Treasury Management Activities 2018/19 Quarter 4 (January to March 2019) and Annual Report 2018/19

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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 January to March 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

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that they would remain at 0.50%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, investment interest rates were on a gently rising trend in anticipation that the MPC would raise the Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

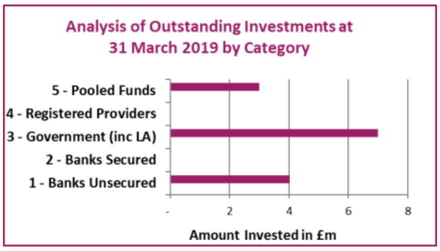
It was not expected that the MPC would raise Bank Rate again during 2018/19, after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this. Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by counterparty security risk considerations, resulting in relatively low returns compared to borrowing rates.

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 March 2019 the total value of investments was **£14.009m** and all were within TMSS limits.

The chart below shows the outstanding investments at 31 March by category.



A full list of the investments that make up the balance of £14.009m is provided at **Appendix A**.

Investment Activity: During quarter 4 a total of 4 investments with a combined value of £6.998m 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).

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 March the Commissioner had one investment meeting this description for £2.0m. This investment does not have an outstanding duration of over 364 days. The investment is:

- Lancashire County Council £2m (17/04/18 to 16/04/19)

Investment Income: The budget for investment interest receivable in 2018/19 was set at £75k. Shortly after the budget had been set the base rate rose and expected income was anticipated to be in the region of £120k. The actual income achieved against this target was £146k, which provides an surplus of £71k (95%). Previous reports forecast actual interest would be in the region of £135k. Factors such as interest rates available and increased investment balances due to slippage in the capital programme have increased the final outturn.

The average return on investment during quarter 4 was 0.79%. 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 for the period of the investment.

The table below illustrates the rate achieved on the two maturing investments of over three months duration in quarter 4 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
East Dunbartonshire	£2m	6	0.90%	0.80%
Treasury bills	£2m	6	0.63%	0.72%

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 January to March are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	89	2,524	12,155
Days Overdrawn	1	(333)	(333)

The bank account had only one large un-invested balance during quarter 4. This was for an amount of £12k and occurred on 28 March and was in relation to a number of un-anticipated cash bankings being made by central services and area staff.

The largest/only overdrawn balance occurred on 31st December (£333) (and carried over the bank holiday) and was as a result of the monthly online banking charges being applied to the account being omitted from the cash flow forecast. The estimated interest incurred as a result of the unauthorised overdraft usage would be zero as the Commissioners accounts are pooled together.

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 have all being complied with.

Annual Report on Treasury Management Operations 2018/19

Treasury Strategy: In February 2018 the Commissioner approved the 2018/19 Treasury Management Strategy Statement (TMSS). The TMSS incorporated the investment and borrowing strategies for the 2018/19 financial year. The investment strategy approved for 2018/19 was largely the same as had been adopted for the previous year. The limits for each category of investment were based on the relative security of each class of financial institution and a percentage of the estimated balances, which would be available for investment during the year.

In relation to borrowing, the Commissioner has an underlying need to borrow funds to finance the capital programme, which is measured by the Capital Financing requirement (CFR).

The CFR at the start of 2018/19 amounted to £17.98m (including £4.89m relating to the PFI agreement for West Cumbria TPA HQ in Workington) leaving a £13.09m exposure to external borrowing at some time in the future, which is presently being covered by the use of internal funds (reserves).

The closing CFR for 2018/19 is anticipated to be £19.35m, of which £4.75m relates to the PFI thereby leaving a £14.60m exposure to the requirement to undertake external borrowing at some point.

During 2018/19 the Commissioner has maintained this strategy of using cash balances, arising primarily from reserves, to meet the cash flow commitments and was not therefore compelled to borrow.

Although long term borrowing rates remained relatively low during 2018/19, a conscious decision was made to defer long term financing decisions as the short term cost of carrying debt (i.e. the differential between the borrowing rate estimated at 2.7% and the rate of 1% available when such funding was invested) would have had an adverse effect on the revenue budget for the year and the immediate outlook period.

During 2018/19 the contract for the provision of treasury management advice services was re-tendered with the result that with effect from 1 April 2019 a new advisor (Link Asset Services Ltd) was appointed.

The Commissioner, in consultation with the treasury advisors continues to look for the most opportune time to undertake any longer term borrowing to fund the capital financing requirement.

Key Statistics

Principal:

Number of investments placed during 2018/19 was **218** (220 in 2017/18).

Value of investments placed during 2018/19 was **£135.565m** (£149.32m in 2017/18).

Of these investments made, 63 were to external counterparties and as such will have attracted a £10 transfer fee per transaction. The transfer to the NatWest Liquidity Select account for overnight money is classed as an inter-account transfer' as the NatWest holds the Commissioner's main bank account. This type of transfer is free although we do pay a small fee to access the internet banking site.

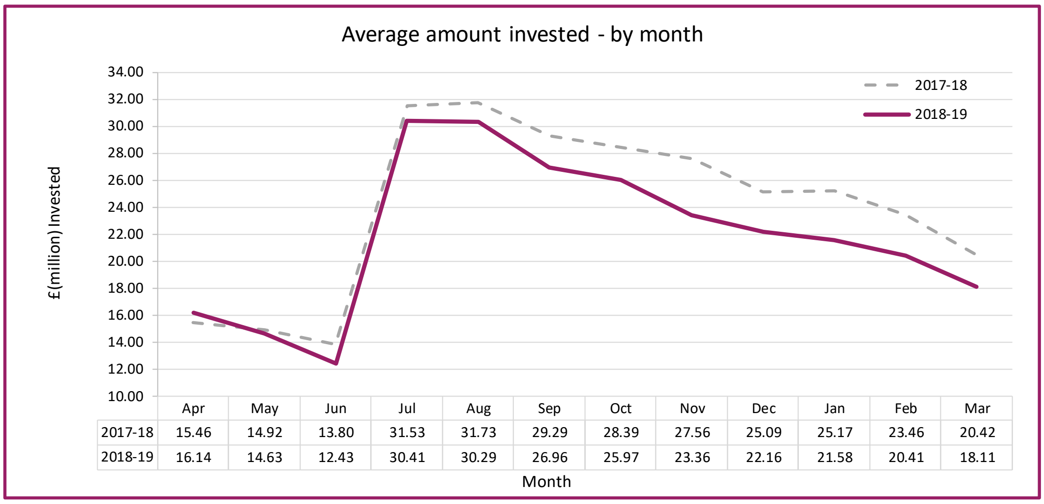
The **average** daily investment balance during 2018/19 was **£21.90m** (£23.93m in 2017/18).

The **highest** daily investment balance in 2018/19 was **£35.11m** (£36.24m in 2017/18)

The **lowest** daily investment balance in 2018/19 was **£9.23m** (£9.68m in 2017/18).

A detailed breakdown of the closing balance invested as at 31 March 2019 is provided at **Appendix A.**

The level of cash reserves available to invest has followed the same pattern as seen in previous years. Following the introduction of the Home Office Police Pensions Grant in 2007/08, there has been an annual spike in investments in July, when the majority of the grant is received, followed by a gradual decline in balances as pension payments are made throughout the remainder of the year.

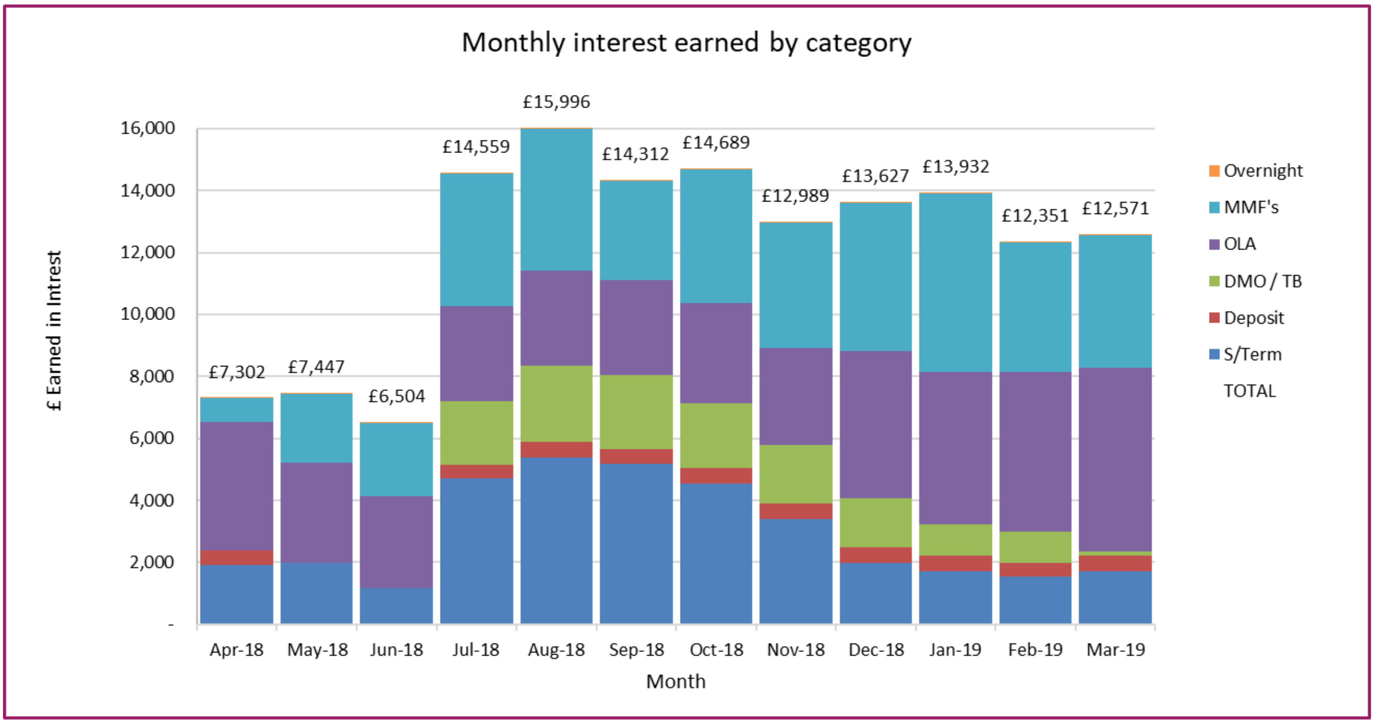


	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2017-18	15.46	14.92	13.80	31.53	31.73	29.29	28.39	27.56	25.09	25.17	23.46	20.42
2018-19	16.14	14.63	12.43	30.41	30.29	26.96	25.97	23.36	22.16	21.58	20.41	18.11

This chart illustrates the monthly average amounts invested during 2018/19 (with monthly comparatives for 2017/18).

Interest:

A total of £146k was earned in 2018/19 (£90k in 2017/18) from the Commissioner's treasury management activities and can be broken down as follows:



The average return on investments for 2018/19 was 0.67% (0.38% in 2017/18) which is identical to the average bank base rate for the year. The base rate was increased from 0.50% to 0.75% on 2 August 2018.

The table above shows the outturn on investment interest as £146k for 2018/19, which is £71k above a base budget of £75k. The increase compared to the budget is largely as a result of interest rates increasing part the way through the year, which was not forecast when the strategy was produced and budgets were approved.

Treasury Operations:

As discussed above the aim of the Treasury Management Strategy is to invest surplus cash and minimise the level of un-invested cash balances, whilst limiting risks to the Commissioner's funds. Actual un-invested balances for 2018/19 for the Commissioner's main bank account are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	362	4,038	496,109
Days Overdrawn	3	(247)	(333)

The largest credit balance occurred during quarter three, the largest overdrawn balance occurred during the fourth quarter.

The quarter 4 explanation for the highest overdrawn balance is provided above and the explanation for the quarter 3 credit balance provided below, having previously been reported in the relevant quarterly activity report to the Commissioner and Members.

The largest un-invested balance occurred on the 19th December (£496k) whereby the capital receipt from 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 and was left in the main fund.

As outlined on page 2 above, the largest overdrawn balance occurred on 31st December (£333) (and carried over the bank holiday) and was as a result of the monthly online banking charges being applied to the account being omitted from the cash flow forecast.

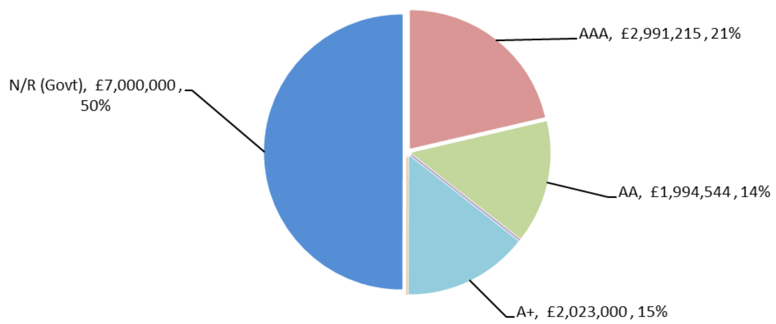
Compliance with Prudential Indicators

All treasury related Prudential Indicators for 2018/19, which were set in February 2018 as part of the annual Statement of Treasury Management Strategy, have been complied with. Further details can be found at Appendix B.

Appendix A
Investment Balance at 31 March 2019

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%	1,994,544	1,994,544
Lloyds Bank	A+	24/12/2018	24/06/2019	85	1.000%	2,000,000	2,000,000
NatWest (Liquidity Select Account)	A+	29/03/2019	01/04/2019	O/N	0.20%	23,000	23,000
						4,017,544	**4,017,544**
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	16	1.00%	2,000,000	2,000,000
East Dunbartonshire Council	NR	06/03/2019	06/09/2019	159	1.05%	2,000,000	2,000,000
Moray Council	NR	03/12/2018	03/06/2019	64	1.00%	2,000,000	2,000,000
Thurrock Council	NR	31/01/2019	31/07/2019	122	0.93%	1,000,000	1,000,000
						7,000,000	**7,000,000**
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	0.69%	91,215	91,215
Goldman Sachs	AAA	Various	On demand	O/N	0.72%	400,000	400,000
Invesco	AAA	Various	On demand	O/N	0.78%	400,000	400,000
Aberdeen Standard	AAA	Various	On demand	O/N	0.78%	2,100,000	2,100,000
						2,991,215	**2,991,215**
Total						**14,008,759**	**14,008,759**

Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 March 2019 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 31 March 2019, 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			RAG
5	**The Authorised 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 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**	Green
6	**The Operational Boundary** *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**	Green
7	**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.*	**TEST - Is the external debt within the Authorised limit and operational boundry**	Green
9	**Gross and Net Debt** *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**	Green
10/11	**Interest Rate Exposure** *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**	Green
12	**Maturity Structure of Borrowing** *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**	Green
13	**Upper Limit for total principal sums invested for over 364 Days** *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**	Green
Affordability Indicators			
3	**Ratio of Financing Costs to Net Revenue Stream** *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**	Green
8	**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 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**	Green
Prudence Indicators			
1	**Net Borrowing and the Capital Financing Requirement** 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**	Green
2	**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 2018/19*	**TEST - Is the current capital outurn within planned limits**	Green
3	**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.*	**TEST - Is the capital financing requirment within planned limits**	Green