

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

INFORMATION

Agenda Item No 17

meeting date: 18 JUNE 2019
title: TREASURY MANAGEMENT MONITORING
submitted by: DIRECTOR OF RESOURCES
principal author: VALERIE TAYLOR

1 PURPOSE

1.1 To provide you with a monitoring report on our treasury management activities for the period 1 April 2019 to 30 April 2019.

1.2 Relevance to the Council's ambitions and priorities:

- Corporate Priorities - to continue to be a well-managed Council providing efficient services based on identified customer need. To meet the objective within this priority, of maintaining critical financial management controls, ensuring the authority provides council tax payers with value for money.

1.3 You have previously approved the council's Treasury Management Policies and Practices in accordance with CIPFA's code of practice on treasury management for Local Authorities.

1.4 In accordance with this policy committee should receive a quarterly monitoring report on the Council's treasury management operations.

2 BACKGROUND

2.1 Events in recent years have raised the profile of the treasury management function and highlighted the potentially serious risks involved in the management of an organisation's investments and cash flows.

2.2 The council's approved Treasury Management Policies and Practices set out in detail how we control the risks associated with our treasury management activities, ensuring that we have sufficient liquidity to meet our short-term commitments and capital spending plans and that the overriding concern when investing any surplus funds is the security of the principal invested, with risk limitation being more important than return.

2.3 On a daily basis we assess our cash flow position. To do this we estimate the funds we expect to receive e.g. council tax payments, grants and fees, and deduct any known payments we expect to make e.g. precepts, creditors and salaries.

2.4 On most days the council is in a position where it has surplus funds available to invest.

2.5 How we invest these surplus funds is governed by the council's Treasury Management Policies and Practices which are agreed and reported to Policy and Finance Committee and ultimately Full Council.

2.6 The main points being:

- The council maintains a list of organisations it will lend its surplus funds to, which is regularly reviewed. The current list of approved banks and building societies is shown in section 7 of this report.

- The council has maximum limits for each bank or building society of £1.75m. The limit for the Debt Management Office (DMO), where the Government guarantees investments, is currently £5m and the limit for other Local Authorities, Police and Crime Commissioners, Fire and Rescue Services and Transport Authorities is £2.5m per institution.
 - The safety of our investments is paramount and not the requirement to maximise returns.
 - Our policy has been to only lend to major British Banks and Building Societies relying on the assumption that the Government would be unlikely to allow a major bank/building society to fail.
- 2.7 The council borrows any money it requires to fund its capital spending plans from the Public Works Loan Board (PWLB). The PWLB make funds available for long loan periods at interest rates just below market rates and lend to Government and Public sector bodies. The council rarely borrows to fund its revenue activities and is much more likely at any point in time to have surplus funds to invest.

3 PUBLIC WORKS LOAN BOARD

- 3.1 The Bank of England base rate increased from 0.50% to 0.75% in August 2018.
- 3.2 This change in the interest rate has only impacted on the amount of interest received on our temporary investments as all interest payable on the Council's long-term loan debt from the Public Works Loan Board (PWLB) is at fixed interest rates.
- 3.3 From 1 November 2012, the Government reduced by 20 basis points (0.20%) the interest rates on loans from the PWLB. The reduction was to be applicable for those councils that provide an annual return providing 'improved information and transparency' on 'borrowing and associated capital spending plans'. This will enable the government to build a more robust forecast of public expenditure.
- 3.4 A return has been submitted for Ribble Valley Borough Council and we continue to be listed as an eligible council for this certainty discount rate on the PWLB website.

4 BORROWING REQUIREMENTS

- 4.1 There has been no movement on the council's external borrowing during the period as the instalments in respect of the PWLB are only paid at the end of September and March. In addition to the PWLB debt there is a bond which will remain unchanged until it is repaid, this relates to the Sidney Whiteside Charity.

The total external debt can be summarised as follows:

	PWLB £000	Bond £000	Total £000
External Debt at 1 April 2019	136	8	144
Transactions - New Loans	0	0	0
- Repayments	0	0	0
External debt at 30 April 2019	136	8	144

- 4.2 No temporary loans were taken out in the current financial period up to 30 April 2019, or in the same period in 2018.

4.3 No half yearly instalment of interest is due until September 2019.

5 TEMPORARY INVESTMENTS

5.1 In accordance with the approved treasury management policies and practices, surplus funds are temporarily invested via the money market at the best rate of interest available with the minimisation of risk to the capital sum.

5.2 The movement in the council's external investments during the reporting period are shown in detail at Annex 1 and are summarised below:

	Banks/Building societies £'000	Other Local Authorities £'000	Total £'000
Monies Invested at 1 April 2019	4,175	8,000	12,175
Transactions - New Investments	13,385	4,500	17,885
- Repayment of Investments	-10,800	-8,000	-18,800
Monies Invested at 30 April 2019	6,760	4,500	11,260

5.3 A breakdown of investments by institution at 30 April 2019 is as follows:

Date Invested	Nos	Borrower	Notice	Rate %	£'000	£'000
29-Apr-19	23	Bank of Scotland plc	30-May-19	0.61%	1,750	
						1,750
23-Apr-19	17	Coventry	10-Jun-19	0.60%	650	
						650
23-Apr-19	18	HSBC Bank plc	07-May-19	0.60%	150	
30-Apr-19	26	HSBC Bank plc	13-May-19	0.60%	320	
30-Apr-19	28	HSBC Bank plc	20-May-19	0.60%	270	
						740
30-Apr-19	27	Leeds	08-Aug-19	0.72%	1,750	
						1,750
15-Apr-19	164/4	Lloyds Bank plc	13-May-19	0.61%	330	
						330
30-Apr-19	25	London Borough of Sutton	30-May-19	0.70%	2,500	
						2,500
02-Apr-19	181/2	Nationwide BS	04-Jul-19	0.75%	1,540	
						1,540
18-Apr-19	15	Wirral MBC	20-May-19	0.70%	2,000	
						2,000
Total Investments as at 30 April 2019					11,260	11,260

- 5.4 The total interest received on the council's external investments during the period was £6,666 compared with £4,036 in the previous year.
- 5.5 The council has one longer-term investment of £10,000 which was placed with the Local Government Bonds Agency in 2014. The agency is a freestanding independent body that is owned by the local government sector with the purpose of raising money efficiently on the capital markets at regular intervals to on-lend to participating bodies.
- 5.6 The contribution that we have invested will be returned to us after 10 years of successful operations of the agency, together with interest which will be earned at commercial rates.

6 PRUDENTIAL INDICATORS

- 6.1 Local authorities in England and Wales are required by the Local Government Act 2003 to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities.
- 6.2 In April 2019 this Committee approved a combined Capital and Treasury Management Strategy for 2019/ 2020 which met a new requirement of the Prudential Code to produce a capital strategy along with a range of streamlined prudential indicators.
- 6.3 These prudential indicators are designed to deliver accountability in taking capital financing, borrowing and treasury management decisions.
- 6.4 The treasury management indicators which still form part of the prudential code are the following:
- **Authorised limit for external debt.**
This sets a limit on the amount of external borrowing that reflects a level of borrowing, which, while not desired, could be afforded but may not be sustainable. It is the upper limit on the level of gross external indebtedness, which must not be breached without council approval. It is the **worse-case scenario**.
 - **Operational boundary for external debt.**
This indicator focuses on the day-to day treasury management activity within the council and reflects the most likely prudent but not worst case scenario. Any sustained breaches to this boundary would give an indication that the council may be in danger of stepping beyond the prudential boundaries it has set itself.
- 6.5 The council's actual long-term debt as at 30 April 2019 compared to the approved authorised limit and operational boundary for the 2019/20 financial year is as follows:

Prudential indicator	Authorised Limit £'000	Operational Boundary £'000	30 April 2019 £'000	Breaches during April '19
Borrowing	19,935	1,685	144	None
Other Long-Term Liabilities	0	0	0	None

- 6.6 The Treasury Management code requires that where an authority invests, or plans to invest, for periods of longer than one year that an upper limit for investments maturing in excess of this timeframe is set. This council currently has a policy of not investing for periods of longer than one year and so no upper limits have been set and no investments have been made in the reporting period for longer than 364 days.

7 APPROVED ORGANISATIONS

- 7.1 Principally, Fitch credit ratings are used as an indication of the probability of organisations defaulting on our investments. Definitions for the ratings are provided at Annex 2.
- 7.2 The ratings show an indication of the current credit position and are monitored on a regular basis with any significant changes to be reported to this committee. Prior to investing any monies on a day to day basis the ratings given by rating agents S&P Global Ratings and Moody's are also monitored and considered alongside the Fitch ratings. The full list of ratings for our approved institutions as at 30 April 2019 is shown at Annex 3.
- 7.3 Investments with Building Societies are limited to the top 8 building societies based on their total assets (provided they are included in Fitch ratings). West Bromwich and Nottingham Building Societies have been removed from the approved list as they do not currently have a Fitch rating, leaving the top 6 building societies based on their total assets.

Name	Fitch Rating		
	Full Transaction Review Date	Long Term	Short Term
Nationwide	01/03/19	A	F1
Yorkshire	04/04/19	A-	F1
Coventry*	04/04/19	A-	F1
Skipton	04/04/19	A-	F1
Leeds	04/04/19	A-	F1
Principality	04/04/19	BBB+	F2

* Changed since last reported

- 7.4 The banks we use are reviewed annually as part of the Treasury Management Practices to take into account their Fitch IBCA long-term and short-term credit rating. The council has a policy to only use institutions with a short term Fitch rating of F2 or above. The banks on the council's approved list meeting this requirement at 30 April 2019 are as follows:

Name	Fitch's Full Transaction Review Date	Long Term	Short Term
Santander UK Plc*	01/03/19	A+	F1
Barclays Bank Plc*	01/03/19	A	F1
Bank of Scotland Plc	01/03/19	A+	F1
HSBC Bank Plc	01/03/19	AA-	F1+
Lloyds Bank Plc	01/03/19	A+	F1
National Westminster Bank Plc	01/03/19	A+	F1
Royal Bank of Scotland Plc (The)	01/03/19	A	F1

* Changed since last reported

- 7.5 In addition to the building societies and banks we use for investments, also approved for use are other Local Authorities and the United Kingdom Debt Management Office, where the Government guarantees investments.

8 RECENT EVENTS

- 8.1 In May 2019 the Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.75%.
- 8.2 Brexit continues to be an area of high uncertainty, and any firm impact on interest rates in the short to medium term is still unclear. The MPC's most recent projections estimate that the Bank Rate will remain at 0.75% until early 2020 when it will increase to 0.8%.

9 EXPOSURE TO RISK

- 9.1 With the risks surrounding the UK's exit from the EU, it is imperative that we continue to protect the council's principal sums invested in order to minimise its exposure to risks.
- 9.2 To ensure our exposure is limited as far as possible, we continue with the following measures:
- Daily early morning meetings to discuss the latest position in terms of:
 - Lending arrangements;
 - A review of the Markets;
 - A review of our current investments and whether we consider they are still safe; and
 - Institution Ratings
 - Authorisation prior to investments with either the Director of Resources or the Head of Financial Services
 - Keep Leader/Chief Executive informed of any developments
 - Look to arrange new secure options for investments as necessary.

10 CONCLUSION

- 10.1 Through the careful investment of sums in line with the council's strategy the level of risk in our investments has been kept to a minimum.
- 10.2 Due to the continued uncertainty in the economy, a prudent approach continues to be followed in the investment of any surplus cash balances on a day to day basis.

SENIOR ACCOUNTANT

DIRECTOR OF RESOURCES

PF31-19/VT/AC
10 June 2019

For further information please ask for Val Taylor

**POLICY AND FINANCE COMMITTEE
TEMPORARY INVESTMENT ACTIVITY – 2019/20**

ANNEX 1

Date Invested	Temporary Investment Number	Borrower	Amount Invested £	Interest rate %	Date Repaid	Principal Repaid £	Interest Received or Due £	Fitch Long Term Rating	Fitch Short Term Rating
Investments Brought Forward at 1 April 2019									
18-Feb-19	152/2	Barclays Bank	760,000	0.66%	30-Apr-19	-760,000	-975.72	A+	F1
		Debtor					577.18		
18-Feb-19	156/2	Dumfries Council	2,500,000	0.81%	23-Apr-19	-2,500,000	-3,550.68		
		Debtor					2,330.14		
15-Mar-19	164/3	Lloyds Bank plc	330,000	0.61%	15-Apr-19	Rolled Over	-170.97	A+	F1
		Debtor					93.76		
02-Jan-19	181	Nationwide BS	1,540,000	0.72%	02-Apr-19	Rolled Over	-2,734.03	A+	F1
		Debtor					2,703.65		
18-Jan-19	195	Leeds City Council	1,500,000	0.70%	18-Apr-19	-1,500,000	-2,589.04		
		Debtor					2,100.00		
01-Feb-19	208	Redcar & Cleveland Council	2,500,000	0.82%	23-Apr-19	-2,500,000	-4,549.32		
		Debtor					3,313.70		
19-Feb-19	218	London Borough of Sutton	1,500,000	0.77%	30-Apr-19	-1,500,000	-2,215.07		

Date Invested	Temporary Investment Number	Borrower	Amount Invested £	Interest rate %	Date Repaid	Principal Repaid £	Interest Received or Due £	Fitch Long Term Rating	Fitch Short Term Rating
		Debtor					1,297.40		
01-Mar-19	228	Bank of Scotland plc	525,000	0.65%	08-Apr-19	-525,000	-355.27	A+	F1
		Debtor					289.83		
29-Mar-19	246	HSBC Bank plc	1,020,000	0.60%	02-Apr-19	-1,020,000	-67.07	AA-	F1+
		Debtor					50.30		
Monies Invested at 1 April 2019			12,175,000			-10,305,000	-4,451.20		
Investments made April to April 2019									
01-Apr-19	1	HSBC Bank plc	170,000	0.60%	02-Apr-19	-170,000	-2.79	AA-	F1+
02-Apr-19	2	HSBC Bank plc	280,000	0.60%	08-Apr-19	-280,000	-27.62	AA-	F1+
02-Apr-19	3	HSBC Bank plc	220,000	0.60%	15-Apr-19	-220,000	-47.01	AA-	F1+
02-Apr-19	4	HSBC Bank plc	820,000	0.60%	18-Apr-19	-820,000	-215.67	AA-	F1+
03-Apr-19	5	HSBC Bank plc	80,000	0.60%	18-Apr-19	-80,000	-19.73	AA-	F1+
05-Apr-19	6	HSBC Bank plc	85,000	0.60%	15-Apr-19	-85,000	-13.97	AA-	F1+
08-Apr-19	7	HSBC Bank plc	240,000	0.60%	09-Apr-19	-240,000	-3.95	AA-	F1+
09-Apr-19	8	HSBC Bank plc	300,000	0.60%	10-Apr-19	-300,000	-4.93	AA-	F1+

Date Invested	Temporary Investment Number	Borrower	Amount Invested £	Interest rate %	Date Repaid	Principal Repaid £	Interest Received or Due £	Fitch Long Term Rating	Fitch Short Term Rating
10-Apr-19	9	HSBC Bank plc	370,000	0.60%	11-Apr-19	-370,000	-6.08	AA-	F1+
11-Apr-19	10	HSBC Bank plc	420,000	0.60%	12-Apr-19	-420,000	-6.90	AA-	F1+
12-Apr-19	11	HSBC Bank plc	470,000	0.60%	15-Apr-19	-470,000	-23.18	AA-	F1+
15-Apr-19	12	HSBC Bank plc	450,000	0.60%	16-Apr-19	-450,000	-7.40	AA-	F1+
16-Apr-19	13	HSBC Bank plc	500,000	0.60%	17-Apr-19	-500,000	-8.22	AA-	F1+
17-Apr-19	14	HSBC Bank plc	580,000	0.60%	18-Apr-19	-580,000	-9.53	AA-	F1+
18-Apr-19	15	Wirral MBC	2,000,000	0.70%	Still Invested	Still Invested	-460.27		
18-Apr-19	16	HSBC Bank plc	1,000,000	0.60%	24-Apr-19	-1,000,000	-98.63	AA-	F1+
23-Apr-19	17	Coventry	650,000	0.60%	Still Invested	Still Invested	-74.79	A-	F1
23-Apr-19	18	HSBC Bank plc	150,000	0.60%	Still Invested	Still Invested	-17.26	AA-	F1+
23-Apr-19	19	HSBC Bank plc	80,000	0.60%	24-Apr-19	-80,000	-1.32	AA-	F1+
24-Apr-19	20	HSBC Bank plc	600,000	0.60%	25-Apr-19	-600,000	-9.86	AA-	F1+
25-Apr-19	21	HSBC Bank plc	670,000	0.60%	26-Apr-19	-670,000	-11.01	AA-	F1+
26-Apr-19	22	HSBC Bank plc	1,070,000	0.60%	29-Apr-19	-1,070,000	-52.77	AA-	F1+

Date Invested	Temporary Investment Number	Borrower	Amount Invested £	Interest rate %	Date Repaid	Principal Repaid £	Interest Received or Due £	Fitch Long Term Rating	Fitch Short Term Rating
29-Apr-19	23	Bank of Scotland plc	1,750,000	0.61%	Still Invested	Still Invested	-29.25	A+	F1
29-Apr-19	24	HSBC Bank plc	90,000	0.60%	30-Apr-19	-90,000	-1.48	AA-	F1+
30-Apr-19	25	London Borough of Sutton	2,500,000	0.70%	Still Invested	Still Invested	-47.95		
30-Apr-19	26	HSBC Bank plc	320,000	0.60%	Still Invested	Still Invested	-5.26	AA-	F1+
30-Apr-19	27	Leeds	1,750,000	0.72%	Still Invested	Still Invested	-34.52	A-	F1
30-Apr-19	28	HSBC Bank plc	270,000	0.60%	Still Invested	Still Invested	-4.44	AA-	F1+
15-Apr-19	164/4	Lloyds Bank plc	Rolled over	0.61%	Still Invested	Still Invested	-82.73	A+	F1
02-Apr-19	181/2	Nationwide BS	Rolled over	0.75%	Still Invested	Still Invested	-886.03	A	F1
Investments April - April 2019			17,885,000			-8,495,000	-2,215		
Total Investments 2019/20 (including Brought Forward from 2018/19)			30,060,000			-18,800,000	-6,665.75		

POLICY AND FINANCE COMMITTEE

Fitch Rating Definitions	
International Long-Term Credit Ratings	
Long-term credit rating can be used as a benchmark measure of probability of default.	
AAA	Highest credit quality. 'AAA' denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectation of low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than in the case for higher ratings.
BBB	Moderate default risk. 'BBB' National Ratings denote a moderate default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment than is the case for financial commitments denoted by a higher rated category
International Short-Term Credit ratings	
Short-term rating has a time horizon of less than 13 months for most obligations and thus places greater emphasis on the liquidity necessary to meet financial commitments	
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment grade.
B	Indicates an uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Such capacity is highly susceptible to near-term adverse changes in financial and economic conditions.

**POLICY AND FINANCE COMMITTEE
FULL RATING LIST OF APPROVED INSTITUTIONS AS AT 30 APRIL 2019**

	S&P Global Ratings			Moody's			Fitch				
	Long Term	Short Term	Outlook	Long Term	Short Term	Outlook	Full Review Date	Long Term	Short Term	Outlook	
Building Societies											
Nationwide	A	A-1	Positive	Aa3	P-1	Negative	01/03/19	A	F1	Negative	£1m min,
Yorkshire	-	-	-	A3	P-2	Stable	04/04/19	A-	F1	Negative	
Coventry	-	-	-	A2	P-1	Stable	04/04/19	A-	F1	Negative	Sterling Brokers
Skipton	-	-	-	Baa1	P-2	Positive	04/04/19	A-	F1	Negative	
Leeds	-	-	-	A3	P-2	Stable	04/04/19	A-	F1	Negative	3Mth
Principality	-	-	-	Baa2	P-2	Stable	04/04/19	BBB+	F2	Negative	No Contact
Banks											
Santander UK Plc.	A	A-1	Stable	Aa3	P-1	Positive	01/03/19	A+	F1	Negative	
Barclays Bank Plc.	A	A-1	Stable	A2	P-1	Stable	01/03/19	A	F1	Negative	
Bank of Scotland Plc.	A+	A-1	Stable	Aa3	P-1	Stable	01/03/19	A+	F1	Negative	
HSBC Bank Plc.	AA-	A-1+	Stable	Aa3	P-1	Stable	01/03/19	AA-	F1+	Negative	
Lloyds Bank Plc.	A+	A-1	Stable	Aa3	P-1	Stable	01/03/19	A+	F1	Negative	£250k
National Westminster Bank Plc.	A-	A-2	Positive	A1	P-1	Positive	01/03/19	A+	F1	Negative	Current a/c required
Royal Bank of Scotland Plc.	A-	A-2	Positive	A1	P-1	Positive	01/03/19	A	F1	Negative	Current a/c required
Banks not currently meeting minimum Fitch Short Term requirement of F2 (and not currently approved for investments)											
Co-operative Bank (The)	-	-	-	Caa1	NP	Stable	01/03/19	B	B	Negative	£1m min