Treasury Management Activities 2017/18
Quarter 1 (April to June 2017)

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PCC Decision Meeting 21 July 2017 and JASC Meeting 13 September 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 April to June 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

Reaction form the markets to the general election in June have been fairly muted, confidence now hinges on Brexit negotiations. Commodity prices have fallen during the quarter with oil falling below $50 a barrel, primarily as a result of oversupply.

The Bank of England (BOE) made no change to monetary policy at its meeting on 15 June. The Base Rate has been maintained at **0.25%** since 4 August 2016. Quantitative Easing (QE) has also been maintained at **£435bn** since that date.

The treasury advisor's Arlingclose central case is for the Bank Base Interest Rate to remain flat at 0.25%, however, there is a downside risk for rates to be cut to 0.00% in the short and medium term, and scope for rates to be increased from 2019 onwards, albeit modestly to 0.50%.

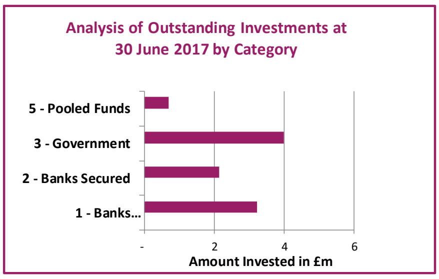
Consumer Price Index (CPI) inflation rose over the first quarter and the data for May showed CPI at 2.9%, its highest since June 2013. The effect of the fall in fuel prices was offset by a number of other rises in the CPI 'basket' as the fall in sterling post Brexit continues to impact on import prices.

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 June 2017 the total value of investments was **£10.070m** and all were within TMSS limits.

The chart below shows the outstanding investments at 30 June by category.



A full list of the investments that make up the balance of £10.070m is provided at **Appendix A**.

Investment Activity: During quarter 1 there were no investments made within TM categories 1-3 (banks unsecured, banks secured and Government). There were however, 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 June 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 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 1 is 0.48%. 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 1 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Highland Council	£2m	6	0.30%	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 April to June are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	91	3,226	108,681
Days Overdrawn	0	0	0

The bank account had large un-invested balances on one occasion. The largest un-invested balance occurred on the 26 April (£109k) where a BACS deposit was received late in the afternoon in respect of the sale of the former police station at Cleator Moor.

During quarter 1 there were no occasions when the bank balance was overdrawn.

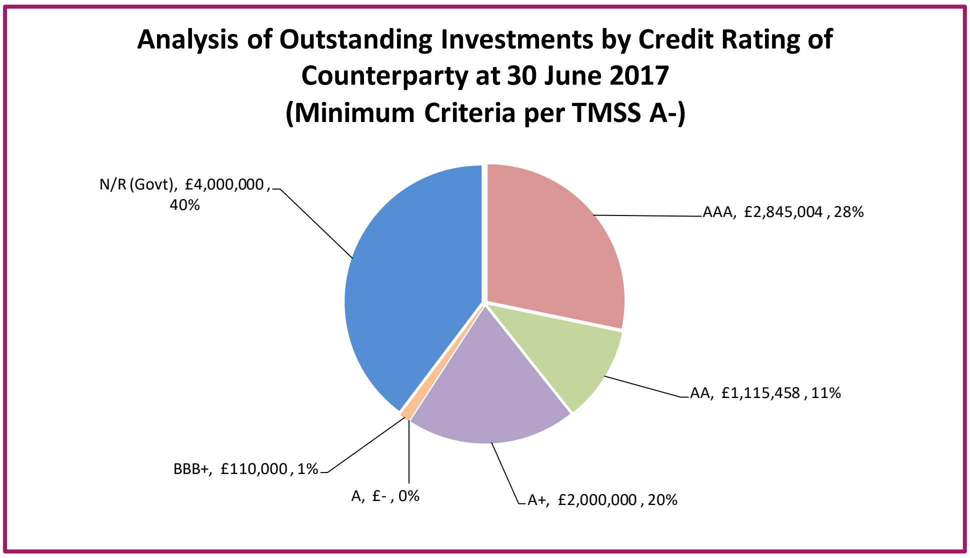
Prudential Indicators

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 June 2017

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Lloyds Bank Plc	A+	11/08/2016	11/08/2017	42	1.00%	2,000,000	2,000,000
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.30%	1,115,458	1,115,458
NatWest (Liquidity Select Account)	BBB+	30/06/2017	01/07/2017	O/N	0.10%	110,000	110,000
						3,225,458	**3,225,458**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
Leeds Building Society (Bond)	AAA	13/07/2016	17/12/2018	535	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	249	0.50%	2,000,000	2,000,000
Lancashire County Council	NR	18/04/2017	17/04/2018	291	0.60%	2,000,000	2,000,000
						4,000,000	**4,000,000**
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	0.16%	3,716	3,716
Aberdeen Asset Management	AAA	Various	On demand	O/N	0.18%	100,000	100,000
Standard Life (Formally Ignis)	AAA	Various	On demand	O/N	0.25%	600,000	600,000
						703,716	**703,716**
Total						**10,070,462**	**10,070,462**



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

Appendix B
Prudential Indicators 2017/18

	Prudential Indicator - With Targets To Review		Approved Limits TMSS £m	Recalculated Limits at Jun-17 £m	Actual £m	Within Target
1	**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	24.478	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	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	24.478	4.887	✓
		Net Principal sums Outstanding at Variable Rates	1.500	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	5.000	4.200	✓
	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)	(17.477)	(17.477)	
		Capital Financing Requirement as at 31 March	17.978	17.978	17.978	
		Net external Borrowing	0.000	0.000	1.000	
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	6.768	6.768	
		Financing and Funding	0.000	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	0.348	
		Net Revenue Stream	96.178	96.178	96.178	
		Ratio	0.36%	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	17.978	17.978	
		CFR excluding PFI & other long term liabilties	13.091	13.091	13.091	
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	4.887	
		External Debt excluding PFI & other long term liabilties	0.000	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	1.552	1.552	
		Incremental Impact on Band D Council Tax	9.485	9.294	9.294	
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	0.000	
		Other Long Term Liabilities (PFI & Finance Lease)	4.887	4.887	4.887	
		Less Investments	20.167	22.364	22.364	
		Net Debt	(15.280)	(17.477)	(17.477)	
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				