

**COMMITTEE:**           **AUDIT & GOVERNANCE**      **REF NO: AG/18/19**

**DATE:**                 **11 DECEMBER 2018**

**SUBJECT:**            **TREASURY MANAGEMENT PERFORMANCE**  
                              **2018/19**

**PORTFOLIO HOLDER: COUNCILLOR MARTIN COOK**

**HEAD OF SERVICE: JOHN CHANCE**

***Brief description of report content and the decision being asked for:***

The Treasury Management Code of Practice requires a mid-year report on Treasury Management activities to go to Council. This report complements the information supplied in the quarterly budget monitoring reports.

That the Treasury Management Operations for the period 1 April 2018 to 30 September 2018 be noted.

*This report has been prepared by David Wolton  
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***This report was prepared after consultation with:***

Helen Pluck, Chief Operating Officer  
John Chance, Head of Finance and Revenues  
Tom Minnican, Operations Manager – Finance and Procurement

***The following policies form a context to this report:***  
*(all relevant policies must also be referred to in the body of the report)*

Financial Strategy  
Building a Better Ipswich 2017  
Standing Orders  
Treasury Management Strategy

**LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW**

*(papers relied on to write the report but which are not published and do not contain exempt information –*

1. Medium Term Financial Plan – Council 21 February 2018.

**OTHER HELPFUL PAPERS**

*(papers which the report author considers might be helpful – this might include published material)*

- 1.

## 1. INTRODUCTION

- 1.1 The treasury management service is an important part of the overall financial management of the Council's affairs, is strictly regulated by statutory requirements which leans on a professional code of practice (the CIPFA Code of Practice on Treasury Management).
- 1.2 The code requires the setting out of responsibilities and duties of the members and officers, allowing a framework for reporting and decision making on all aspects of Treasury Management. This information is held in a Treasury Management Systems Document, which is a requirement of the above Code of Practice, which is held in Financial Services and is an up to date record of the Treasury Management Systems and Operations.
- 1.3 The Section 151 Officer reports to Executive as part of the quarterly budgetary control report on treasury management activities.
- 1.4 Council approved the Treasury Management Policy Statement, Borrowing Limits and Annual Investment Strategy 2018/19 as part of the Medium Term Financial Plan on 21 February 2018.
- 1.5 The approved activities of the Treasury Management operation are as follows:
- 1.5.1 Borrowing funds and interest rate exposure management
  - 1.5.2 Debt repayment and rescheduling
  - 1.5.3 Investing surplus funds
  - 1.5.4 Use of external managers for temporary investment of funds
- 1.6 This report outlines what happened in relation to each of these four elements of the approved strategy for the period 1 April 2018 to 30 September 2018. The position in respect of borrowing and investments is summarised in the table below:

	Position at 31/3/18	Position at 30/9/18	Change
	£	£	£
<b>Borrowing</b>			
PWLB Maturity	71,050,527	71,050,527	0
PWLB Annuity	70,056,909	68,542,399	-1,514,510
PWLB EIP	30,992,654	30,255,375	-737,279
Market Loans	13,600,000	13,600,000	0
<b>Total Borrowing</b>	<b>185,700,090</b>	<b>183,448,301</b>	<b>-2,251,789</b>
<b>Investments</b>			
Fixed Term Investments	19,000,000	27,000,000	+8,000,000
Instant Access Accounts	5,000,000	5,000,000	0
Notice Accounts	6,000,000	6,000,000	0
Money Market Funds	4,420,000	6,900,000	+2,480,000
Inter Group Loans	66,487,822	67,255,600	+767,778
<b>Total Investments</b>	<b>100,907,822</b>	<b>112,155,600</b>	<b>+11,247,778</b>

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## **2. BACKGROUND**

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- 2.1 Executive on 13 March 2012 agreed that the Council would have two borrowing pools, one for General Fund (GF) and one for the Housing Revenue Account (HRA) and that all the Council's current debt as at 31 March 2012 would be allocated to the HRA. All future borrowing will be ringfenced to the GF or HRA as appropriate.
- 2.2 Over the last few years the Council has had a very risk averse strategy. With the rates on these accounts falling and more confidence in the market, the Council has undertaken a number of fixed term investments. These fixed term investments have been spread out, to further minimise risk and so they do not all mature at once. All fixed term investments are approved by the Section 151 Officer in consultation with the Finance Portfolio holder before they are undertaken.
- 2.3 Council sets the investment limits for individual organisations as part of the Medium Term Financial Plan for the year. The Section 151 Officer sets operational limits within these parameters.
- 2.4 In October the Government announced the abolition of the HRA Borrowing Cap as a further incentive to help Council's build more social housing.

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## **3. POLICY CONTEXT**

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- 3.1 The Treasury Management Policy Statement, Borrowing Limits and Annual Investment Strategy was approved for 2018/19 on 21 February 2018 and set the parameters the Council can work within for certain items, such as the authorised limit for borrowing and the counterparties the Council can invest with and the maximum amount that can be invested with one counterparty.

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## **4. RISK MANAGEMENT**

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- 4.1 The security and return of investments is the biggest priority due to the current economic circumstances. As a general rule the more security an investment has, the lower the interest rate is. All investments in 2018/19 have been returned when they have been due.

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## **5. PERFORMANCE MONITORING**

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- 5.1 The MPC meet every month and at its 2 August meeting the base rate was increased from 0.50% to 0.75%. The increase had been built into the market rates leading up to the decision and it was not a surprise that the base rate was increased. All the Council's borrowing is at fixed interest rates, so there was no increase in costs arising from the change. The Council does expect to see higher investment income, as the returns on Money Market Funds (MMF's) and one instant access account that is linked to the base rate will increase. However, this will be offset by higher borrowing rates.
- 5.2 The GF has a Capital Financing Budget of £3,444,940 for 2018/19 and it is forecast that actual expenditure will be lower than the budget. Some savings were reported in the 1<sup>st</sup> quarter budget monitoring report.

- 5.3 The HRA has a Capital Financing Budget of £6,939,790 for 2018/19 and it is forecast that actual expenditure will be lower than the budget.
- 5.4 Investment income of £144,500 was budgeted for in 2018/19 and it is forecast that actual income will be higher.
- 5.5 The Council has not undertaken any further borrowing between 1 April 2018 and 30 September 2018, but has repaid a further £2.252m of debt. An analysis of the Council debt movements between 1 April 2018 and 30 September 2018 is shown at Appendix A.
- 5.6 As at 30 September 2018, the Council had £27m of fixed term investments. An analysis of the Council's fixed term investments as at 30 September 2018 is shown at Appendix B.
- 5.7 For working capital, the Council uses Instant access accounts and MMF's. As at 30 September 2018, the Council had £11.900m of investments spread over these types of Investments. The Council only started using MMF's during 2015/16, and the interest rates obtained are slightly higher than on the Council's Instant access accounts. The other advantage of using MMF's is that it gives the Council more scope to place investments with other counterparties on the Council's approved investment list.
- 5.8 The Council has also been using notice accounts and as at 30 September 2018, the Council had £6m in this type of account. An analysis of the Council's Instant access accounts, MMF investments and notice accounts is shown at Appendix C.
- 5.9 Temporary lending to arms-length companies is being made from balances and external borrowing. As at 30 September 2018 the Council had outstanding investments to the Council's arms-length companies of £67.255m.
- 5.10 Councillors and Senior Officers continue to review the Council's Investment Strategy to see if further value can be gained.

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## **6. CONCLUSIONS**

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- 6.1 The economic conditions are still volatile and security of the Council's assets should continue to be the Council's prime objective.

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## **7. RECOMMENDED: -**

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- 7.1 That the Treasury Management Operations for the period 1 April 2018 to 30 September 2018 be noted.**

**EXTERNAL LOANS OUTSTANDING AS AT 30/9/2018**

Loan No.	Interest Rate	Date Loan Taken Out	Date Loan Matures	Principal Outstanding as at 31/3/18	Loans Raised During Period	Loans Repaid During Period	Principal Outstanding as at 30/09/18
<b>PWLB Maturity</b>							
479528	7.375%	28/05/1997	28/05/2057	3,000,000	0	0	3,000,000
488921	4.950%	05/08/2004	30/09/2029	2,000,000	0	0	2,000,000
489703	4.700%	25/02/2005	31/03/2030	3,000,000	0	0	3,000,000
491461	4.350%	27/04/2006	31/03/2053	3,000,000	0	0	3,000,000
491462	4.350%	27/04/2006	31/03/2055	3,230,527	0	0	3,230,527
500168	3.500%	28/03/2012	01/04/2058	1,660,000	0	0	1,660,000
500158	3.500%	28/03/2012	01/08/2058	1,660,000	0	0	1,660,000
500163	3.500%	28/03/2012	01/12/2058	1,660,000	0	0	1,660,000
500149	3.500%	28/03/2012	01/05/2059	1,660,000	0	0	1,660,000
500167	3.500%	28/03/2012	01/09/2059	1,660,000	0	0	1,660,000
500148	3.490%	28/03/2012	01/01/2060	1,660,000	0	0	1,660,000
500151	3.490%	28/03/2012	01/06/2060	1,660,000	0	0	1,660,000
500159	3.490%	28/03/2012	01/10/2060	1,660,000	0	0	1,660,000
500146	3.490%	28/03/2012	01/02/2061	1,660,000	0	0	1,660,000
500133	3.480%	28/03/2012	01/07/2061	1,660,000	0	0	1,660,000
500152	3.480%	28/03/2012	01/11/2061	1,660,000	0	0	1,660,000
500128	3.480%	28/03/2012	01/03/2062	1,660,000	0	0	1,660,000
503548	2.070%	15/12/2014	15/12/2019	1,400,000	0	0	1,400,000
503549	2.230%	15/12/2014	15/12/2020	2,000,000	0	0	2,000,000
503550	2.490%	15/12/2014	15/12/2022	2,000,000	0	0	2,000,000
503551	2.590%	15/12/2014	15/12/2023	2,000,000	0	0	2,000,000
503552	2.690%	15/12/2014	15/12/2024	2,000,000	0	0	2,000,000
503553	2.770%	15/12/2014	15/12/2025	1,000,000	0	0	1,000,000
506561	2.670%	08/11/2017	08/11/2037	26,500,000	0	0	26,500,000
				71,050,527	0	0	71,050,527

**EXTERNAL LOANS OUTSTANDING AS AT 30/9/2018**

Loan No.	Interest Rate	Date Loan Taken Out	Date Loan Matures	Principal Outstanding as at 31/3/18	Loans Raised During Period	Loans Repaid During Period	Principal Outstanding as at 30/09/18
<b>PWLB Annuity</b>							
140313	3.000%	19/11/1948	31/12/2027	298	0	0	298
500157	2.520%	28/03/2012	01/04/2031	1,234,006	0	38,654	1,195,352
500144	2.520%	28/03/2012	01/05/2031	1,232,521	0	38,608	1,193,913
500138	2.520%	28/03/2012	01/06/2031	1,232,521	0	38,608	1,193,913
500164	2.520%	28/03/2012	01/07/2031	1,232,521	0	38,608	1,193,913
500112	2.520%	28/03/2012	01/08/2031	1,232,521	0	38,608	1,193,913
500113	2.520%	28/03/2012	01/09/2031	1,232,521	0	38,608	1,193,913
500122	2.570%	28/03/2012	01/10/2031	1,247,606	0	37,304	1,210,302
500126	2.570%	28/03/2012	01/11/2031	1,247,606	0	37,304	1,210,302
500161	2.570%	28/03/2012	01/12/2031	1,247,606	0	37,304	1,210,302
500129	2.570%	28/03/2012	01/01/2032	1,247,606	0	37,304	1,210,302
500142	2.570%	28/03/2012	01/02/2032	1,247,606	0	37,304	1,210,302
500154	2.570%	28/03/2012	01/03/2032	1,247,606	0	37,304	1,210,302
500147	3.320%	28/03/2012	01/04/2046	1,488,501	0	15,880	1,472,621
500131	3.320%	28/03/2012	01/05/2046	1,488,501	0	15,880	1,472,621
500130	3.320%	28/03/2012	01/06/2046	1,488,501	0	15,880	1,472,621
500114	3.320%	28/03/2012	01/07/2046	1,488,501	0	15,880	1,472,621
500127	3.320%	28/03/2012	01/08/2046	1,488,501	0	15,880	1,472,621
500141	3.320%	28/03/2012	01/09/2046	1,488,501	0	15,880	1,472,621
500143	3.340%	28/03/2012	01/10/2046	1,493,176	0	15,457	1,477,719
500169	3.340%	28/03/2012	01/11/2046	1,493,176	0	15,457	1,477,719
500135	3.340%	28/03/2012	01/12/2046	1,493,176	0	15,457	1,477,719
500166	3.340%	28/03/2012	01/01/2047	1,493,176	0	15,457	1,477,719
500156	3.340%	28/03/2012	01/02/2047	1,493,176	0	15,457	1,477,719
500165	3.340%	28/03/2012	01/03/2047	1,493,176	0	15,457	1,477,719
503615	2.270%	08/01/2015	08/01/2030	7,344,302	0	267,946	7,076,356
506559	2.150%	08/11/2017	08/11/2037	12,440,000	0	250,556	12,189,444
506560	2.150%	08/11/2017	08/11/2037	17,500,000	0	352,470	17,147,530
				70,056,909	0	1,514,510	68,542,399

**EXTERNAL LOANS OUTSTANDING AS AT 30/9/2018**

<b>Loan No.</b>	<b>Interest Rate</b>	<b>Date Loan Taken Out</b>	<b>Date Loan Matures</b>	<b>Principal Outstanding as at 31/3/18</b>	<b>Loans Raised During Period</b>	<b>Loans Repaid During Period</b>	<b>Principal Outstanding as at 30/09/18</b>
<b>PWLB EIP</b>							
500137	2.760%	28/03/2012	01/04/2036	1,253,469	0	33,878	1,219,592
500153	2.760%	28/03/2012	01/05/2036	1,253,469	0	33,878	1,219,592
500155	2.760%	28/03/2012	01/06/2036	1,253,469	0	33,878	1,219,592
500136	2.760%	28/03/2012	01/07/2036	1,253,469	0	33,878	1,219,592
500120	2.760%	28/03/2012	01/08/2036	1,253,469	0	33,878	1,219,592
500134	2.760%	28/03/2012	01/09/2036	1,253,469	0	33,878	1,219,592
500160	2.790%	28/03/2012	01/10/2036	1,261,600	0	33,200	1,228,400
500123	2.790%	28/03/2012	01/11/2036	1,261,600	0	33,200	1,228,400
500132	2.790%	28/03/2012	01/12/2036	1,261,600	0	33,200	1,228,400
500115	2.790%	28/03/2012	01/01/2037	1,261,600	0	33,200	1,228,400
500145	2.790%	28/03/2012	01/02/2037	1,261,600	0	33,200	1,228,400
500125	2.790%	28/03/2012	01/03/2037	1,261,600	0	33,200	1,228,400
500117	3.010%	28/03/2012	01/04/2041	1,322,373	0	28,136	1,294,237
500119	3.010%	28/03/2012	01/05/2041	1,322,373	0	28,136	1,294,237
500116	3.010%	28/03/2012	01/06/2041	1,322,373	0	28,136	1,294,237
500170	3.010%	28/03/2012	01/07/2041	1,322,373	0	28,136	1,294,237
500121	3.010%	28/03/2012	01/08/2041	1,322,373	0	28,136	1,294,237
500139	3.010%	28/03/2012	01/09/2041	1,322,373	0	28,136	1,294,237
500162	3.030%	28/03/2012	01/10/2041	1,328,000	0	27,667	1,300,333
500150	3.030%	28/03/2012	01/11/2041	1,328,000	0	27,667	1,300,333
500124	3.030%	28/03/2012	01/12/2041	1,328,000	0	27,667	1,300,333
500118	3.030%	28/03/2012	01/01/2042	1,328,000	0	27,667	1,300,333
500111	3.030%	28/03/2012	01/02/2042	1,328,000	0	27,667	1,300,333
500140	3.030%	28/03/2012	01/03/2042	1,328,000	0	27,667	1,300,333
				30,992,654	0	737,279	30,255,375
<b>Market Loans</b>							
D26004	4.350%	05/02/2007	05/02/2077	3,700,000	0	0	3,700,000
D26005	4.790%	05/03/2007	05/03/2076	5,300,000	0	0	5,300,000
	1.300%	04/09/2015	31/03/2023	4,600,000	0	0	4,600,000
				13,600,000	0	0	13,600,000
<b>Total Outstanding Debt</b>				185,700,090	0	2,251,789	183,448,301



## APPENDIX B

**FIXED TERM INVESTMENTS OUTSTANDING AS AT 30/09/18**

<b>BORROWER</b>	<b>INTEREST RATE</b>	<b>DATE INVESTMENT TAKEN OUT</b>	<b>DATE INVESTMENT MATURES</b>	<b>PRINCIPAL OUTSTANDING AS AT 30/09/18</b>
	<b>%</b>			<b>£</b>
Goldman Sachs	0.9700	20/10/2017	19/10/2018	2,000,000.00
Barclays Bank	0.6490	09/11/2017	08/11/2018	2,000,000.00
Goldman Sachs	0.9300	09/11/2017	08/11/2018	2,000,000.00
Lloyds Bank plc	0.9000	04/12/2017	03/12/2018	3,000,000.00
Goldman Sachs	0.9700	08/12/2017	07/12/2018	2,000,000.00
Goldman Sachs	1.1200	27/04/2018	26/04/2019	2,000,000.00
Lloyds Bank plc	1.0500	10/08/2018	12/08/2019	2,000,000.00
Barclays Bank	0.9300	11/09/2018	10/09/2019	2,000,000.00
Santander	0.9700	12/09/2018	11/09/2019	2,000,000.00
Goldman Sachs	1.1700	20/09/2018	19/09/2019	2,000,000.00
Lloyds Bank plc	1.0500	25/09/2018	23/09/2019	2,000,000.00
Barclays Bank	0.9390	25/09/2018	24/09/2018	2,000,000.00
Barclays Bank	0.9490	26/09/2018	25/09/2018	2,000,000.00
<b>TOTAL OUTSTANDING FIXED TERM INVESTMENTS</b>				<b>27,000,000.00</b>

**APPENDIX C**

**INSTANT ACCESS, NOTICE ACCOUNTS AND MONEY MARKET FUNDS - ANALYSIS** **01/04/2018** - **30/09/2018**

Financial Institution	Current Interest Rate %	Highest Balance £	Lowest Balance £	Average Balance over period £	Principal Outstanding as at 31/3/2018 £	Amount Invested £	Amount Repaid £	Principal Outstanding as at 30/09/2018 £
<b>INSTANT ACCESS ACCOUNTS</b>								
Lloyds	0.65%	5,000,000	4,350,000	4,993,716	5,000,000	950,000	950,000	5,000,000
Santander	0.15%	0	0	0	0	0	0	0
				4,993,716	5,000,000	950,000	950,000	5,000,000
<b>NOTICE ACCOUNTS</b>								
Santander 180 day notice	0.95%	2,000,000	2,000,000	2,000,000	2,000,000	0	0	2,000,000
Goldman Sachs 370 day notice	1.12%	2,000,000	2,000,000	2,000,000	2,000,000	0	0	2,000,000
Goldman Sachs 370 day notice	0.90%	2,000,000	2,000,000	2,000,000	2,000,000	0	0	2,000,000
				6,000,000	6,000,000	0	0	6,000,000
<b>MONEY MARKET FUNDS</b>								
Insight Liquidity	Variable	5,000,000	1,780,000	4,452,240	4,420,000	14,050,000	13,470,000	5,000,000
Aberdeen Asset Management (Was Standard Life)	Variable	5,000,000	0	3,464,426	0	30,290,000	28,390,000	1,900,000
Blackrock	Variable	5,000,000	0	560,492	0	7,900,000	7,900,000	0
Legal & General	Variable	3,370,000	0	897,923	0	17,670,000	17,670,000	0
				9,375,082	4,420,000	69,910,000	67,430,000	6,900,000
<b>Note</b>								

The interest rates on Money Market Funds vary on a daily basis. The table below shows you the highest and lowest rates achieved this year:

	Highest	Lowest	
Insight Liquidity	0.68%	0.44%	
Aberdeen Asset Management	0.68%	0.43%	
Blackrock	0.67%	0.62%	Investments only made after base rate increase
Legal & General	0.68%	0.41%	