

Treasury Management Activities 2018/19

Quarter 1 (April to June 2018)

Public Accountability Meeting 25 July 2018 and JASC Meeting 12 September 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 April to June 2018, 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 Bank of England (BOE) made no change to monetary policy at its meeting on 21 June although the vote moved to 6-3 to maintain the rate from 7-2 in the May meeting. The Base Rate has been maintained at **0.50%** since 2 November 2017.

The MPC has maintained expectations of a rise in interest rates this year. Arlingclose's central case is for Bank Rate is to rise once in 2018 and twice more in 2019. The MPC has a definite bias towards tighter monetary policy. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and that 2) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise.

Arlingclose's view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union.

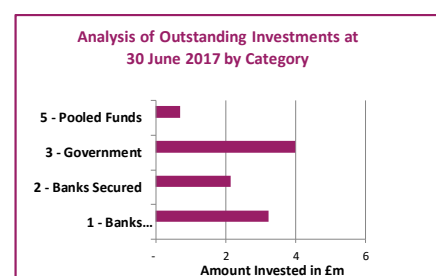
Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

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 2018 the total value of investments was **£9.655m** 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 £9.655m is provided at **Appendix A**.

Investment Activity: During quarter 1 there were no investments made within TM categories 1-2 (banks unsecured and banks secured). An investment of £2m with a local authority was rolled over for 1 year and there were other 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 one investment meeting this description of £2.2m which will mature in December 2018 – Outstanding duration 170 Days

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

Investment Income: The budget for investment interest receivable in 2018/19 is £75k. This budget was set prior to the bank of England base rate rise in November 2017. A briefing note prepared for the JASC meeting in March suggested that the actual income for 2018/19 might be £100k. The current forecast against this target is that the actual will be in the region of £120k 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 0.592%. 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 three maturing investments 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 (%)
Landesbank Hessen-Thuringen	£2m	5.9	0.45%	0.50%
Lancashire County Council	£2m	12	0.60%	0.37%
Salford City Council	£2m	3	0.45%	0.50%

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	2,783	28,404
Days Overdrawn	0	0	0

The largest un-invested balance occurred on the 4th April (£28k) whereby large sums of seized cash were banked late in the afternoon. In line with procedure, any funds banked during the day are subject to checking by the bank and could be removed from our account again while any issues are resolved which would have resulted in an overdrawn account. It is therefore normal practice that this cash is not invested into the liquidity select account and would have been left in the main fund account.

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.**

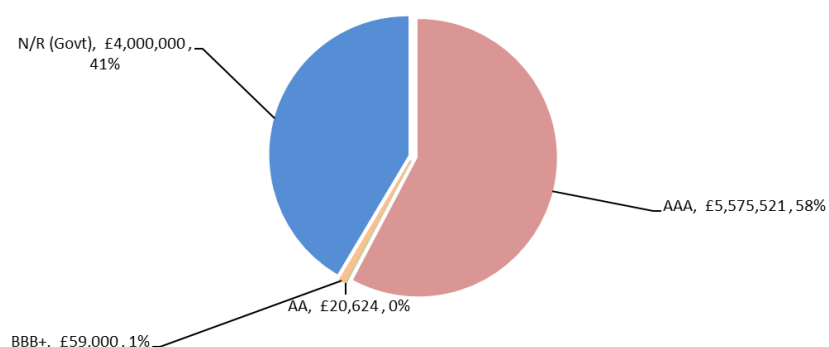
An analysis of the current position with regard to those prudential indicators for the financial year 2018/19 is provided at **Appendix B.** The analysis confirms that the Prudential Indicators set for 2018/19 are all being complied with.

Appendix A

Investment Balance at 30 June 2018

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.30%	20,624	20,624
NatWest (Liquidity Select Account)	BBB+	30/06/2018	01/07/2018	O/N	0.05%	59,000	59,000
						79,624	79,624
Category 2 - Banks Secured (Includes Banks & Building Societies)							
Leeds Building Society (Bond)	AAA	13/07/2016	17/12/2018	170	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	06/05/2018	06/09/2018	68	0.80%	2,000,000	2,000,000
Lancashire County Council	NR	17/04/2018	16/04/2019	290	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	0.42%	4,637	4,637
Goldman Sachs	AAA	Various	On demand	O/N	0.45%	2,000,000	2,000,000
Invesco	AAA	Various	On demand	O/N	0.50%	1,500,000	1,500,000
Standard Life (Formally Ignis)	AAA	Various	On demand	O/N			0
						3,504,637	3,504,637
Total						9,655,145	9,655,145

Analysis of Outstanding Investments by Credit Rating of Counterparty at 30 June 2018 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 30 June 2018, these ratings are constantly subject to change.

Appendix B

Prudential Indicators 2018/19

Prudential Indicator - With Targets To Review		Approved Indicators	Current Value	Within	
		TMSS	£m	Target	
		£m	£m		
1	The Authorised Limit <i>The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit</i>	Total Authorised Limit	24.048	4.745	✓
2	The Operational Boundary <i>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.</i>	Total Operational Boundary	22.548	4.745	✓
3/4	Interest Rate Exposure <i>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.</i>	Net Principal sums Outstanding at Fixed Rates	24.048	4.745	✓
		Net Principal sums Outstanding at Variable Rates	1.500	0.000	✓
5	Upper Limit for total principal sums invested for over 364 Days <i>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.</i>	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 <i>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.</i>	Net Debt (section 12 below provides analysis) (£m)	(13,281)	(13,168)	
		Capital Financing Requirement as at 31 March (£m)	17.548	17.548	
		Net external Borrowing (£m)	0.000	0.000	
7	Capital Expenditure and Capital financing <i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2018/19</i>	Expenditure (£m)	11.261	9.779	
		Financing and Funding (£m)	0.000	0.000	
8	Ratio of Financing Costs to Net Revenue Stream <i>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</i>	Financing Costs (£m)	0.357	0.357	
		Net Revenue Stream (£m)	98.627	98.627	
		Ratio	0.36%	0.36%	
9	Capital Financing Requirement <i>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.</i>	CFR including PFI & other long term liabilities (£m)	17.548	17.548	
		CFR excluding PFI & other long term liabilities (£m)	12.803	12.803	
10	Actual External Debt <i>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</i>	External Debt including PFI & other long term liabilities (£m)	4.745	4.745	
		External Debt excluding PFI & other long term liabilities (£m)	0.000	0.000	
11	Impact of capital investment decisions on the Council Tax <i>This indicates the incremental impact of the capital investment decisions funded from prudential borrowing proposed for the period 2018/19 based on a Band D property in line with the proposed council tax level.</i>	Capital Expenditure funded from revenue (£m)	1.684	1.662	
		Incremental Impact on Band D Council Tax (£)	9.955	9.484	
12	Gross and Net Debt <i>The purpose of this indicator is highlight a situation where the Commissioner is planning to borrow in advance of need.</i>	Outstanding Borrowing (at notional value) (£m)	0.000	0.000	
		Other Long Term Liabilities (PFI & Finance Lease) (£m)	4.745	4.745	
		Less Investments (£m)	18.026	17.913	
		Net Debt (£m)	(13,281)	(13,168)	
13	Maturity Structure of Borrowing <i>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.</i>	Not Applicable - currently no external debt			