary source of guidance in selecting investments. In addition to Arlingclose ratings and advice, the council keeps an internal counterparty 'Watch List' based on intelligence from a variety of other sources available to officers.
- 3.5 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 3.6 In furtherance of these objectives new borrowing was kept to a minimum, whilst options for securing lower rates for longer term borrowing were reviewed, as part of an ongoing process. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 3.7 All treasury management activities undertaken during the first quarter of 2019/20 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all indicators were met during, and at the end of, the reporting period.

Investment performance for 3 months ended 30 June 2019:

- 3.8 Investment rates available in the market have continued at low levels, with the Bank of England Base rate remaining at 0.75% since August 2018.

Funds available for investment are on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.

The **average** level of funds available for investment purposes up to 30 June 2019 was £25.9m.

- 3.9 Table 1 shows the investment position as at 30 June 2019:

Investment Amount £	Interest Budget £	Interest Actual £	Variance £	Annualised rate of return
20.4m	39k	44k	5k	0.68%
Rate Benchmarking	Overnight	7-day	1-month	
Average LIBOR rates	0.67%	0.70%	0.73%	

Interest receivable is currently ahead of target and is forecast to remain above budget at the end of the year. Cash balances are higher than forecast and offset the forecast increase in interest rates that did not materialise.

The average duration of investments held at 30 June was 5 months and the weighted average interest rate was 0.81%. The rates achieved during the period are below LIBOR rates as they are held primarily for liquidity purposes in short-term money market funds and deposits, and the Council's investment counterparty criteria are more stringent than the market average, in order to maintain the security of capital.

A full list of current investments is shown at Appendix 1.

Borrowing performance for 3 months ended 30 June 2019:

- 3.10 The Council requires external borrowing to fund its capital programme and had total debt of £108m at the report date; 38% of the current debt is at fixed rate for the medium-long term from the Public Works Loan Board (PWLB), with the remainder short term variable rate from other local authorities. As borrowing will increase further, and the prospect of rate increases remains, we may seek to take a higher proportion of the debt at medium-long term fixed rates. This may cost more in the short term but will provide certainty of cost and provide savings in the longer term.

3.11 Table 2 shows the borrowing position as at 30 June 2019:

Borrowing Amount £	Interest Budget £	Interest Actual £	Variance £	Annualised interest rate £
108.0m	691k	415k	276k	1.56%
Borrowing Benchmarking	3-year	5-year	10-year	20-year
Average PWLB Maturity rate	1.68%	1.74%	2.05%	2.55%

Interest payable for the full year is forecast to remain significantly under budget, due to lower than forecast interest rates.

The average term of the current borrowing portfolio is 5 years. The annualised interest rate above shows that we compare favourably to average PWLB rates for all durations for the reporting period.

3.12 Non-treasury investment activity.

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially to generate a profit.

As at 30 June 2019, the Council holds £64.8m of investments in the form of shares (£22.9m) and loans (£41.9m – excluding accrued interest) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.

The loans elements of these non-treasury investments generate, or are expected to generate, a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.

3.13 Overall performance

The overall performance for the 3 months to 30 June 2019 is as follows:

	Budget £k	Actual £k	Variance £k
Borrowing costs	739	463	276
Treasury income	(38)	(43)	5
Non-treasury income	(751)	(937)	186
Total cost/(income)	(50)	(517)	467

The full year forecast is expected to achieve savings against budget in excess of £1m – this figure will be updated in future reports as events progress in terms of borrowing activity and interest rate changes.

3.14 Our Treasury advisers, Arlingclose, have provided the following economic commentary and outlook. The report is dated July 2019 and events, particularly in the UK, have moved on since then:

Economic background: 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%.

There was a rise in quarterly GDP growth in the first calendar quarter for 2019 to 0.5%, from 0.2% in Q4 2018 with stockpiling ahead of the (now delayed) 29th March Brexit distorting data. Production and construction registered positive output and growth, however at the end of June 2019, seasonally adjusted Markit UK Construction PMI (Purchasing Manager's Index) logged a record-low figure of 43.1, suggesting that construction has suffered a largest contraction in output since April 2009. GDP growth was 1.8% year/year, however with the service sector slowing and a weaker global backdrop the outlook was for subdued growth.

Politics has been a big driver over the last quarter. The 29th March Brexit deadline was extended to 12th April and then to 31st October 2019: there is still no clear consensus as to the terms on which the UK will leave the EU. Theresa May announced her resignation as Prime Minister and leader of the Conservative Party in May and the leadership contest for her successor is ongoing with Boris Johnson the current favourite.

The struggling British high street has continued to dominate headlines with the Arcadia group being saved from collapse in June following an agreement for rent reductions from landlords. The car industry has also struggled in the UK and beyond with announcements of cuts to 12,000 jobs across Europe by Ford.

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 erstwhile 'gradual and limited' rate hike guidance.

Globally, tensions between the US and China became progressively more fraught with US President Donald Trump threatening to more than double tariffs on some Chinese goods. There were also moves in both the US and UK to block or restrict access to markets by Chinese telecoms giant Huawei. 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.

Financial markets: 2018 was a year to forget in terms of performance of riskier asset classes, most notably equities. However, since the beginning of 2019 markets have rallied, and the FTSE 100 is up over 10% in pure price terms for the first 6 months of the calendar year. Nearly all of these gains were realised in the last quarter of FY 2018/19, as Q1 2019/20 has only seen a modest increase of around 2%.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. Gilt yields fell - the 5-year benchmark gilt yield falling to 0.63% at the end of June from 0.75% at the start of April. There were falls in the 10-year and 20-year gilts over the same period dropping from 1.00% to 0.83% and from 1.47% to 1.35% respectively. Money markets rates stabilised with 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.60%, 0.68% and 0.92% respectively over the period.

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.

Credit background: Credit Default Swap (CDS) spreads fell slightly across the board during the quarter, continuing to remain low in historical terms. After hitting around 97bps at the start of the period, the spread on non-ringfenced bank NatWest Markets plc fell back to around 82bps at the end of June, while for the ringfenced entity, National Westminster Bank plc, the spread fell from 67bps to 58bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 28 and 59bps at the end of the period.

S&P upgraded RBS Group and its subsidiaries, including National Westminster Bank PLC, Natwest Markets PLC, The Royal Bank of Scotland and Ulster Bank Ltd. S&P raised the long-term issuer ratings by one notch due to RBS Group's strengthened credit fundamentals following a long period of restructuring. S&P believes the group and its subsidiaries have enhanced their capacity to manage the current UK political and economic uncertainties.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Barclays Bank PLC to positive from stable to reflect the bank's progress in its restructuring plans, including de-risking the balance sheet, improving its risk profile and profitability and resolving litigation issues in the US. Moody's also revised the outlook to stable from negative for Goldman Sachs International Bank, reflecting a slowdown in loan growth as well as a stronger revenue growth for sales and trading.

Outlook for the remainder of 2019/20

Having increased interest rates by 0.25% in November 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) is now expected to maintain Bank Rate at this level for the foreseeable future. There are, however, upside and downside risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

The resignation of Theresa May has added further political uncertainty. Boris Johnson appears to be the frontrunner to become Prime Minister and also appears to favour exiting the EU on 31st October. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline.

With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently and global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process engender more uncertainty for business and consumer confidence and for economic activity.

	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

Gilt yields have fallen to recent lows. Resolution of global political uncertainty would see yields rise but volatility arising from both economic and political events continue to offer longer-term borrowing opportunities for those clients looking to lock in some interest rate certainty.

4.0 Conclusion and Reasons for Recommendations

This report details the Treasury Performance for the Council for the period ending 30 June 2019.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

Dominic Oakeshott, Assistant Director - Finance (Interim)

Dominic.oakeshott@cherwell-dc.gov.uk, 01295 227943

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

Richard Hawtin, Team Leader – Non-contentious Business

richard.hawtin@cherwell-dc.gov.uk, 01295 221695

Risk Management Implications

7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

Louise Tustian, Acting Performance and Communications Manager

louise.tustian@cherwell-dc.gov.uk. 01295 221786

8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

Links to all areas of Corporate Plan

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	Schedule of In-house investments - EXEMPT
Background Papers	
None	
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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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