Treasury Management Activities 2016/17 Quarter 2 (July to September 2016)

PCC Decision Meeting November 2016 and JASC Meeting 24 November 2016

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 2016, 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

Financial uncertainty post the Brexit vote continues. The treasury advisor's Arlingclose have updated their forecast for interest rates from an initial "lower for longer", through "even lower for even longer" to settle on the current view of "even lower for the indeterminable future".

The Bank of England (BOE) Base rate was reduced from 0.50% to **0.25%** on 4 August 2016. Quantitative Easing (QE) was increased form £375bn to **£435bn** on the same date. In response money market rates and bond yields declined to new record lows.

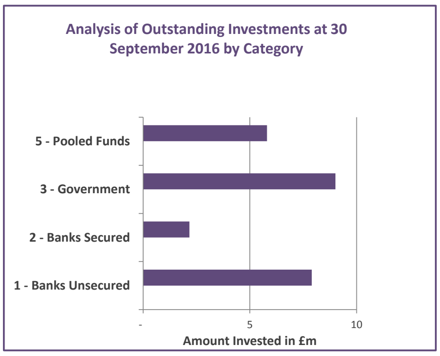
The current forecast is that the BOE base rate will be maintained at 0.25% until at least the end of 2019.

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 2016 the total value of investments was **£24.876m** 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 £24.876m is provided at **Appendix A**.

Investment Activity: During quarter 2 a total of 9 investments with a combined value of £19.5m were made within TM categories 1-3 (banks unsecured, banks secured and Government). In addition to these there were regular smaller investments in category 5 (money market 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 two investments meeting this description with a combined total of £4.2m. Of these two, only 1 has an outstanding duration of over 364 days. These investments are:

- Leeds Building Society £2.2m 887 days (13/07/16 to 17/12/18)
- Lloyds Bank £2m 366 days (11/08/16 to 11/08/17)

Investment Income: The budget for investment interest receivable in 2016/17 is £100k. The current forecast against this target is £90k which provides a forecast shortfall of £10k (10%). The shortfall is attributable to the drop in BOE interest rates in August 2016.

The forecast of £90k in September is an improvement on the forecast at June of £60k and is as a result of a revision in the forecast based on the actual rates being achieved not being as low as had been originally feared.

The average return on investment at the end of quarter 2 is 0.46%. 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 2 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Lloyds	£2m	12	1.00%	0.49%
DMADF - DMO	£3m	6	0.25%	0.47%

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:

	Days	Average Balance £	Largest Balance £
Days In Credit	87	7,619	93,839
Days Overdrawn	5	(34,132)	(56,619)

The bank account had large un-invested balances on two occasions. The largest un-invested balance occurred on the 26 August for three days over the weekend (£93k). A bank deposit was received late in the afternoon by a company paying an invoice for services. The second largest un-invested balance occurred on the 31 August 2016 (£85k). A large amount of seized cash was banked in the afternoon and credited to our account.

The largest overdrawn balance occurred on the 2 September 2016 and resulted in the main fund bank account being overdrawn by £57k over 3 days of the weekend. This was due to human error which resulted in the daily transfer to the liquidity select account not being confirmed.

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*.

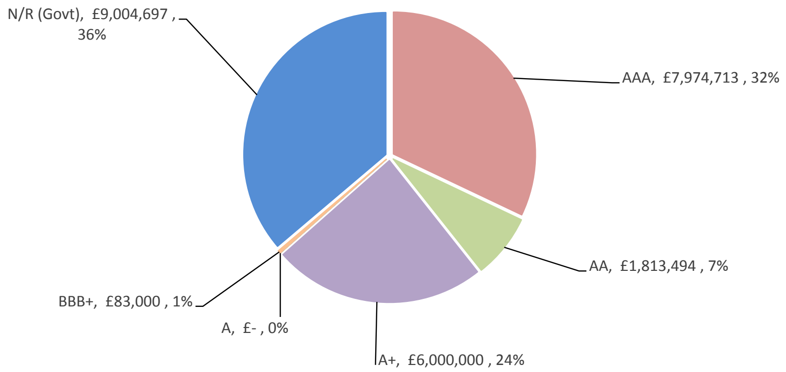
An analysis of the current position with regard to those prudential indicators is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2016/17 are all being complied with.

Appendix A

Investment Balance at 30 September 2016

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Svenska (Certificate of Deposit)	AA	05/07/2016	05/10/2016	5	0.47%	1,500,113	1,500,113
Nationwide	A+	05/07/2016	23/12/2016	84	0.52%	2,000,000	2,000,000
Landesbank- Hessen-Thuringen (Hel	A+	11/07/2016	11/01/2017	103	0.47%	2,000,000	2,000,000
Lloyds Bank Plc	A+	11/08/2016	11/08/2017	315	1.00%	2,000,000	2,000,000
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.00%	313,380	313,380
NatWest (Liquidity Select Account)	BBB+	31/03/2016	01/04/2016	O/N	0.25%	83,000	83,000
						7,896,494	**7,896,494**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
None							
Leeds Building Society (Bond)	AAA	13/07/2016	17/12/2018	808	0.68%	2,171,265	2,171,265
						2,171,265	**2,171,265**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
T Bills	NR	11/07/2016	03/10/2016	3	0.34%	2,997,654	2,997,654
T Bills	NR	18/07/2016	16/01/2017	108	0.37%	1,007,042	1,007,042
DMADF - DMO	NR	26/09/2016	26/10/2016	26	0.15%	3,000,000	3,000,000
North Lanarkshire Council	NR	01/03/2016	07/12/2016	68	0.60%	2,000,000	2,000,000
						9,004,697	**9,004,697**
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%	1,400,000	1,400,000
BlackRock	AAA	Various	On demand	O/N	0.41%	400,000	400,000
Fidelity	AAA	Various	On demand	O/N	0.43%	3,448	3,448
Goldman Sachs	AAA	Various	On demand	O/N	0.45%	700,000	700,000
Aberdeen Asset Management	AAA	Various	On demand	O/N	0.48%	1,300,000	1,300,000
Standard Life (Formally Ignis)	AAA	Various	On demand	O/N	0.51%	2,000,000	2,000,000
						5,803,448	**5,803,448**
Total						**24,875,903**	**24,875,903**

Analysis of Outstanding Investments by Credit Rating of Counterparty at 30 September 2016 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 30 September 2016, these ratings are constantly subject to change.

Appendix B
Prudential Indicators 2016/17

	Prudential Indicator		Limits TMSS £m	Limits Revised at year end £m	Limits Revised at Sep-16 £m	Actual £m	Within Target
1	**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 9 below provides analysis)	(8.492)	(17.192)	(17.567)	(17.567)	✓
		Capital Financing Requirement as at 31 March	18.360	18.401	18.401	18.401	✓
		Net external Borrowing	0.000	0.000	0.000	0.000	✓
2	**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	6.883	8.553	5.027	5.027	✓
		Financing and Funding	0.100	0.141	0.141	0.141	✓
3	**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	0.313	0.313	0.323	0.323	✓
		Net Revenue Stream	95.675	95.675	95.675	95.675	✓
		Ratio	0.33%	0.33%	0.34%	0.34%	✓
4	**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	18.360	18.401	18.401	18.401	✓
		CFR excluding PFI & other long term liabilties	13.348	13.514	13.514	13.514	✓
5	**The Authroised 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	24.860	24.901	24.901	0.000	✓
6	**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	23.360	23.401	23.401	0.000	✓
7	**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	5.012	5.012	5.012	5.012	✓
		External Debt excluding PFI & other long term liabilties	0.000	0.000	0.000	0.000	✓
8	**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	1.534	1.534	0.508	0.508	✓
		Incremental Impact on Band D Council Tax	9.146	9.146	3.029	3.029	✓
9	**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	0.000	0.000	✓
		Other Long Term Liabilities (PFI & Finance Lease)	5.012	5.012	5.012	5.012	✓
		Less Investments	13.504	22.204	22.579	22.579	✓
		Net Debt	(8.492)	(17.192)	(17.567)	(17.567)	✓
10/11	**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	24.860	24.901	24.901	0.000	✓
		Net Principal sums Outstanding at Variable Rates	1.500	1.500	1.500	0.000	✓
12	**Maturity Structure of Borrowing**						
	The indicator is desiggned 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					✓
13	**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	5.000	5.000	2.200	✓