

Treasury Management Sub Committee



St Edmundsbury
BOROUGH COUNCIL

Title:	Agenda
Date:	Monday 16 July 2018
Time:	10.30 am
Venue:	Mayor's Parlour West Suffolk House Western Way Bury St Edmunds
Full Members:	Chairman To be appointed <i>Conservative Members (3)</i> Sarah Broughton Patricia Warby David Roach
Substitutes:	<i>Conservative Members (1)</i> Andrew Smith
By invitation:	Ian Houlder, Portfolio Holder for Resources and Performance
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Quorum:	Three Members
Committee administrator:	Christine Brain Democratic Services Officer (Scrutiny) Tel: 01638 719729 Email: christine.brain@westsuffolk.gov.uk

Public Information



St Edmundsbury
BOROUGH COUNCIL

Venue:	West Suffolk House Western Way Bury St Edmunds Suffolk IP33 3YU	Tel: 01284 757120 Email: democratic.services@westsuffolk.gov.uk Web: www.stedmundsbury.gov.uk
Access to agenda and reports before the meeting:	Copies of the agenda and reports are open for public inspection at the above address at least five clear days before the meeting. They are also available to view on our website.	
Attendance at meetings:	The Borough Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public.	
Public participation:	Members of the public who live or work in the Borough are invited to put one question or statement of not more than three minutes duration relating to items to be discussed in Part 1 of the agenda only. If a question is asked and answered within three minutes, the person who asked the question may ask a supplementary question that arises from the reply. A person who wishes to speak must register at least 15 minutes before the time the meeting is scheduled to start. There is an overall time limit of 15 minutes for public speaking, which may be extended at the Chairman's discretion.	
Disabled access:	West Suffolk House has facilities for people with mobility impairments including a lift and wheelchair accessible WCs. However in the event of an emergency use of the lift is restricted for health and safety reasons. Visitor parking is at the car park at the front of the building and there are a number of accessible spaces.	
Induction loop:	An Induction loop is available for meetings held in the Conference Chamber.	
Recording of meetings:	The Council may record this meeting and permits members of the public and media to record or broadcast it as well (when the media and public are not lawfully excluded). Any member of the public who attends a meeting and objects to being filmed should advise the Committee Administrator who will instruct that they are not included in the filming.	

Personal Information:	Any personal information processed by Forest Heath District Council or St Edmundsbury Borough Council arising from a request to speak at a public meeting under the Localism Act 2011, will be protected in accordance with the Data Protection Act 2018. For more information on how we do this and your rights in regards to your personal information and how to access it, visit our website: https://www.westsuffolk.gov.uk/Council/Data_and_information/howweuseinformation.cfm or call Customer Services: 01284 763233 and ask to speak to the Data Protection Officer.
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Agenda

Procedural Matters

Part 1 - Public

1. Substitutes

Any Member who is substituting for another Member should so indicate, together with the name of the relevant absent Member.

2. Apologies for Absence

3. Election of Chairman - 2018-2019

4. Minutes

1 - 4

To confirm the minutes of the meeting held on 21 January 2018 (copy attached).

5. Public Participation

Members of the public who live or work in the Borough are invited to put one question / statement of not more than 3 minutes duration relating to items to be discussed in Part 1 of the agenda only. If a question is asked and answered within 3 minutes, the person who asked the question may ask a supplementary question that arises from the reply. A person who wishes to speak must register at least 15 minutes before the time of the meeting is scheduled to start. There is an overall limit of 15 minutes for public speaking, which may be extended at the Chairman's discretion.

6. Annual Treasury Management Report (2017-2018) and Investment Activity (1 April to 30 June 2018)

5 - 22

Report No: **TMS/SE/18/003**

7. Date of Next Meeting

The next meetings of the Sub-Committee have been set for:

Monday 19 November 2018; and
Monday 21 January 2019.

Both meetings commencing at 10.30am.

Part 2 – Exempt

NONE

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Minutes of a meeting of the **Treasury Management Sub-Committee** held on **Monday 22 January 2018** at **10.30 am** at the **Conference Chamber, West Suffolk House**, Western Way, Bury St Edmunds IP33 3YU

Present: **Councillors**

Patricia Warby

David Roach

Substitutes attending:

Andrew Smith

66. **Substitutes**

The following substitution was declared:

Councillor Andrew Smith for Councillor Sarah Broughton.

67. **Election of Chairman for the Meeting**

The Democratic Services Officer (Scrutiny) informed the Sub-Committee that as the Chairman of the Sub-Committee, Councillor Sarah Broughton had sent her apologies, a Chairman for this meeting was sought.

Councillor David Roach nominated Councillor Patricia Warby as Chairman for this meeting. This was duly seconded by Councillor Andrew Smith, and with the vote being unanimous, it was

RESOLVED:

That Councillor Patricia Warby be elected Chairman for this meeting.

68. **Apologies for Absence**

Apologies for absence were received from Councillor Sarah Broughton.

69. **Minutes**

The minutes of the meeting held on 20 November 2017 were confirmed as an accurate record and signed by the Chairman.

70. **Public Participation**

There were no questions/statements from members of the public.

71. **Treasury Management Report 2017-2018 and Investment Activity (1 April to 31 December 2017)**

The Sub-Committee received Report No: TMS/SE/18/001, which provided a summary of investment activities for the first nine months of 2017-2018. Attached at Appendix 1 to the report was the detailed third quarter treasury management report.

The total amount of budgeted income from investments for the period 1 April to 31 December 2017 was £189,750 (average rate of return 0.55%). Interest earned during the period totalled £226,424 (average rate of return 0.562%), an overachievement of interest of £36,677 and an overachievement of 0.012% on the average rate of return.

The overachievement of interest was primarily due to higher cash balances being available for investment than expected. The increase in balances were due to timing differences in the collection and payment of local taxes and non-domestic rates (NNDR) and other revenue work streams, and underspends relating to the budgeted capital programme.

It was predicted that interest earned would exceed the originally budgeted figure by approximately £32k, mainly due to higher cash balances as the predicted average rate of return remained at 0.55%.

The Sub-Committee scrutinised the investment activity for 1 April to 31 December 2017 in detail, and asked questions to which officers provided comprehensive responses. In particular discussions were held on the investment activity and cash flow balances.

In response to a question raised relating to investments and Carillion, officers confirmed the Council did not have any financial business/contracts with the company which recently went into liquidation.

It was proposed by Councillor David Roach, seconded by Councillor Andrew Smith and with the vote being unanimous, it was

RECOMMENDED

That the Treasury Management Report 2017-2018, for the period 1 April to 31 December 2017, attached as Appendix 1 to Report No: TMS/SE/18/001, be approved.

72. **Treasury Management Policy Statement and Investment Strategy 2018-2019 and Treasury Management Code of Practice**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice required that, prior to the start of the financial year, the Council formally approved a Treasury Management Policy Statement

and Investment Strategy setting out the Council's treasury management policy and strategy for the forthcoming year.

The proposed Treasury Management Policy Statement and Investment Strategy 2018-2019 was attached as Appendix 1 to Report No: TMS/SE/18/002, along with the Treasury Management Code of Practice 2018-2019 at Appendix 2.

In December 2017, CIPFA issued an updated Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Note, and consequently the new 2018-2019 Strategy and the Code of Practice had been updated in line with these changes. The main changes made to the Strategy were:

- The four clauses to be formally adopted had been update; and
- An additional section had been added for "investments that are not part of treasury management activity".

The report also included information on interest rate projections and counterparty ratings and advised that the final prudential indicators would be updated as part of the Medium Term Financial Strategy, and approved by Council in February 2018.

The report sort approval of the Treasury Management Policy Statement and Investment Strategy 2018-2019 (including Treasury related Prudential Indicators) and the Treasury Management Code of Practice.

The Sub-Committee scrutinised the report in detail and asked a number of questions to which comprehensive responses were provided. Discussions were held on the revised interest rate projections from Link Asset Services (the Council's advisors), which was based on the current economic climate.

The Sub-Committee also discussed the Link Colour Code Key relating to counterparty ratings, and asked that a small sub-note be included in future giving a brief description of the colour definitions, which officers agreed to look into.

In response to a question raised, officers advised that the Council's general policy objective was to invest surplus funds prudently. The Council's investment priorities were; security and liquidity of the capital at an optimum yield, which was commensurate with security and liquidity.

It was proposed by Councillor David Roach, seconded by Councillor Andrew Smith and with the vote being unanimous, it was

RECOMMENDED

That:

- 1) The updated (December 2017) Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes, be adopted.**

- 2) **The Treasury Management Policy Statement and Investment Strategy 2018-2019, attached as Appendix 1 to Report No: TMS/SE/18/002, be approved.**
- 3) **The Treasury Management Code of Practice 2018-2019, attached as Appendix 2 to Report No: TMS/SE/18/002, be approved.**

73. **Date of Next Meeting**

The Sub-Committee **noted** that the next meetings of the Sub-Committee would be set to meet approximately one week prior to the July 2018, November 2018 and the January 2019 meetings of the Performance and Audit Scrutiny committee.

The Meeting concluded at 11.00 am

Signed by:

Chairman

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Annual Treasury Management Report 2017/18 and Investment Activity 1 April to 30 June 2018	
Report No:	TMS/SE/18/003	
Report to and dates:	Treasury Management Sub-Committee	16 July 2018
	Performance and Audit Scrutiny Committee	25 July 2018
	Joint Executive (Cabinet) Committee	4 September 2018
	Council	25 September 2018
Portfolio holder:	Ian Houlder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Rachael Mann Assistant Director Resources and Performance Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	To: <ul style="list-style-type: none"> a) Present the Council's Annual Treasury Management Report summarising the investment activities for the year 2017/18 b) Provide a summary of investment activities for the first three months of 2018/19 financial year. 	

<p>Recommendation:</p>	<p>It is RECOMMENDED that, the Treasury Management Sub-Committee:</p> <p>(1) Scrutinise the content of this report, including details of the treasury management performance for 2017/18 and the first three months of the 2018/19 financial year; and</p> <p>(2) Make recommendations as appropriate via the Performance and Audit Scrutiny Committee to the Joint Executive (Cabinet) Committee and Council regarding the approval of the attached Annual Treasury Management Report for 2017/18 (Appendix 1 refers).</p>	
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>	
<p>Consultation:</p>	<ul style="list-style-type: none"> Treasury management activities are undertaken in consultation with Sector/Capita (the Council’s appointed Treasury Management advisers) and also takes into account information obtained from investment brokers and other economic commentators. This committee provides for the scrutiny of treasury management strategies and performance, with changes in strategies and policies subject to approval by the Joint Executive (Cabinet) and Council. 	
<p>Alternative option(s):</p>	<ul style="list-style-type: none"> Options for the management of Council investments are formally considered within the annual treasury management and investment strategy. This includes key strategies in respect of the maintenance of the Council’s debt free status, the continuation of in-house management of funds, and the approach to be adopted in establishing the credit worthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject to on-going review. 	
<p>Implications:</p>		
<p>Are there any financial implications? If yes, please give details</p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> Please refer to main report 	
<p>Are there any staffing implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> 	

<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). 	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> 	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Fluctuations in interest rates or in projected cash flows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to two years. Budget monitoring and quarterly performance reports. Use of interest equalisation reserve to smooth out year-on-year fluctuations	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of Sector advice on counterparty credit ratings (based on Fitch and Moody ratings) and the setting of lending limits. Use of non-rated building societies based on asset base and additional credit checks.	Medium
Ward(s) affected:		All Wards	
Background papers:		Annual Treasury Management and Investment Strategy – 2017/18 (COU/SE/17/002) Annual Treasury Management and Investment Strategy Statements (report COU/SE/17/002 approved 21 February 2017)	

Documents attached:

Appendix 1 – Annual Report for 2017/18

Appendix 2 – Statement of Compliance with the Treasury Management Code of Practice

1. Key issues and reasons for recommendation(s)

1.1 Annual Report 2017/18

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summarises the interest earned during 2017/18 on the various Treasury investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2017/18 £
Bank of Scotland Investments – Term Deposits	51,196.58
Barclays Bank – Term Deposits	4,790.14
Coventry B/Society – Term Deposits	11,817.53
National Counties B/Society – Term Deposits	22,482.60
Nationwide B/Society – Term Deposits	12,663.01
Newcastle B/Society – Term Deposits	31,063.56
Nottingham B/Society – Term Deposits	16,887.40
Principality B/Society – Term Deposits	15,607.70
Skipton B/Society – Term Deposits	37,132.88
Yorkshire B/Society – Term Deposits	8,491.23
Bank of Scotland Current Account	1,609.50
Barclays Reserve Account	1,469.26
NatWest Call Account	276.65
Clydesdale 30 Day Account	0.20
Bank of Scotland Base Plus Account	0.45
Santander 365 Day Account	77,336.99
TOTAL INTEREST EARNED/ACCRUED	£292,825.68

1.2.3 The budgeted income from investments in 2017/18 was £253,000 (average rate of return of 0.55%). Interest actually earned during the year totalled £292,825 (average rate of return of 0.571%); an overachievement in interest of £39,825, and an over achievement of 0.021% on average rate of return.

1.2.4 The over achievement of interest earned was primarily due to higher cash balances being held during the year than originally budgeted for. This was mainly as a result of timing differences in the receipts and payments of NNDR and an under spend on the Council's original capital programme.

1.2.5 On 2 November 2017, the Bank of England increased its base rate to 0.50%, where it remained for the rest of 2017/18. As a result on the increase in base rate we have seen only a marginal increase in the rates being offered by the banks and building societies.

1.2.6 The Council, in February 2005, agreed to establish the Interest Equalisation Earmarked Reserve to help smooth out these fluctuations in returns. The balance in this reserve, as at 31 March 2018, was £359,630.

1.3 Investment Activity during the year

1.3.1 The table below summarises the investment activities during 2017/18:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2017/18
Opening Balance 01 April 2017	46,350,000
Investments made during the year (including transfers to business reserve accounts)	115,850,000
Sub Total	162,200,000
Investments realised during the year (including withdrawals from business reserve accounts)	125,850,000
Closing Balance 31 March 2017	36,350,000

1.4 Investments held as at 31 March 2018

1.4.1 The table below shows the investments held as at 31 March 2018:

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Skipton B/Society	3,000,000	0.77%	05/06/17	05/06/18
Principality B/Society	1,000,000	0.52%	07/12/17	03/04/18
National Counties B/Soc	2,500,000	0.71%	02/01/18	02/07/18
Principality B/Society	1,500,000	0.53%	15/01/18	21/05/18
Coventry B/Society	1,500,000	0.45%	01/02/18	21/05/18
Coventry B/Society	2,500,000	0.39%	12/02/18	23/04/18
Yorkshire B/Society	3,000,000	0.47%	12/02/18	15/05/18
Yorkshire b/Society	1,000,000	0.40%	26/02/18	16/04/18
National Counties B/Soc	1,000,000	0.78%	01/03/18	21/09/18
Newcastle B/Society	1,000,000	0.98%	19/03/18	19/03/19
Nottingham B/Society	1,500,000	0.75%	26/03/18	26/09/18
Bank of Scotland	3,100,000	0.40%	Call	
Barclays Bank	5,600,000	0.50%	Call	
NatWest Bank	150,000	0.05%	Call	
Santander 365 Day Acct	8,000,000	1.30%	365 day	
TOTAL	36,350,000			

2. First Quarter Report 2018/19

Investment Activity: 1 April to 30 June 2018

- 2.1.1 The total amount invested at 1 April 2018 was £36.35m and at 30 June 2018 £40.15m. The increase in balances over this period was due primarily to timing differences in respect of the collection of local taxes (Council Tax and Non Domestic Rates) and the payment of precepts (i.e. to Suffolk County Council, Suffolk Police and central government).
- 2.1.2 The 2018/19 Annual Treasury Management and Investment Strategy Statements (report COU/SE/18/002 approved 20 February 2018) sets out the Council's projections for the current financial year. The budget for investment income in 2018/19 is £308,000 which is based on a 0.70% target average rate of return on investments.
- 2.1.3 As at the end of June 2018 interest actually earned during the first quarter of the financial year amounted to £68,693 (average rate of return of 0.636%) against a profiled budget for the period of £77,000 (average rate of return of

0.70%); a budgetary deficit of £8,306. This deficit relates to lower than anticipated interest rates offered by lenders.

- 2.1.4 The table below summaries the interest earned and the average rate of return achieved.

INTEREST EARNED & AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned in Q1
Temporary Investments (Term Deposits)	1,932,989	0.657%	47,264
Bank of Scotland Current Account	1,201,157	0.400%	1,197
Barclays Reserve Account	5,134,321	0.100%	1,280
NatWest Call Account	108,538	0.010%	2
Clydesdale 30 Day Account	81	0.250%	0
Bank of Scotland Base Plus Account	324	0.250%	0
Santander 365 Day Account	8,000,000	0.950%	18,947
Total Overall Average Return on Investments %			0.636%
Total Interest Earned - 1 April 2018 to 30 June 2018			68,693

- 2.1.5 The table below summarises the investment activities during the period:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2018/19
Opening Balance 01 April 2018	36,350,000
Investments made during the year (including transfers to business reserve accounts)	31,200,000
Sub Total	67,550,000
Investments realised during the year (including withdrawals from business reserve accounts)	27,400,000
Closing Balance 30 June 2018	40,150,000

- 2.1.6 The table below shows the list of investments held as at 30 June 2018:

LIST OF INVESTMENTS HELD AS AT 30 JUNE 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
National Counties B/Soc	2,500,000	0.71%	02/01/18	02/07/18
National Counties B/Soc	1,000,000	0.78%	01/03/18	21/09/18
Newcastle B/Society	1,000,000	0.98%	19/03/18	19/03/19
Nottingham B/Society	1,500,000	0.75%	26/03/18	26/09/18
Nottingham B/Society	3,000,000	0.65%	03/04/18	16/07/18
Newcastle B/Society	2,000,000	0.82%	03/04/18	03/10/18
Newcastle B/Society	2,000,000	0.85%	05/04/18	15/10/18
Newcastle B/Society	1,000,000	0.82%	09/05/18	12/11/18
National Counties B/Soc	1,500,000	0.80%	15/05/18	15/11/18
Nottingham B/Society	1,500,000	0.77%	15/05/18	19/11/18
Coventry B/Society	3,000,000	0.45%	01/06/18	19/07/18
Coventry B/Society	1,000,000	0.48%	01/06/18	30/07/18

Coventry B/Society	2,000,000	0.50%	01/06/18	15/08/18
Coventry B/Society	3,500,000	0.69%	05/06/18	19/12/18
Santander 365 Account	8,000,000	0.95%	01/04/18	No notice given
NatWest Call Account	50,000	0.05%	Call	
Barclays Reserve Account	4,400,000	0.50%	Call	
Bank of Scotland	1,200,000	0.40%	Call	
TOTAL	40,150,000			

- 2.1.7 The table below shows a summary of the funds held as at 30 June 2018, the Budget and Council Tax 2018/19 (report COU/SE/18/004 approved 20 February 2018) report shows the planned spending profile for these reserves/balances across the medium term financial period:

SUMMARY OF FUNDS HELD*	
Fund	£
Earmarked Revenue Reserves	22,447,357
Capital Receipts Reserves	14,642,135
General Funds Reserve	3,035,725
Cashflow Balances	24,783
Total Value of Investments	40,150,000

*Further details of funds held by the Council can be found in the Quarterly Budget Outturn Reports presented to Performance and Audit Scrutiny Committee.

2.2 Borrowing and Capital Costs

- 2.2.1 The 2018/19 Budget has, for the first time, assumptions on borrowing for capital projects included within it. This borrowing was based around four specific projects:
- West Suffolk Operational Hub
 - Suffolk Business Park Loan
 - Investing in our Growth Fund
 - Olding Road (DHL Depot)

The detail on these Budgets is laid out below:

SUMMARY OF CAPITAL BORROWING BUDGET 2018/19			
Project	External Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£5,550,000	£0	£0
Suffolk Business Park Loan	£3,000,000	£0	£0
Investing in our Growth Fund	£20,000,000	£600,000	£412,500
Olding Road DHL Depot	£0	£197,750	£128,250
Total Value of Investments	£28,550,000	£797,750	£540,750

The position on each of these projects for the full year of 2018/19 is forecast as below:

SUMMARY OF CAPITAL BORROWING Q1 FORECAST 2018/19			
Project	External Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£5,550,000	£0	£0
Suffolk Business Park Loan	£0	£0	£0
Investing in our Growth Fund	£20,000,000	£600,000	£358,300
Olding Road DHL Depot	£0	£197,750	£0
Total Value of Investments	£25,550,000	£797,750	£358,300

2.2.2 This forecast position has moved due to the following reasons:

- Suffolk Business Park Loan facility no longer being required.
- £1.9m of the Growth Fund being invested in 20 High Street Haverhill which did not require external borrowing
- The purchase of Olding Road DHL Depot did not require external borrowing.

The impact of these changes is a reduction in forecast Interest Payable of £182,450 in 2018/19.

2.2.3 The remainder of MRP and Interest Payable relating to the Growth Fund is dependent on the £20m being invested within 2018/19. This situation is somewhat market dependant and is closely monitored.

2.2.4 As at the end of Quarter 1 there has been no requirement to borrow externally. Therefore there is no interest payable for Quarter 1.

2.3 Other Market Considerations

2.3.1 The Bank of England base rate continues to remain at 0.50%. Link Asset Services (the Council's treasury management advisers) have recently revised their prediction on base rate, and are now forecasting no movement in the base rate until quarter 1 of the 2019/20 financial year. This continued low base rate and the uncertainty caused regarding the UK's exit from the European Union is likely to have a knock on effect on the investment market throughout the remainder of the year. Consequently this is likely to have an adverse effect on the Council's average rate of return. The treasury team will continue to closely monitor the situation and provide updated information and further quarterly performance reports to this sub-committee for scrutiny.

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Annual Treasury Management Report 2017/2018

1. Introduction

- 1.1 St Edmundsbury Borough Council's Treasury Management Code of Practice is based on the 2011 Fully Revised Code recommended nationally by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code also incorporates revisions introduced by CIPFA in its document "Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes.
- 1.2 The primary requirements of the Code are as follows:
- a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - c. Receipt by Council of an Annual Treasury Management Strategy Report for the year ahead, a mid-year review report (as a minimum) and an annual review report of the previous year.
 - d. 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.
 - e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Treasury Management Sub-Committee.
- 1.3 Treasury management in this context is defined as:
- 'The management of the local authority's 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.'
- 1.4 The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2017/18.

2. The Council's Debt Free Status

- 2.1 As at 31 March 2018 the Council had no external debt.

3. Investment Strategy for 2017/18

- 3.1 The Council's 2017/18 Annual Treasury Management and Investment Strategy Statements was approved by full Council on 21 February 2017 (report COU/SE/17/002 refers). The investment strategy for 2017/18 was to give priority to the security and liquidity of investments whilst at the same time seeking to optimise the return on investments.

Investment Rates in 2017/18

- 3.2 The Bank of England Base Rate increased the base rate from 0.25% to 0.50% on 2 November 2017 where it remained throughout the remainder of 2017/18. Investment rates continued to fluctuate during the year with investment returns being typically one or two basis points either side of the base rate. The Bank of England's Funding for Lending Scheme also remained open until 31 January 2018. This meant that the reliance of financial institutions on the borrowing of wholesale funds (such as local authority investments) remained unchanged, resulting in a continued dampening of investment rates.
- 3.3 The Council's predicted average rate of return, included in the Annual Treasury Management and Investment Strategy Statements 2017/18, are detailed in the table below.

Average Rate of Return Predictions	
	Annual Treasury Management & Investment Strategy Statements 2017/18
2017/18	0.55%
2018/19	0.60%
2019/20	0.70%
2020/21	0.75%

The Council's Lending Criteria 2017/18

- 3.4 The Council's Annual Treasury Management and Investment Strategy requires that deposits are only placed with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Link Asset Services) or, for non-rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 3.5 The continuing unpredictability and volatility of the economy as a whole and the banking sector in particular has forced local authorities to keep their lending criteria under constant review to ensure that the balance between security of capital, liquidity of investments and yield on investment income is adequately maintained.
- 3.6 The below tables shows the credit criteria applicable as at 31 March 2018:

Credit Criteria: Rated Banks and Institutions

Sector Colour Code Key*	Credit Criteria
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)
Orange	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)

Blue (nationalised / substantially owned by the UK government)	£18m for max 2 years
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Credit Criteria: Rated Building Societies

Sector Colour Code Key*	Credit Criteria
Red	£11m for max of 1 year (subject to max 35% of portfolio)
Green	£7m for max of 1 year (subject to max 30% of portfolio)

Credit Criteria: Non- Rated Building Societies

Asset Base**	Credit Criteria
Asset base > £2,500m	£6m for max 6 months
Asset base > £1,000m	£5m for max 6 months

* In order to simplify the complex system of commercial credit ratings, Sector has developed a system of colour codings which reflect the relative strengths of individual banking institutions. Details of these colour codings are provided in the Council's Annual Treasury Management and Investment Strategy.

** Further restrictions on non-rated building societies include a requirement for societies to be covered by a Dun and Bradstreet credit rating.

4 Compliance with Treasury Limits and the Code of Practice

- 4.1 During the financial year the Council operated within the approved Treasury limits, Code of Practice requirements and Prudential Indicators (as set out in the Council's Annual Treasury Management & Investment Strategy Statements and Treasury Management Code of Practice, including the above approved changes to lending limits). No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.
- 4.2 A Statement of Compliance with the Treasury Management Code of Practice, issued by Internal Audit is attached in Appendix 2.

5 Investment Performance 2017/18

- 5.1 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to two years (one year for new investments), dependent on the Council's cash flows, the view on interest rates and the actual interest rates on offer.
- 5.2 Market investments in the year are summarised as follows:

	<u>Value (£m)</u>
Opening balance 1st April 2017	46.35
Add: Investments made during the year	115.85
Sub Total	162.20
Investments realised during the year	125.85
Closing balance at 31st March 2018	36.35

- 5.3 Where possible, investments were made in fixed term investments in order to lock into interest rates as close to the Council's budgeted rate as possible and to provide some certainty of return for a proportion of the Council's investments.
- 5.4 The Council's instant access and notice business reserve accounts with Barclays, Bank of Scotland and NatWest were also used during the year for cash flow purposes or because the rate offered was the same or greater than a fixed term investment. At 31st March 2018 £4.45m was held in these accounts at an interest rate of between 0.10% and 0.40%. This level had been maintained to enable investment in the council's Investing in our Growth Agenda programme.
- 5.5 The target rate of return for investments for 2017/18 was 0.55%. This target rate was based upon investment rate projections for the year provided by Link Asset Services (the Council's treasury management advisors), together with consideration of the profile of the Council's portfolio of investments (i.e. mixture of liquid and fixed term investments). Based upon the anticipated funds available for investment in the year (taking into account planned capital expenditure and receipts from asset disposals) this gave a target investment income of £253,000. This figure was used in the preparation of the Council's budget for 2017/18.
- 5.6 The average rate of return achieved during 2017/18 was 0.571%, an over achievement of 0.021%, and interest earned during the year totalled £292,825; an overachievement of £39,825. This overachievement was mainly due to an increase in cash balances and the prudent use of longer term investments.
- 5.7 The tables below summarise the interest earned during 2017/18, the list of investments held as at 31 March 2018 and comparison of average rates of return for 2017/18.

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2017/18
	£
Bank of Scotland Investments – Term Deposits	51,196.58
Barclays Bank – Term Deposits	4,790.14
Coventry B/Society– Term Deposits	11,817.53
National Counties B/Society – Term Deposits	22,482.60
Nationwide B/Society – Term Deposits	12,663.01
Newcastle B/Society – Term Deposits	31,063.56
Nottingham B/Society – Term Deposits	16,887.40
Principality B/Society – Term Deposits	15,607.70
Skipton B/Society – Term Deposits	37,132.88
Yorkshire B/Society – Term Deposits	8,491.23
Bank of Scotland Current Account	1,609.50
Barclays Reserve Account	1,469.26
NatWest Call Account	276.65
Clydesdale 30 Day Account	0.20
Bank of Scotland Base Plus Account	0.45
Santander 365 Day Account	77,336.99
TOTAL INTEREST EARNED/ACCRUED	£292,825.68

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Skipton B/Society	3,000,000	0.77%	05/06/17	05/06/18
Principality B/Society	1,000,000	0.52%	07/12/17	03/04/18
National Counties B/Soc	2,500,000	0.71%	02/01/18	02/07/18
Principality B/Society	1,500,000	0.53%	15/01/18	21/05/18
Coventry B/Society	1,500,000	0.45%	01/02/18	21/05/18
Coventry B/Society	2,500,000	0.39%	12/02/18	23/04/18
Yorkshire B/Society	3,000,000	0.47%	12/02/18	15/05/18
Yorkshire b/Society	1,000,000	0.40%	26/02/18	16/04/18
National Counties B/Soc	1,000,000	0.78%	01/03/18	21/09/18
Newcastle B/Society	1,000,000	0.98%	19/03/18	19/03/19
Nottingham B/Society	1,500,000	0.75%	26/03/18	26/09/18
Bank of Scotland	3,100,000	0.15%	Call	
Barclays Bank	5,600,000	0.50%	Call	
NatWest Bank	150,000	0.05%	Call	
Santander 365 Day Acct	8,000,000	1.30%	365 day	
TOTAL	36,350,000			

COMPARISON OF AVERAGE RATE OF RETURN 2017-18				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Temporary Investments	0.57%	0.55%	0.54%	0.54%
Bank of Scotland Current Account	0.15%	0.15%	0.15%	0.15%
Barclays Reserve Account	0.04%	0.03%	0.02%	0.33%
NatWest Call Account	0.01%	0.01%	0.01%	0.01%
Clydesdale 30 Day Account	0.25%	0.15%	0.25%	0.25%
Bank of Scotland Base Plus Account	0.25%	0.15%	0.25%	0.52%
Santander 365 Day Account	1.02%	0.98%	0.97%	0.97%
7 Day Average	0.475%	0.240%	0.240%	0.48%
3 year – 7 Day Average	0.484%	0.370%	0.370%	1.00%
Overall Average return on Investments	0.585%	0.575%	0.562%	0.571%

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<p style="text-align: center;">Forest Heath District Council St Edmundsbury Borough Council</p>

Statement of Compliance with the Treasury Management Code of Practice

In accordance with the approved Treasury Management Code of Practice Internal Audit has:

- Reviewed compliance with approved policy and procedures.
- Reviewed the division of duties and operational practice.
- Assessed value for money from treasury activities.
- Undertaken probity audit of the treasury function.

As a consequence Internal Audit is satisfied that, for the financial year ending 31 March 2018, the Treasury Management Code of Practice has been substantially complied with.

Signed J. K. Jones

Post Service Manager Internal Audit

Date 20/4/18

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