

<b>SUBJECT:</b>	<i>Treasury Management – Quarterly Report Quarter 2 2018/19</i>
<b>REPORT OF:</b>	<i>Jim Burness, Director of Resources</i>
<b>RESPONSIBLE OFFICER</b>	<i>Helen O’Keeffe, Principal Accountant</i>
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<b>WARD/S AFFECTED</b>	<i>All</i>

## 1. Purpose of Report

- 1.1 To report on the Treasury Management operation of the Council for July – September 2018.

The PAG is asked to note the following recommendation:

### **RECOMMENDATION**

**Members are requested to note the Treasury Management performance for Quarter 2 2018/19.**

## 2. Background

- 2.1 The Council is required to comply with the CIPFA Code of Practice on Treasury Management. The primary requirements of the revised code are:
- (i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies, objectives and approach to risk management of the Council’s treasury management activities.
  - (ii) Creation and maintenance of Treasury Management Practices, setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  - (iii) Receipt by the Cabinet and Council of an annual strategy report for the year ahead, a mid-year review and an annual review report of the previous year.
  - (iv) The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

### 3. Quarterly Report on Treasury Management Quarter to September 2018

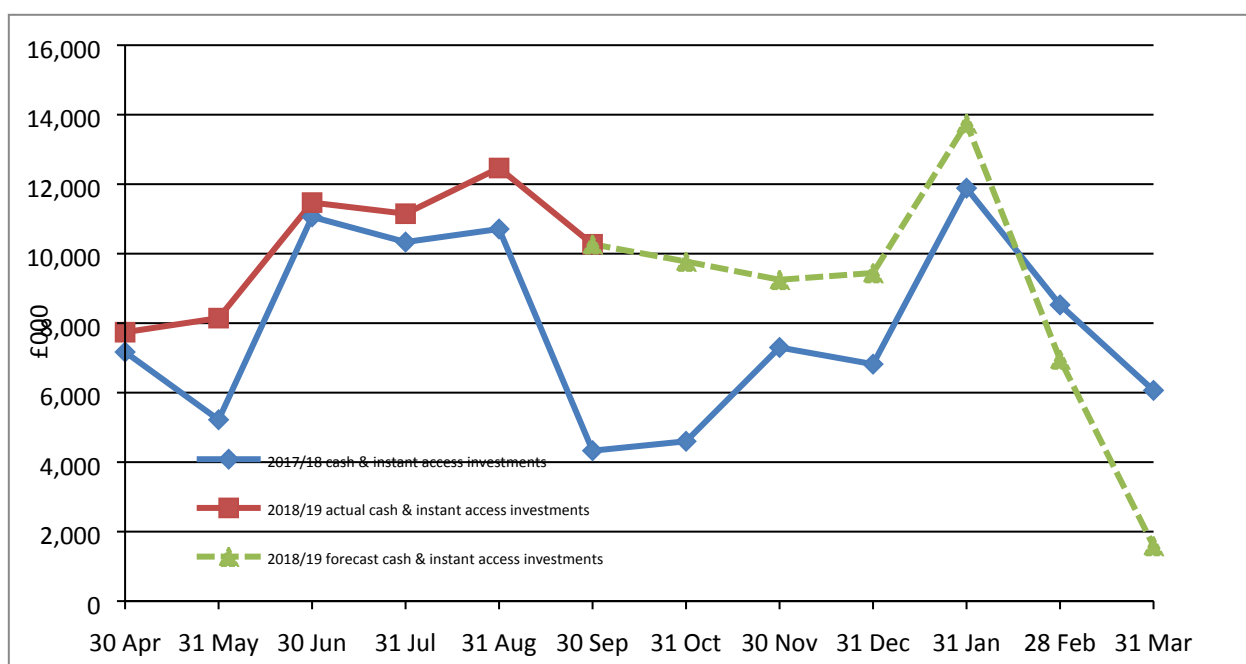
- 3.1 As a debt free authority the treasury management activities of the Council are exclusively concerned with the investment of its reserves, as the Council does not currently undertake any borrowing.
- 3.2 The base rate was decreased from 0.5% to 0.25% in August 2016, with the rate having remained at 0.5% since March 2009. The base rate was increased to 0.5% in November 2017 with a further increase to 0.75% in August 2018.
- 3.3 The total of loans outstanding at the end of the quarter was £17,000,000 as detailed in the table below.

UK Institutions	Fitch Credit Rating	Principal £	Interest Rate	Invested	Matures	Length in Days
Standard Life Money Market Fund		5,000,000	Currently 0.67%	On call		
Invesco Money Market Fund		5,000,000	Currently 0.66%	On call		
Royal Bank of Scotland	BBB+					
Fixed Deposit		3,000,000	3 mth LIBOR	09/02/15	09/02/20	1826
Santander	A					
Fixed Deposit		1,000,000	0.80%	04/06/18	04/12/18	183
Fixed Deposit		3,000,000	0.90%	14/09/18	14/03/19	181
<b>Total Deposits</b>		<b>17,000,000</b>				

- 3.4 In addition, funds are held on a short term basis for day to day cashflow purposes with our bankers, Barclays. At the end of September £270k was held in an instant access account.
- 3.5 The following corporate bonds were held at the end of the September 2018, valued as at 31 March 2018:

Bond held	Valuation £	Coupon Interest Rate	Effective Interest Rate	Maturity date
Asif II (a)	94,983	6.38%	5.49%	05/10/20
Asif II (b)	31,288	6.38%	5.33%	05/10/20
Asif II (c)	50,285	6.38%	6.41%	05/10/20
UK Treasury	171,380	8.00%	4.77%	07/06/21
Atlantia SPA (a)	67,336	6.25%	5.65%	09/06/22
Atlantia SPA (b)	106,320	6.25%	5.55%	09/06/22
UK Treasury	68,274	6.00%	4.76%	07/12/28
<b>Total</b>	<b>589,866</b>			

- 3.6 The weighted average interest rate earned on fixed rate investments in the quarter was 0.77%.
- 3.7 Link Asset Services is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.
- 3.8 The following graph shows how the level of cash and instant access investments fluctuated in 2017/18, and the forecast levels of cash and instant access investments in 2018/19. The graph demonstrates the level of cash and excludes fixed term investments which will be returned before the end of the year.



#### 4. The Prudential Capital Code – Prudential Indicators

4.1 In accordance with the Prudential Capital Code the Council reviews its Prudential Indicators on a quarterly basis. Movements in the Prudential Indicators for the year 2018/19 to date are as follows:

4.2 Interest rate exposures

The interest rate exposure on investments has moved as follows:

Date	Investments as a % of total	
	Fixed	Variable
31/03/18	90%	10%
30/06/18	59%	41%
30/09/18	43%	57%

This Prudential Indicator sets an upper limit on fixed interest rate exposures of 100% and variable interest rate exposures of 80% of net outstanding principal sums. Exposures have been managed within this limit.

#### 4.3 Principal sums invested for periods longer than 364 days.

The upper limit for sums invested for periods longer than 364 days is £15m. As at the end of September the figures are as follows:

<b>Date</b>	<b>Total investments (excluding bonds)</b>	<b>Sums invested for greater than 364 days</b>	<b>% of total investments</b>
31/03/18	£9m	£5m	56%
30/06/18	£14m	£4m	29%
30/09/18	£17m	£3m	18%

There is one loan of £3m that is invested for greater than 364 days. Sums invested reflect the current level of rates that do not incentivise long term cash investments.

## 5 Corporate Implications

- 5.1 The budgeted income from investments for 2018/19 has been set at £150,000. Investment income earned in the year to September is £72k. The impact of the recent bank base rate increase is still an unknown at this time, however it is likely that there may be a modest interest rate increase in the medium term. The budget assumed an interest rate of 0.9% on medium term loans and 0.35% on short term loans. The current interest rate earned on money market funds is approximately 0.65%. It is therefore probable that the budgeted investment income will be met.

<b>Background Papers:</b>	None
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