Treasury Management Activities 2017/18 Quarter 2 (July to September 2017)

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PAC Finance Meeting 15 November 2017 and JASC Meeting 22 November 2017

Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period July to September 2017, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.

TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

Recommendations

The Commissioner is asked to note the contents of this report.

JASC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

Economic Background

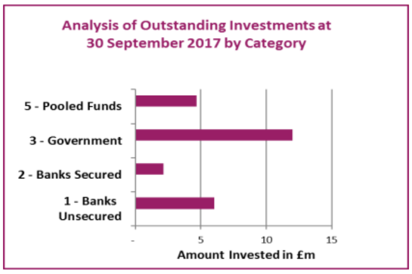
The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Some data has held up better than expected, with unemployment falling to an all-time low and house prices remaining relatively resilient.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Commissioners treasury advisor Arlingclose was not convinced at the time that the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted. Indeed, in November the MPC did increase the base rate by 0.25% to 0.50%.

TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

Outstanding Investments: As at 30 September 2017 the total value of investments was **£24.863m** and all were within TMSS limits. The chart below shows the outstanding investments at 30 September by category.



A full list of the investments that make up the balance of £24.863m is provided at **Appendix A**.

Investment Activity: During quarter 2 a number of investments were made within TM categories 1-3 (banks unsecured, banks secured and Government) primarily as a result of the Pension grant that is received in advance of spend in July.

Month	Number of Investments	Total Value of Investments £m
July 2017	5	12.0
August 2017	0	0.0
September 2017	1	2.0

In addition to the above there are regular smaller investments made via money market funds (category 5 pooled funds).

Non-specified investments: The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 30 September, the Commissioner had only one investment that met this description. This investment still has an outstanding duration of over 364 days. The investment in this category is:

- Leeds Building Society £2.2m 887 days (13/07/16 to 17/12/18)

Investment Income: The budget for investment interest receivable in 2017/18 is £75k. The current forecast against this target is that the actual will be on budget although it is still relatively early in the financial year to provide an accurate estimate. Factors such as future interest rates available and investment balances will impact.

The average return on investment at the end of quarter 2 is 0.31%. As a measure of investment performance the rate achieved on maturing investments of over 3 months in duration is compared with the average BOE base rate. The table below illustrates the rate achieved on the one maturing investment of over three months duration in quarter 2 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Lloyds Bank	£2m	12	1.00%	0.25%

Cash Balances: The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period July to September are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	89	4,107	118,779
Days Overdrawn	3	(549,195)	(549,195)

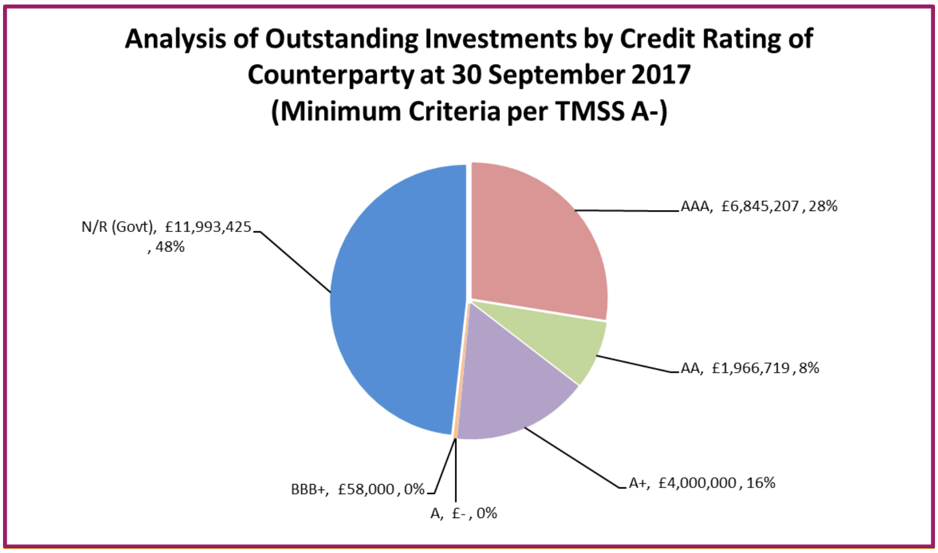
The bank account had large un-invested balances on one occasion. The largest un-invested balance occurred on the 6 September (£119k) where a BACS deposit was received late in the afternoon in respect of an invoice for special policing services provided for the Kendal Calling music festival. The largest overdrawn balance occurred on the 15 September 2017 over a weekend and was as a result of an oversight where by a planned redemption from a money market fund was not requested. Bank charges are billed on a quarterly basis in arrears. The charge that relates to the overdrawn period will be reported in quarter 3 once it has been received. A reminder has now been set in 2 electronic diaries to prompt a bank account check at midday every day to prevent this happening in the future.

Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the TMSS meets the requirements of the Prudential Code in terms of ***Affordability, Sustainability** and **Prudence***. An analysis of the current position with regard to those prudential indicators for the financial year 2017/18 is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2017/18 are all being complied with.

Appendix A
Investment Balance at 30 September 2017

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Nationwide Building Society	A+	05/07/2017	22/12/2017	83	0.29%	2,000,000	2,000,000
Landesbank Hessen-Thuringen (Helaba)	A+	07/07/2017	30/11/2017	61	0.27%	2,000,000	2,000,000
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.30%	1,966,719	1,966,719
NatWest (Liquidity Select Account)	BBB+	30/06/2017	01/07/2017	O/N	0.10%	58,000	58,000
						6,024,719	**6,024,719**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
Leeds Building Society (Bond)	AAA	13/07/2016	17/12/2018	443	0.68%	2,141,288	2,141,288
						2,141,288	**2,141,288**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
East Dunbartonshire Council	NR	07/03/2017	06/03/2018	157	0.50%	2,000,000	2,000,000
The Morey Council	NR	27/09/2017	31/01/2018	123	0.28%	2,000,000	2,000,000
Lancashire County Council	NR	18/04/2017	17/04/2018	199	0.60%	2,000,000	2,000,000
Treasury Bills	NR	10/07/2017	08/01/2018	100	0.23%	3,995,418	3,995,418
Treasury Bills	NR	17/07/2017	15/01/2018	107	0.20%	1,998,007	1,998,007
						11,993,425	**11,993,425**
Category 4 -Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	**0**
Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco	AAA	Various	On demand	O/N	0.47%	700,000	700,000
Fidelity	AAA	Various	On demand	O/N	0.16%	3,919	3,919
Goldman Sachs	AAA	Various	On demand	O/N	0.45%	300,000	300,000
Aberdeen Asset Management	AAA	Various	On demand	O/N	0.18%	200,000	200,000
Standard Life (Formally Ignis)	AAA	Various	On demand	O/N	0.25%	3,500,000	3,500,000
						4,703,919	**4,703,919**
Total						**24,863,352**	**24,863,352**



Note – The credit ratings in the table & chart relate to the standing as at 30 Septemner 2017, these ratings are constantly subject to change.

Appendix B
Prudential Indicators 2017/18

	Prudential Indicator - With Targets To Review		Approved Indicators TMSS £m	Current Value £m	Within Target
1	**The Authorised Limit** *The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not sustainable. It is the expected amximum borrowing need with some headroom for unexpecteed movements. This is a*	Total Authorised Limit	24.478	4.887	✓
2	**The Operational Boundry** *The operational boundry respresents and estimate of the most likely but not worse case scenario it is only a guide and may be breached temporarily due to variations in cashflow.*	Total Operational Boundry	22.978	4.887	✓
3/4	**Interest Rate Exposure** *The purpose of this indicator is to contain the Commissioners exposure to unfavourable movements in future interset rates.. This represents the position that all of the Commissioner's auhorised external borrowing may be at a fixed rate at any one time.*	Net Principal sums Outstanding at Fixed Rates	24.478	4.887	✓
		Net Principal sums Outstanding at Variable Rates	1.500	0.000	✓
5	**Upper Limit for total principal sums invested for over 364 Days** *The purpose of this indicator is to ensure that the commissioner has protected himslef against the risk of loss arising from the need to seek early redemption of princiapl sums invested.*	Non Specified Investments with a maturity greater than 364 days	5.000	2.200	✓
	Prudential Indicator - To Note				
6	**Net Borrowing and the Capital Financing Requirement** This indicator is to ensure that net borrowing will only be for capital puposes. The commissioner should ensure that the net external borrowing does not exceed the total CFR requirment from the preceeding year plus any additional borrowing for the next 2 years.	Net Debt (section 12 below provides analysis)	(15.280)	(16.380)	
		Capital Financing Requirement as at 31 March	17.978	17.980	
		Net external Borrowing	0.000	0.000	
7	**Capital Expenditure and Capital financing** *The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2016/17*	Expenditure	6.521	5.201	
		Financing and Funding	0.000	0.000	
8	**Ratio of Financing Costs to Net Revenue Stream** *This is an indicator of affordability and highlights the revenue impliations of exisiting and proposed capital expenditure by identifiying the proportion of revenue budget required to meet financing costs*	Financing Costs	0.348	0.348	
		Net Revenue Stream	96.178	96.178	
		Ratio	0.36%	0.36%	
9	**Capital Financing Requirement** *The CFR is a measure of the extent to which the commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.*	CFR including PFI & other long term liabilties	17.978	17.980	
		CFR excluding PFI & other long term liabilties	13.091	13.093	
10	**Actual External Debt** *It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing*	External Debt including PFI & other long term liabilties	4.887	4.887	
		External Debt excluding PFI & other long term liabilties	0.000	0.000	
11	**Impact of capital investment decisions on the Council Tax** *This indicates the incremental impact of the capital investment decisions funded from prudential borrowing proposed for the period 2016/17 based on a Band D property in line with the proposed council tax level.*	Capital Expenditure funded from revenue	1.584	1.584	
		Incremental Impact on Band D Council Tax	9.485	9.484	
12	**Gross and Net Debt** *The purpose of this indicator is highlight a situation where the Commissioner is planning to borrow in advance of need.*	Outstanding Borrowing (at notional value)	0.000	0.000	
		Other Long Term Liabilities (PFI & Finance Lease)	4.887	4.887	
		Less Investments	20.167	21.267	
		Net Debt	(15.280)	(16.380)	
13	**Maturity Structure of Borrowing** *The indicator is designed to exercise control over the Commissioner having large consentrations of fixed rate debt needing to be repaid at any one time.*	Not Applicable - currently no external debt			