TREASURY MANAGEMENT MID-YEAR REPORT 2018/19

1. Treasury Management Activity

1.1 The Council's treasury management strategy and associated policies and practices for 2018/19 were approved in February 2018 by Full Council. The Council manages its investments in-house and invests with institutions on its approved lending list, aiming to achieve the optimum return on investments commensurate with appropriate levels of security and liquidity.

1.2 Table 1 below provides a monthly analysis of the Council's treasury management activity to the end of September:

Table 1	**Fixed Term Invested**	**Fixed Term Redeemed**	**MMF Invested**	**MMF Redeemed**	**Monthly Total**
	£	£	£	£	£
Total b/f	4,500,000		49,050,000		53,550,000
April	0	(2,000,000)	71,200,000	(47,750,000)	21,450,000
May	0	0	72,850,000	(71,300,000)	1,550,000
June	0	0	30,250,000	(64,900,000)	(34,650,000)
July	0	0	67,800,000	(51,700,000)	16,100,000
August	0	0	55,200,000	(52,900,000)	2,300,000
September	0	(500,000)	59,950,000	(56,150,000)	3,300,000
Total c/f	**4,500,000**	**(2,500,000)**	**406,300,000**	**(344,700,000)**	**63,600,000**

1.3 This shows that very little use has been made of fixed-term deposits, while active use has been made of the money market funds (MMFs) on the Council's counterparty list. This was due mainly to the Council delaying its borrowing in order to delay the cost of carrying borrowed cash and thereby make savings. Money market funds provide instant access in a 'low cash' environment are much more liquid than fixed-term investments.

1.4 The Council's investment return (total interest receivable divided by the average outstanding principal) for the first half of the financial year was 0.65%. Over the same period the average 7 day LIBID was 0.56%.

1.5 A snapshot of the Council's investments outstanding as at 30 September is shown in the table below.

Table 2: Returns on Investments	**Balance**	**Investment Return**
	£m	**%**
Fixed Term Investments – LAMS	2.0	2.89
Fixed Term Investments - Other	0.0	0.00
Money Market Funds	61.6	0.67
Total	**63.6**	**0.67**

1.6 There were no major changes made to the Council's lending criteria during the first half of the year. The lending list itself is regularly monitored.

2. Long Term Borrowing

2.1 Over the past several years the Council has partly financed the capital programme by using its cash balances (referred to as ‘internal borrowing’). This utilises earmarked reserves, general fund reserves and net movement on current assets until the cash is required for their specific purposes.

2.2 This strategy has the effect of postponing external borrowing, thereby making short-term savings for the Council and also reducing credit risk (by holding lower cash balances). However, this cashable benefit has to be weighed against the risk of not borrowing and taking advantage of lower interest rates which may increase in future. Delaying borrowing could therefore potentially lead to increased long-term costs. Therefore, it sometimes might be necessary for the Council to borrow before the demand for cash is felt from a cashflow perspective.

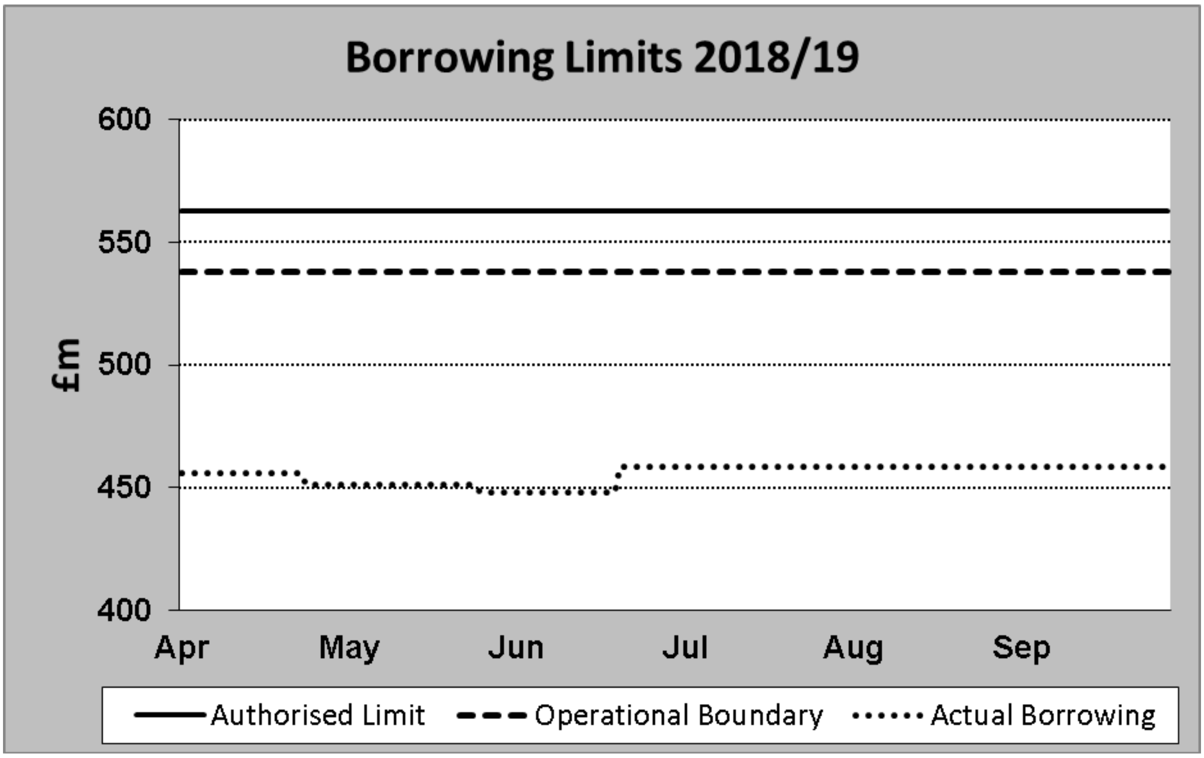
2.3 The Council’s Treasury Management Strategy for 2018/19 indicated that at least £40m of borrowing would be required to finance the capital programme and maintain liquidity. In June 2018 the Council took £10m of this from the PWLB.

2.4 An update to the Council’s forecast borrowing requirement for 2018/19 is provided in the table below:

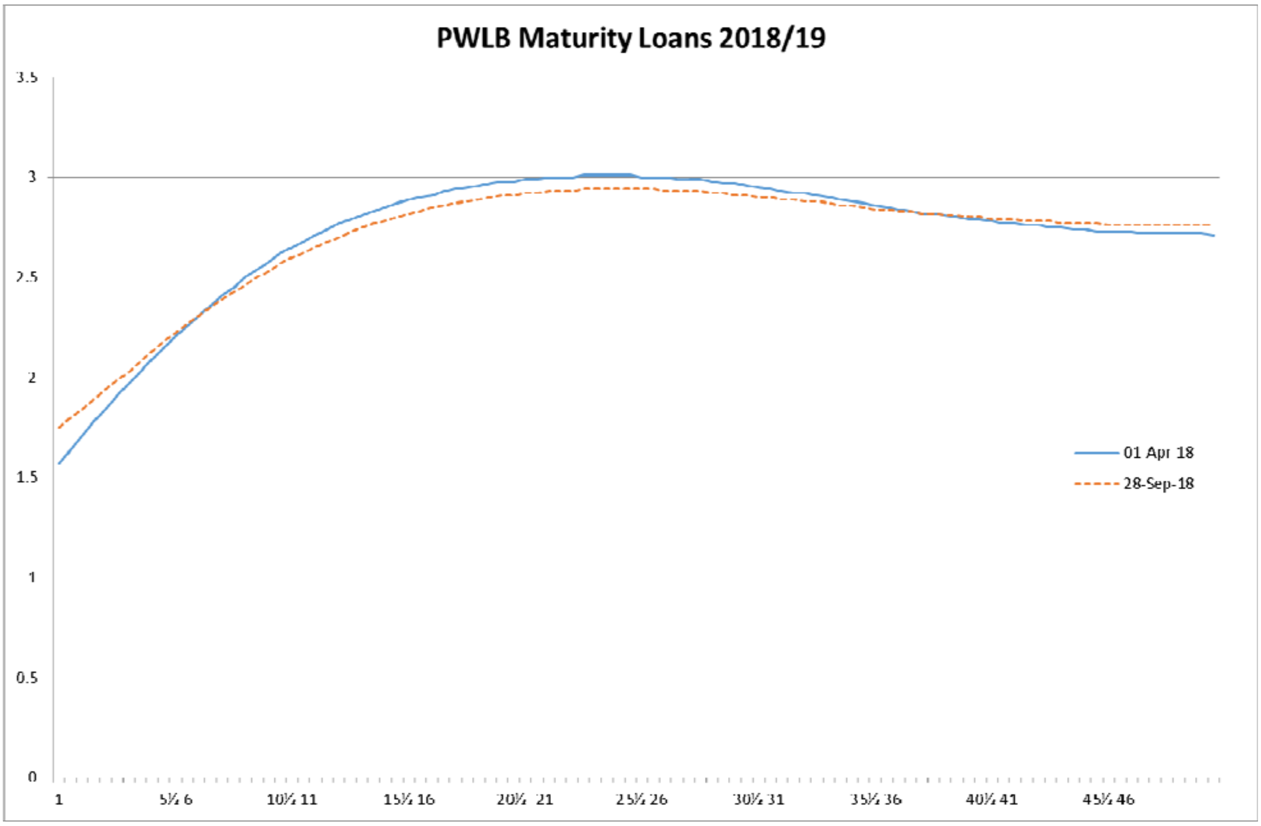
Table 3	**2018/19 Strategy**	**2018/19 Revised**
	£m	**£m**
Borrowing requirement		
Capital Financing Requirement	802.0	776.0
Less:		
- Long-term liabilities	(121.7)	(115.7)
- Existing borrowing	(441.8)	(451.8)
- Cap Ex to be financed by borrowing (1)	(49.6)	(49.4)
- Replenishment/Replacement borrowing (2)	4.9	24.5
Internal borrowing (A)	**193.8**	**183.7**
Cash and cash equivalents	20.0	20.0
Fixed investments	0.0	0.0
Y/E investment balances (B)	**20.0**	**20.0**
Cash deployed (A+B)	**213.8**	**203.7**
comprising:		
- Forecast earmarked reserves	165.3	180.2
- Forecast working capital	48.5	23.5
Borrowing summary:		
2018/19 borrowing requirement (1+2)	**44.7**	**24.9**

2.5 This table shows that the Council expects to be under-borrowed by approximately £184m relative to its Capital Finance Requirement, which roughly equates to the forecast earmarked reserves. It also indicated that further borrowing of around £25m will be required during 2018/19. However, if PWLB or market rates appear favourable, and if cashflow dictates, then an amount greater than this may be taken. Conversely, slippage in the capital programme may result in a lesser amount being required.

2.6 The chart below shows how current borrowing compares with the prudential indicators and shows that borrowing has been managed within these limits. The operational boundary for 2018/19 was set at £538m and the authorised limit at £563m.



2.7 The chart below shows that PWLB interest rates from the PWLB were very stable over the first half of the financial year. However, treasury officers continue to monitor rates with a view to borrowing when these become relatively favourable.



2.8 Although the Council always has the option of rescheduling (i.e. redeeming old debt and replacing it with new debt) its existing long-term PWLB debt, it still remains unlikely that this will occur in the near future, given the PWLB's current redemption policy. This generally means that local authorities pay a large premium to reschedule. In practice, the Council's policy is to let all debt mature naturally.

3. Pension Fund Cash Balances

3.1 The Council's cash balances are managed according to the Prudential Code, with specific regard to the principles of security, liquidity and yield. The aim in managing these balances is no ensure, firstly, that credit risk is minimized; secondly, that balances are adequate such that payments can be made when they fall due; thirdly, that a reasonable rate of return is obtained on any sums invested.

3.2 The Code does not cover pension fund cash investments, but Pension Fund cash has to date been managed under the same treasury management policy.

3.3 However, pension fund cash, while needing to be managed with regard to security, liquidity and yield, serves a different purpose than Council cash. Pension fund cash is given a specific allocation within the fund (up to 10%), with the aim of balancing the effect of some of the fund's more volatile assets (such as equities). This implies that cash holdings will grow broadly in proportion to the fund size. So, on a £5bn fund, cash balances could be as high as £500m.

3.4 Currently, for both the County Council and the pension fund, a limit of £20m applies to each of 5 different money market funds (MMFs) for highly liquid cash investments. This provides total 'headroom' of £100m each for the Council and the fund. However, given the significantly higher cash balances often retained by the fund, it is proposed to increase the limit on approved MMF cash balances from £20m to £40m. This will afford the pension fund some £200m of headroom in total.

3.5 Although this does not impact at all on the Council's treasury management policy, it should be recognized that the County Council is the administering authority for the Pension Fund. The County Council is therefore the correct body for considering changes to the Pension Fund's cash management policy.