Treasury Management Activities 2017/18
Quarter 3 (October to December 2018)

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PAC Budget Setting Meeting 14 February 2018 and JASC Meeting 21 March 2018

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 October to December 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

During quarter 3, the most significant economic event was the increase in the bank base rate from 0.25% to 0.50% on 1 November. This represents the first increase in the base rate since July 2007. The increase reflects the MPCs concern that rising inflation had finally outweighed the risks to growth. The MPC has reiterated that it expects any future increases to interest rates to be at a gradual pace and limited in extent.

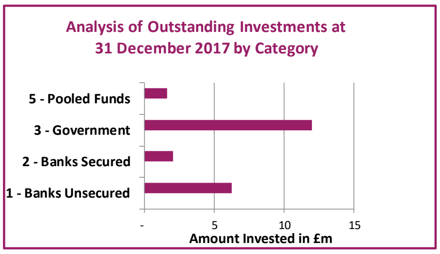
Inflation has continued to rise with UK consumer price inflation (CPI) at December of 3.0%, slightly lower than 3.1% reported for November, which itself was the highest level since March 2012. This high inflation reflects the fall in the value of sterling following the June 2016 referendum result which continued to feed through into higher import prices.

The number of unemployed in the economy continued to decrease, although the unemployment rate remains at 4.3%. Wages continue to shrink in real terms with average earnings growth at 2.5%, a good deal below the rate of inflation.

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 31 December 2017 the total value of investments was **£21.938m** and all were within TMSS limits. The chart below shows the outstanding investments at 31 December by category.



A full list of the investments that make up the balance of £21.938m is provided at **Appendix A**.

Investment Activity: During quarter 3 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 July, in advance of spend.

Month	Number of Investments	Total Value of Investments £m
October 2017	0	0.0
November 2017	0	0.0
December 2017	2	4.0

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 31 December, the Commissioner had only one investment that met this description. This investment now has an outstanding duration of under 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. Factors such as future interest rates available and investment balances will impact on the final outturn against this budget.

The average return on investment at the end of quarter 3 is 0.34%. 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 two maturing investments of over three months duration in quarter 3 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Landesbank Hessen-Thuringen	£2m	4.7	0.27%	0.30%
Nationwide BS	£2m	5.5	0.29%	0.33%

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 October to December are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	89	16,190	417,825
Days Overdrawn	3	(414)	(414)

The bank account had large un-invested balances on two occasions. The largest un-invested balance occurred on the 27 November (£418k) when a capital receipt in respect of the sale of the former police station at Barrow was received without notification. The second occasion occurred on the weekend of 27-29 October (£227k) where a BACS deposit was received late on the Friday afternoon in relation to the final settlement of the insurance claim in relation to the December 2015 flooding. The largest/only overdrawn balance occurred on the weekend of 29-31 December (£415) and was as a result of the quarterly bank charges being applied to the account being omitted from the cash flow forecast.

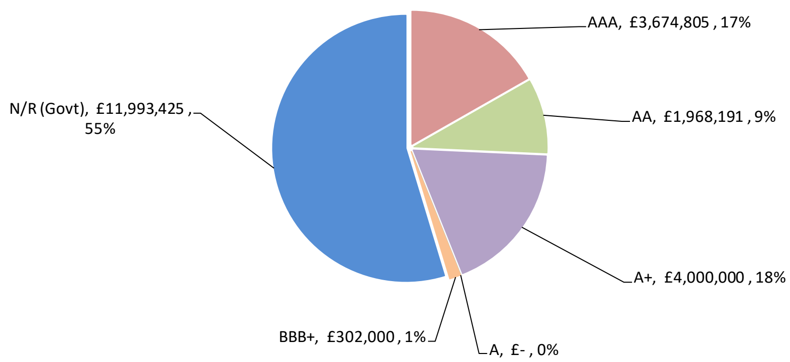
Prudential Indicators

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 31 December 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+	22/12/2017	29/03/2018	88	0.37%	2,000,000	2,000,000
Landesbank Hessen-Thuringen (Helaba)	A+	07/12/2017	31/05/2018	151	0.45%	2,000,000	2,000,000
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.30%	1,968,191	1,968,191
NatWest (Liquidity Select Account)	BBB+	31/12/2017	01/01/2018	O/N	0.10%	302,000	302,000
						6,270,191	**6,270,191**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
Leeds Building Society (Bond)	AAA	13/07/2016	17/12/2018	351	0.68%	2,070,884	2,070,884
						2,070,884	**2,070,884**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
East Dunbartonshire Council	NR	07/03/2017	06/03/2018	65	0.50%	2,000,000	2,000,000
The Moray Council	NR	27/09/2017	31/01/2018	31	0.28%	2,000,000	2,000,000
Lancashire County Council	NR	18/04/2017	17/04/2018	107	0.60%	2,000,000	2,000,000
Treasury Bills	NR	10/07/2017	08/01/2018	8	0.23%	3,995,418	
Treasury Bills	NR	17/07/2017	15/01/2018	15	0.20%	1,998,007	5,993,425
						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)							
Fidelity	AAA	Various	On demand	O/N	0.31%	3,921	3,921
Standard Life (Formally Ignis)	AAA	Various	On demand	O/N	0.35%	1,600,000	1,600,000
						1,603,921	**1,603,921**
Total						**21,938,421**	**21,938,421**

Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 December 2017 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table and chart relate to the standing as at 31 December 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 maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section3(1) of the local government Act 2003*	Total Authorised Limit	24.480	4.887	✓
2	**The Operational Boundary** *The operational boundary represents 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 cash flow.*	Total Operational Boundary	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 interest rates. This represents the position that all of the Commissioner's authorised external borrowing may be at a fixed rate at any one time.*	Net Principal sums Outstanding at Fixed Rates	24.480	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 himself against the risk of loss arising from the need to seek early redemption of principal 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 purposes. The commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.	Net Debt (section 12 below provides analysis)	(15.280)	(17.051)	
		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 2017/18*	Expenditure	6.521	6.019	
		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 implications of existing and proposed capital expenditure by identifying 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 liabilities	17.978	17.980	
		CFR excluding PFI & other long term liabilities	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 liabilities	4.887	4.887	
		External Debt excluding PFI & other long term liabilities	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 2017/18 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	21.938	
		Net Debt	(15.280)	(17.051)	
13	**Maturity Structure of Borrowing** *The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.*	Not Applicable - currently no external debt			