Appendix A

Treasury Management Update
30th September 2018

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1. Introduction

1.1. Treasury Management is defined as “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

1.2. The Council has adopted CIPFA’s revised Code of Practice for Treasury Management which recommends that Members should be updated on treasury management activities at least twice a year.

1.3. The Audit & Accounts Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Accounts Committee are reported to full Council.

1.4. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Council on 9th February 2018 and revised on 16th May 2018 to incorporate changes to the capital programme. This report details treasury management performance up to the 30th September 2018 and projects forward for the remainder of the financial year.

2. Economic Forecast – Interest Rates

2.1. The Council’s treasury advisers, Link Asset Services (‘Link’), provide the latest bank rate and PWLB (Public Works Loan Board) forecast:

%	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
5yr PWLB rate	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60
10r PWLB rate	2.50	2.50	2.60	2.70	2.70	2.80	2.90	2.90	3.00	3.10
25yr PWLB rate	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.50	3.50
50yr PWLB rate	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30

2.2. The Bank of England base rate increased to 0.75% at the Monetary Policy Committee (MPC) meeting on 2nd August 2018, an uplift of 0.25% from the previous rate of 0.50%. The MPC emphasised again that the future Bank Rate increases would be gradual.

2.3. Some market expectations are for a further increase in February 2019, but Link are of the opinion that this is unlikely ahead of the deadline in March 2019 for Brexit and have therefore not changed their forecast of the next increase taking place in September 2019. Indeed the progress and outcome of Brexit continues to make forecasting of interest rates extremely difficult both in terms of bank rate and PWLB borrowing rates.

3. Investment Income

3.1. Interest earned on investment deposits up to 30th September 2018 totalled £27,920. The Council has budgeted to receive £73,590 in investment income in 2018/19. The budget was set with the potential for one rate rise of 0.25% during 2018/19. As this has now taken place the expectation is that the interest income will achieve the budgeted level.

3.2. The average interest rate achieved on the Council's investments is shown in the table below; this compares favourably to the LIBID rates, the recognised industry benchmark:

Comparator	Average Rate Q1	Average Rate Q2
SMDC Average	**0.57%**	**0.66%**
SMDC long-term fixed (>364 days)	0.85%	0.85%
SMDC short-term fixed (<364 days)	-	-
SMDC instant access	0.54%	0.64%
Benchmarks		
**LIBID 7 day rate*	*0.36%*	*0.51%*
**LIBID 3 month rate*	*0.55%*	*0.66%*
**LIBID 6 month rate*	*0.67%*	*0.76%*
**LIBID 12 month rate*	*0.84%*	*0.91%*
Base Rate at the end of the period	0.50%	0.75%

**LIBID = London Inter Bank Bid Rate*

3.3. The table below highlights the level of investment activity and the rates obtained in the period from 1st July to 30th September 2018. Investments are made in line with Link's creditworthiness guidance and the duration limits applied to each colour banding.

Institution	Country of Domicile	Amount	Length	Rate
No fixed term investments made during the period				
Reserve Accounts *(instant access accounts and money market funds)*	UK	£2,018,940 *(daily average)*	Various	0.64%

3.4. The rates achieved by the Council vary by institution, by duration of investment and by the timing of when the investment was made. The Council's lending criteria restricts the number of financial institutions that are eligible to be on the lending list, and the amount that can be invested with eligible counterparties (and counterparty groups) at any one time.

3.5. The majority of the investment portfolio is held on a short-term basis (<1 year). The Council continues to utilise same day access business accounts, money market funds, fixed term deposits, and certificates of deposits (via the use of custodian, King & Shaxson), which offer competitive rates and access to banks that would not necessarily deal direct with the Authority for the sums invested.

3.6. Money Market Fund reforms in Europe have been ongoing for a number of years and the sector is now in the last stages of introducing the new regulations. This will mean that non-government Constant Net Asset Value (CNAV) funds, such as the funds the Council currently uses, will convert to Low Volatility Net Asset Value (LVNAV) pricing. LVNAV funds are not permitted to deviate by more than 0.20% – this is a more stringent approach than the CNAV funds which have a 0.50% collar. No additional market risk or loss of principal is anticipated from these changes, but the treasury team continues to monitor under the advice of its advisors, Link. The changes are anticipated in January 2019.

Ascent Joint Venture

3.7. The Council has entered into a Joint Venture with Your Housing Limited to provide affordable housing across the District. Each party committed to providing a £5million debenture to the Joint Venture Company, Ascent LLP, which pays an interest rate of 2.0% on debenture monies drawn. The principal funds are ultimately repayable to the Council within 25 years. The full £5million had been transferred by the end of 2014/15. Therefore, the budgeted £100,000 interest income from this debenture is on target.

3.8. The Council also agreed to provide a loan facility of £20 million, with interest payable based on the PWLB rate at the date of each drawdown for the specified period plus a 1.25% risk premium. The initial loan is for a period of 5 years with an option to refinance on maturity.

3.9. As at 31st March 2016, £14million had been drawn. There have been no further drawdowns since. The original loan agreement states that the loan is repayable in tranches on the fifth anniversary of the first drawdown of each tranche. The first tranche of £7million was refinanced on 11th October 2017 for a period of 1 year whilst the Ascent LLP business plan was being reviewed, this will be rolled again for a shorter period whilst the review is finalised.

3.10. The interest rate chargeable on each drawdown is the PWLB rate for the term on the day. The income budget of £446,690 is currently reported to be on target until the review determines the outcome of the tranche 1 refinanced maturity beyond October 2018.

4. Investment Portfolio

4.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 30th September 2018 totalled £7,596,000, as shown in the table below:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Interest rate at end of period
Santander UK	UK	£3,000,000	**RED (6 months)**	1.05%
Money Market Funds	UK	£2,700,000	**WHITE (12 months)**	0.71%
Lloyds Bank	UK	£1,000,000	**ORANGE (12 months)**	0.85%
NatWest Bank	UK	£696,000	**BLUE (12 months)**	0.05%
Bank of Scotland	UK	£200,000	**ORANGE (12 months)**	0.65%
TOTAL		**£7,596,000**		

4.2. The maximum investment term, as recommended by Link, is shown by colour banding in the table below:

Colour Banding	Maximum Duration of Investment	UK Banks	International Banks
PURPLE	Up to 2 years	£4.0m	£3.0m
ORANGE	Up to 12 months	£3.6m	£2.4m
RED	Up to 6 months	£3.0m	£2.0m
GREEN	Up to 100 days	£2.6m	£1.6m
BLUE (Part & fully nationalised financial institutions)	Up to 1 year	£4.0m	n/a
BLUE (NatWest)	Up to 1 year	£6.0m	n/a
Money Market Funds	Up to 1 year	£3.6m	n/a

4.3. Group limits are also applied:

Category	Portfolio (% of highest balance*)	Individual Principal Limit	Portfolio % increased by 50%	Group Principal Limit
BLUE	20%	£4.0m	30%	£6.0m
PURPLE	20%	£4.0m	30%	£6.0m
ORANGE	18%	£3.6m	27%	£5.4m
RED	15%	£3.0m	23%	£4.6m
GREEN	13%	£2.6m	20%	£4.0m
Money Market Funds	18%	£3.6m	23%	£4.6m

4.4. The average annual level of funds available for investment up to 30th September 2018 was £8.8million. Investments are generally made up of short-term cash and core cash. Short-term cash is dependent on the timing of major payments e.g. precept payments, salaries and creditor payments, and major receipts e.g. receipt of grants and Council Tax direct debits. Core cash is dependent on capital programme commitments.

5. Capital Programme Update and Borrowing Position

Capital Programme Update

5.1. The table below provides current projections for capital expenditure and funding:

	Revised TMSS Estimate (May 2018)	Current Estimate*
Total Capital Expenditure	**£5,695,000**	**£5,805,000**
Funded by:		
Capital Receipts	£21,000	£18,000
External Funding	£1,355,000	£1,352,000
Reserves	£1,374,000	£1,374,000
2018/19 Net Financing Requirement	**£2,945,000**	**£3,061,000**
Capital Financing Requirement		
Opening CFR	**£16,350,000**	**£16,472,000**
PLUS Net Financing Requirement	£2,945,000	£3,061,000
LESS Minimum Revenue Provision	(£382,000)	(£888,000)**
Closing CFR	**£18,913,000**	**£18,645,000**

** Pending quarter 2 outturn and November 2018 MTFP*
*** Includes termination of Finance Leases*

5.2. The Net Financing Requirement on 2018/19 spend is now estimated at £3,061,000: the small variance is due to the reprofiling of elements of the capital programme.

5.3. The Capital Financing Requirement (CFR) is a prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow to finance capital expenditure and is derived by aggregating specified items for the Council's balance sheet. The closing CFR is in line with the Capital Financing Requirement set in the Treasury Strategy Statement. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

Borrowing Position

5.4. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes ‘affordable borrowing limits’ as part of the prudential indicators within the approved Treasury Management Strategy Statement.

5.5. The Council’s outstanding borrowing at 30th September 2018 totalled £12,000,000 as detailed in the table below:

Lender	External Borrowing	Average Interest Rate	Maturity period
Local Authority Loans	£12,000,000	1.25%	Up to 2 years

5.6. The ‘operational boundary’ (£26,607,000) and ‘authorised limit’ (£25,107,000) indicators govern the maximum level of external borrowing to fund the capital programme, plus any short-term liquidity requirements. The current level of borrowing is well within prudential limits.

5.7. The ‘operational boundary’ and ‘authorised limit’ were set to account for:
- the general fund borrowing requirement
- outstanding finance lease payments;
- an allowance for borrowing to cover short-term liquidity; and
- funding the loan to the Joint Venture Company, Ascent.

5.8. There has been no ‘new’ borrowing so far during the year, nor have any loans been refinanced. The next maturing loans of £5million occur in October and November 2018.

5.9. The total external borrowing remains at £12million, which all relates to funding the Ascent loan. £2million of the total £14million Ascent loan balance continues to be internally funded at 30th September 2018 as the £2million loan which matured at the end of 2016/17 has not yet needed to be refinanced. The treasury team will continue to monitor the appropriate time to externally borrow based on the profile of spend and opportunities to ‘internally’ borrow, considering the movement in interest rates and the cost of carry of any borrowings taken.

5.10. The £272,760 budget for borrowing costs was based on externally funding the full Ascent loan balance of £14million and the potential for £2.2million of new loans to be taken mid-year to support the general fund borrowing requirement. The revised capital programme now includes an underlying borrowing need of £3.1m. The cost of increase in potential borrowing is currently forecast to be offset by the reduction in costs due to the continuing internal funding of the £2million on the Ascent loan balance, therefore the borrowing costs outturn is currently forecast to be on target against the budget.

6. Prudential Indicators

6.1. The Council has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2018/19 and complies with the Council’s treasury management practices.