# Treasury Management Activities 2018/19 Quarter 2 (July to September 2018)

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### 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 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

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly.

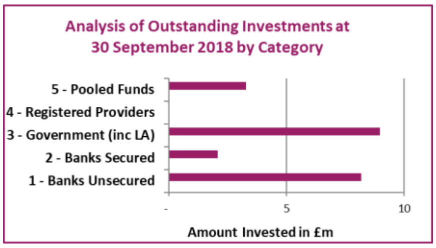
Arlingclose's central case is for Bank rates to rise twice in 2019, to 1.00% in March 2019 and 1.25% in September 2019.

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 September 2018 the total value of investments was **£22.516m** 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 **£22.516m** 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 2018 | 8 | 17.96 |
| August 2018 | 0 | 0.00 |
| September 2018 | 1 | 2.00 |

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 30 September the Commissioner had one investment meeting this description of £2.2m which will mature in December 2018 – Outstanding duration 78 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. The current forecast against this target is that the actual interest 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 2 is 0.61%. 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 2 compared with the average base rate for the duration of the investment.

| Borrower | Value £m | Period (Months) | Actual Rate (%) | Average Base Rate (%) |
|---|---|---|---|---|
| East Dunbartonshire Council | £2m | 6 | 0.80% | 0.55% |

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 | 91 | 2,540 | 14,767 |
| Days Overdrawn | 1 | (76) | (76) |

The largest un-invested balance occurred on the 9th August (£15k) whereby numerous sums (including 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.

The largest/only overdrawn balance occurred on 16th July (£76) and was as a result of the monthly online banking charges being applied to the account being omitted from the cash flow forecast.

## Prudential Indicators

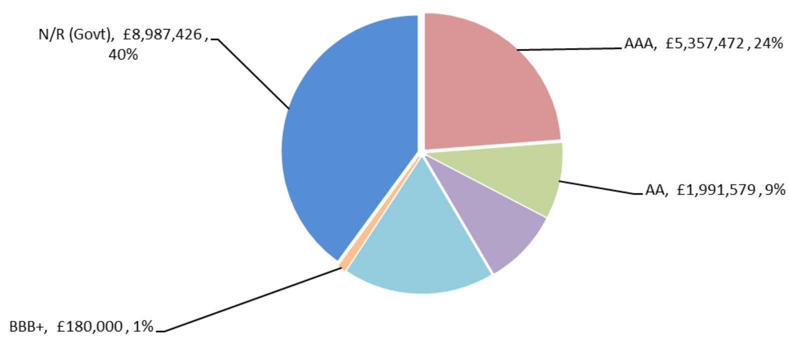
In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the TMSS meets the requirements of the Prudential Code in terms of ***Affordability, Sustainability*** *and* ***Prudence***.

An analysis of the current position with regard to those prudential indicators for the financial year 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 September 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% | 1,991,579 | 1,991,579 |
| Landesbank Hessen Thuringen (Heleba) | AA- | 05/07/2018 | 31/10/2018 | 31 | 0.60% | 2,000,000 | 2,000,000 |
| Nationwide Building Society | A+ | 05/07/2018 | 30/11/2018 | 61 | 0.64% | 2,000,000 | 2,000,000 |
| Lloyds Bank | A+ | 05/07/2018 | 24/12/2018 | 85 | 0.72% | 2,000,000 | 2,000,000 |
| NatWest (Liquidity Select Account) | BBB+ | 28/09/2018 | 01/10/2018 | O/N | 0.05% | 180,000 | 180,000 |
| | | | | | | **8,171,579** | **8,171,579** |
| **Category 2 - Banks Secured (Includes Banks & Building Societies)** | | | | | | | |
| Leeds Building Society (Bond) | AAA | 13/07/2016 | 17/12/2018 | 78 | 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 | 06/09/2018 | 06/03/2019 | 157 | 0.80% | 2,000,000 | 2,000,000 |
| Lancashire County Council | NR | 17/04/2018 | 16/04/2019 | 198 | 0.60% | 2,000,000 | 2,000,000 |
| HM Treasury Bills | NR | 02/07/2018 | 17/12/2018 | 78 | 0.53% | 1,995,133 | |
| HM Treasury Bills | NR | 09/07/2018 | 08/10/2018 | 8 | 0.58% | 998,556 | |
| HM Treasury Bills | NR | 09/07/2018 | 07/01/2019 | 99 | 0.63% | 1,993,737 | 4,987,426 |
| | | | | | | **8,987,426** | **8,987,426** |
| **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% | 86,588 | 86,588 |
| Goldman Sachs | AAA | Various | On demand | O/N | 0.45% | 900,000 | 900,000 |
| Invesco | AAA | Various | On demand | O/N | 0.50% | 200,000 | 200,000 |
| Standard Life (Formally Ignis) | AAA | Various | On demand | O/N | | 2,100,000 | 2,100,000 |
| | | | | | | **3,286,588** | **3,286,588** |
| | | | | | | | |
| **Total** | | | | | | **22,516,477** | **22,516,477** |

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




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

# Appendix B
# Prudential Indicators 2018/19

| | **Prudential indicators** (numbering references the indicator number from the Treasury Management Strategy) | | | |
|---|---|---|---|---|
| | **Treasury Management Indicators** | | **Result** | **RAG** |
| 5 | **The Authorised Limit**<br>*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.* | **TEST - Is current external borrowing within the approved limit** | **YES** | Green |
| 6 | **The Operational Boundary**<br>*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.* | **TEST - Is current external borrowing within the approved limit** | **YES** | Green |
| 7 | **Actual External Debt**<br>*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.* | **TEST - Is the external debt within the Authorised limit and operational boundry** | **YES** | Green |
| 9 | **Gross and Net Debt**<br>*The purpose of this indicator is highlight a situation where the Commissioner is planning to borrow in advance of need.* | **TEST - Is the PCC planning to borrow in advance of need** | **NO** | Green |
| 10/11 | **Interest Rate Exposure**<br>*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.* | **TEST - Is the PCC exposed to unfavourable interest rates** | **NO** | Green |
| 12 | **Maturity Structure of Borrowing**<br>*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.* | **TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time** | **NO** | Green |
| 13 | **Upper Limit for total principal sums invested for over 364 Days**<br>*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.* | **TEST - Is the value of long term investments witin the approved limit** | **YES** | Green |
| | **Affordability Indicators** | | | |
| 3 | **Ratio of Financing Costs to Net Revenue Stream**<br>*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* | **TEST - Is the ratio of captial expenditure funded by revenue within planned limits** | **YES** | Green |
| 8 | **Impact of capital investment decisions on the Council Tax**<br>*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.* | **TEST - Is the effect of capital expenditure on council tax within planned estimates** | **YES** | Green |
| | **Prudence Indicators** | | | |
| 1 | **Net Borrowing and the Capital Financing Requirement**<br>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. | **TEST - Is net debt less than the capital financing requirement** | **YES** | Green |
| 2 | **Capital Expenditure and Capital financing**<br>*The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2018/19* | **TEST - Is the current capital outurn within planned limits** | **YES** | Green |
| 3 | **Capital Financing Requirement**<br>*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.* | **TEST - Is the capital financing requirment within planned limits** | **YES** | Green |