



Peter McCall

## Treasury Management Activities 2019/20 Quarter 2 (July - September 2019)

Public Accountability Conference 07 November 2019

Joint Audit Committee Meeting 20 November 2019

### 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 – September 2019, 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.

JAC 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 the quarter ended 30 September 2019:

- Boris Johnson replaced Theresa May as Prime Minister,
- GDP fell by 0.2% q/q in Q2, but rose at the start of Q3,
- The fundamentals that determine consumer spending remained healthy,
- Inflation fell below the Bank of England’s 2% target,
- There was a widespread fall in investors’ global interest rate expectations,
- The MPC kept Bank Rate on hold at 0.75%, but struck a more dovish tone.

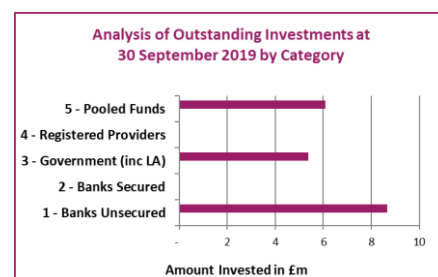
Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were to be a no deal Brexit, then it is likely that there would be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that

prolonged Brexit uncertainty is likely to have on growth.

### 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 2019 the total value of investments was **£20.151m** 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 **£20.151m** is provided at **Appendix A**.

**Investment Activity:** During quarter 2 a number of investments were made within TM categories 1 and 3 (Banks unsecured 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 2019	7	12.99
August 2019	0	0.00
September 2019	1	1.40

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 365 days at the time the investment is made (known as non-specified investments), this limit is £3m. At 30th September the Commissioner had no investments that met this definition.

**Investment Income:** The budget for investment interest receivable in 2019/20 is £165k. The current forecast against this target is that the actual interest will be in the region of £130k. The budget included potential interest earned from investment in a property fund. Given the uncertainty around Brexit, particularly a no-deal Brexit and the possibility of a recession putting

pressure on property prices, it has been decided to hold off on this kind of investment until the effects of Brexit are clearer. Factors such as future interest rates available and investment balances will also affect the final sum for investment income received.

The average return on investment at the end of quarter 2 is 0.72%.

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 four 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 (%)
Thurrock	£1m	6	0.93%	0.75%
East Dunbartonshire	£2m	6	1.05%	0.75%
Treasury Bills	£1.4m	3	0.69%	0.75%
Treasury Bills	£1.6m	3	0.66%	0.75%

**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	3,700	99,280
Days Overdrawn	3	(4)	(4)

The largest un-invested balance occurred on the 13<sup>th</sup> August (£99k) whereby a customer paid a large invoice. 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.

The largest/only overdrawn balance occurred over the weekend of 6th July (£4k) and was as a result of the two bounced cheques.

**Prudential Indicators**

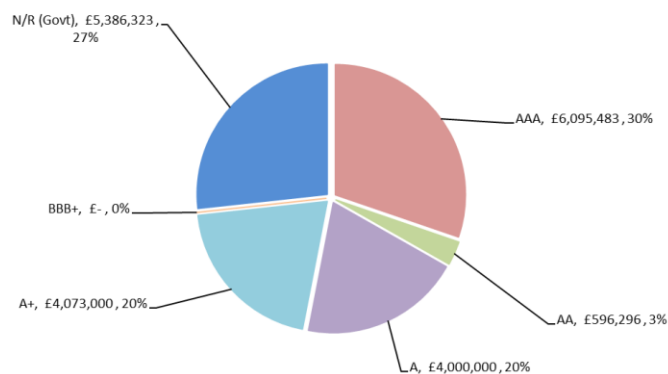
In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators, which determine if the TMSS meets the requirements of the Prudential Code in terms of *Affordability, Sustainability and Prudence*.

An analysis of the current position with regard to those prudential indicators for the financial year 2019/20 is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2019/20 are all being complied with.

## Appendix A Investment Balance at 30 September 2019

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
<b>Category 1 - Banks Unsecured (Includes Banks &amp; Building Societies)</b>							
Svenska (Deposit Acc)	AA	Various	On Demand	N/A	0.30%	596,296	596,296
NatWest (Liquidity Select Acc)	A+	30/09/2019	01/10/2019	O/N	0.20%	73,000	73,000
Lloyds	A	05/07/2019	06/01/2020	98	1.00%	2,000,000	2,000,000
Nationwide	A	05/07/2019	06/01/2020	98	0.81%	2,000,000	2,000,000
Heleba	A+	05/07/2019	24/12/2019	85	0.70%	2,000,000	2,000,000
Barclays	A+	05/07/2019	07/10/2019	7	0.60%	2,000,000	2,000,000
						<b>8,669,296</b>	<b>8,669,296</b>
<b>Category 2 - Banks Secured (Includes Banks &amp; Building Societies)</b>							
						<b>0</b>	<b>0</b>
<b>Category 3 - Government (Includes HM Treasury and Other Local Authorities)</b>							
Government T Bills	N/R (Govt)	05/07/2019	23/12/2019	84	0.70%	1,993,463	1,993,463
Government T Bills	N/R (Govt)	30/09/2019	30/03/2020	182	0.70%	1,997,730	1,997,730
Government T Bills	N/R (Govt)	07/10/2019	06/01/2020	98	0.70%	1,395,130	1,395,130
						<b>5,386,323</b>	<b>5,386,323</b>
<b>Category 4 -Registered Providers (Includes Providers of Social Housing)</b>							
None						0	0
						<b>0</b>	<b>0</b>
<b>Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)</b>							
Invesco	AAA	Various	On demand	O/N		0	0
Fidelity	AAA	Various	On demand	O/N		95,483	95,483
BlackRock	AAA	Various	On demand	O/N		0	0
Goldman Sachs	AAA	Various	On demand	O/N		2,300,000	2,300,000
Aberdeen Standard	AAA	Various	On demand	O/N		3,700,000	3,700,000
						<b>6,095,483</b>	<b>6,095,483</b>
<b>Total</b>						<b>20,151,102</b>	<b>20,151,102</b>










**Analysis of Outstanding Investments by Credit Rating of Counterparty at 30 September 2019 (Minimum Criteria per TMSS A-)**



Note – The credit ratings in the table & chart relate to the standing as at 7<sup>th</sup> July 2019, these ratings are constantly subject to change.

## Appendix B

### Prudential Indicators 2019/20

Prudential and Treasury Indicators		Result	RAG
<b>Treasury Management Indicators</b>			
<b>The Authorised Limit</b>			
<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 under section 3(1) of the Local Government Act 2003.</i>	TEST - Is current external borrowing within the approved limit	YES	
<b>The Operational Boundary</b>			
<i>The operational boundary represents an estimate of the most likely but not worst case scenario it is only a guide and may be breached temporarily due to variations in cash flow.</i>	TEST - Is current external borrowing within the approved limit	YES	
<b>Actual External Debt</b>			
<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>	TEST - Is the external debt within the Authorised limit and operational boundary	YES	
<b>Gross and Net Debt</b>			
<i>The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.</i>	TEST - Is the PCC planning to borrow in advance of need	NO	
<b>Maturity Structure of Borrowing</b>			
<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>	TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time	NO	
<b>Upper Limit for total principal sums invested for over 365 Days</b>			
<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>	TEST - Is the value of long term investments within the approved limit	YES	
<b>Prudential indicators</b>			
<b>Ratio of Financing Costs to Net Revenue Stream</b>			
<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>	TEST - Is the ratio of capital expenditure funded by revenue within planned limits	YES	
<b>Net Borrowing and the Capital Financing Requirement</b>			
<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>	TEST - Is net debt less than the capital financing requirement	YES	
<b>Capital Expenditure and Capital financing</b>			
<i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2019/20</i>	TEST - Is the current capital outturn within planned limits	YES	
<b>Capital Financing Requirement</b>			
<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>	TEST - Is the capital financing requirement within planned limits	YES	