



Peter McCall

Treasury Management Activities 2018/19

Quarter 3 (October to December 2018)

Public Accountability Conference 20 February 2019

Joint Audit Committee Meeting 20 March 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 October to December 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.

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

The uncertain political situation surrounding Brexit has produced the prospect of divergent paths for UK monetary policy.

Due to the short time for a Brexit withdrawal deal to be agreed and the possibility of an extended period of uncertainty over the possible outcome, the treasury advisors (Arlingclose) have altered the assumption underlying the central forecast, prompting the forecast rises in Bank Rate to be pushed back.

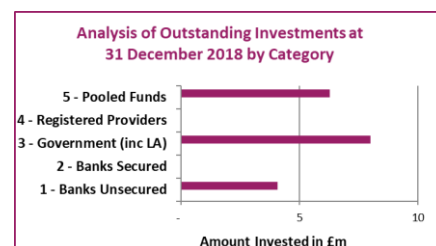
The Monetary Policy Committee bias towards tighter monetary policy remains, but policymakers are unlikely to raise Bank Rate unless there is a withdrawal arrangement and the prospect of a transition period.

Arlingclose's central case is for Bank rates to now only rise once in 2019 to 1.00% in December and then to 1.25% in June 2020.

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 31 December 2018 the total value of investments was **£18.365m** and all were within TMSS limits. The chart below shows the outstanding investments at 31 December by category.



A full list of the investments that make up the balance of **£18.365m** is provided at **Appendix A**.

Investment Activity: During quarter 3 a total of two investments with a combined value of £4m 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).

Month	Number of Investments	Total Value of Investments £m
October 2018	0	0.00
November 2018	0	0.00
December 2018	2	4.00

There are also regular smaller investments made via money market funds (category 5 pooled funds) as part of cash flow management.

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 31 December the Commissioner had no investments that met this definition.

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 £135k. Factors such as future interest rates available and investment balances will impact on the final result.

The average return on investment at the end of quarter 3 is 0.68%.

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 3 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Heleba	£2m	3.9	0.60%	0.70%
Nationwide	£2m	4.9	0.64%	0.71%
Leeds Building Society - Bond	£2m	29.6	0.68%	0.47%
Treasury bills	£2m	5.6	0.53%	0.71%

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 October to December are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	91	8,216	496,109
Days Overdrawn	1	(333)	(333)

The largest un-invested balance occurred on the 19th December (£496k) whereby the receipt for the sale of Ulverston Police Station was received late in the day from the solicitors. 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 31st December (£333) 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.*

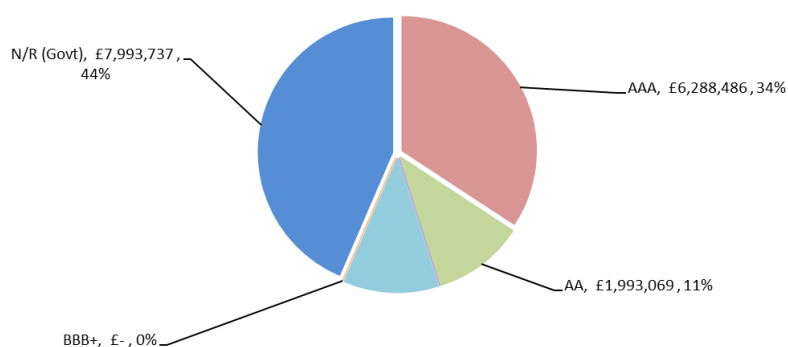
An analysis of the current position with regard to those prudential indicators for the financial year 2018/19 is provided at **Appendix B.** The analysis confirms that the Prudential Indicators set for 2018/19 are all being complied with.

Appendix A

Investment Balance at 31 December 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%	1,993,069	1,993,069
Lloyds Bank	A+	24/12/2018	24/06/2019	175	1.000%	2,000,000	2,000,000
NatWest (Liquidity Select Account)	A+	31/12/2018	02/01/2019	O/N	0.20%	90,000	90,000
						4,083,069	4,083,069
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	0
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Lancashire County Council	NR	17/04/2018	16/04/2019	106	0.80%	2,000,000	2,000,000
East Dunbartonshire Council	NR	06/09/2018	06/03/2019	65	0.60%	2,000,000	2,000,000
Moray Council	NR	03/12/2018	03/06/2019	154	0.53%	2,000,000	2,000,000
HM Treasury Bills	NR	09/07/2018	07/01/2019	7	0.58%	1,993,737	1,993,737
						7,993,737	7,993,737
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	0.66%	2,288,486	2,288,486
Goldman Sachs	AAA	Various	On demand	O/N	0.70%	1,900,000	1,900,000
Aberdeen Standard	AAA	Various	On demand	O/N	0.74%	2,100,000	2,100,000
						6,288,486	6,288,486
Total						18,365,292	18,365,292

Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 December 2018 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 31 December 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)			Result	RAG
Treasury Management Indicators				
	The Authorised Limit			
5	<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	●
	The Operational Boundary			
6	<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	●
	Actual External Debt			
7	<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	●
	Gross and Net Debt			
9	<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	●
	Interest Rate Exposure			
10/11	<i>The purpose of this indicator is to contain the Commissioner's 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>	TEST - Is the PCC exposed to unfavourable interest rates	NO	●
	Maturity Structure of Borrowing			
12	<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	●
	Upper Limit for total principal sums invested for over 364 Days			
13	<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	●
Affordability Indicators				
	Ratio of Financing Costs to Net Revenue Stream			
3	<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	●
	Impact of capital investment decisions on the Council Tax			
8	<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>	TEST - Is the effect of capital expenditure on council tax within planned estimates	YES	●
Prudence Indicators				
	Net Borrowing and the Capital Financing Requirement			
1	<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	●
	Capital Expenditure and Capital financing			
2	<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>	TEST - Is the current capital outturn within planned limits	YES	●
	Capital Financing Requirement			
3	<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	●