Treasury Management Activities 2019/20 Quarter 1 (April – June 2019)

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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 April – June 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 June 2019:

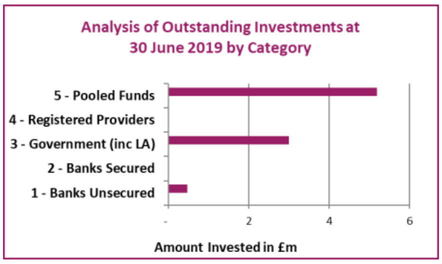
- Brexit was delayed until 31st October 2019;
- GDP rose by a solid 0.5% quarter to quarter during January to March, but contracted at the start of April;
- The fundamentals that determine consumer spending remained healthy;
- Inflation bobbed around the Bank of England's 2% target.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. There is unlikely to be any further action from the MPC until the uncertainties over Brexit clear. Link Treasury Services (the PCC's Treasury Advisors) prediction is that bank rates will not rise until September 2020. If there were a no deal exit, it is envisaged that bank rate would be cut in order to support 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 June 2019 the total value of investments was **£8.668m** 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 **£8.668m** is provided at **Appendix A**.

Investment Activity: During quarter one no investments were placed within TM categories 1-3 (banks unsecured, banks secured and Government). There were regular 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 365 days at the time the investment is made (known as non-specified investments), this limit is £3m. At 30th June 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 1 is 0.83%.

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 two 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 (%)
Lancashire County Council	£2m	12	1.00%	0.68%
Moray Council	£2m	6	1.00%	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 April to June are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	91	3,818	28,519
Days Overdrawn	0	0	0

The largest un-invested balance occurred on the 30th April (£29k) whereby a large amount of seized cash and a large cheque for vehicle insurance was banked and cleared on the same day. 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 banks have introduced a new faster cheque clearing system. In the past we were certain that the cheques that are banked would show in our account as cleared funds two days later. With the new system, cheques are clearing on the same day or the day after. This is making it difficult to predict the account balance for the purpose of investment may result in a slightly higher overnight balances on occasion.

There were no occurrences of the account being overdrawn in quarter one.

Prudential Indicators

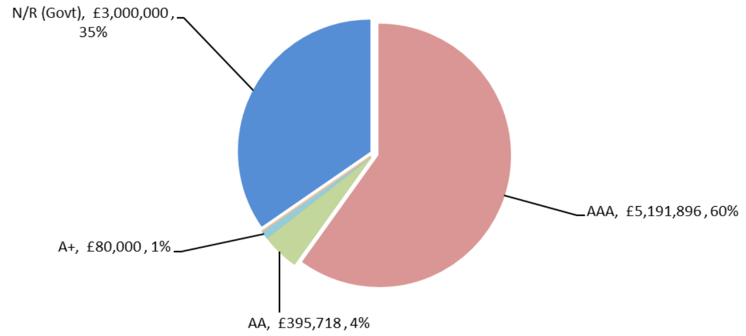
In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators, which determine if the TMSS meets the requirements of the Prudential Code in terms of ***Affordability*, *Sustainability*** *and* ***Prudence***.

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 June 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 Acc)	AA	Various	On Demand	N/A	0.30%	395,718	395,718
NatWest (Liquidity Select Acc)	A+	29/03/2019	01/04/2019	O/N	0.20%	80,000	80,000
						475,718	**475,718**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	**0**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
East Dunbartonshire Council	N/R (Govt)	06/03/2019	06/09/2019	68	1.05%	2,000,000	2,000,000
Thurrock Council	N/R (Govt)	31/01/2019	31/07/2019	31	0.93%	1,000,000	1,000,000
						3,000,000	**3,000,000**
Category 4 -Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	**0**
Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco	AAA	Various	On demand	O/N		2,000,000	2,000,000
Fidelity	AAA	Various	On demand	O/N		1,400,000	1,400,000
BlackRock	AAA	Various	On demand	O/N		591,896	591,896
Goldman Sachs	AAA	Various	On demand	O/N		500,000	500,000
Aberdeen Standard	AAA	Various	On demand	O/N		700,000	700,000
						5,191,896	**5,191,896**
Total						**8,667,614**	**8,667,614**

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



Note – The credit ratings in the table & chart relate to the standing as at 07th July 2019, these ratings are constantly subject to change.

Appendix B
Prudential Indicators 2019/20

Prudential and Treasury Indicators			
Treasury Management Indicators		Result	RAG
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**	**YES**	Green
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**	**YES**	Green
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**	**YES**	Green
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**	**NO**	Green
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**	**NO**	Green
Upper Limit for total principal sums invested for over 365 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**	**YES**	Green
Purdential indicators			
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**	**YES**	Green
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**	**YES**	Green
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**	**YES**	Green
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**	**YES**	Green