

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Annual Treasury Management Report 2015/16 and Investment Activity 1 April to 30 June 2016	
Report No:	TMS/SE/16/003	
Report to and dates:	Treasury Management Sub - Committee	18 July 2016
	Performance And Audit Scrutiny Committee	27 July 2016
	Council	27 September 2016
Portfolio holder:	Ian Houlder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Rachael Mann Head of 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 2015/16; and b) Provide a summary of investment activities for the first three months 2016/17 financial year. 	

Recommendation:	<p>It is <u>RECOMMENDED</u> that, The Treasury Management Sub-Committee:</p> <p>(1) Scrutinise the content of this report, including details of the treasury management performance for the first three months of the 2016/17 financial year; and</p> <p>(2) Make recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council regarding the approval of the attached Annual Treasury Management Report for 2015/16 (Appendix 1 refers).</p>	
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>	
Consultation:	<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 Cabinet and full Council. 	
Alternative option(s):	<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. 	
Implications:		
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> Please refer to main report 	
<i>Are there any staffing implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <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"/> <ul style="list-style-type: none"> 	

<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 2015/16. 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
Wards affected:		All Wards	
Background papers:		Annual Treasury Management and Investment Strategy – 2015/16 (COU/SE/15/001)	
Documents attached:		Appendix 1 – Annual Report for 2015/16 Appendix 2 – Statement of Compliance with the Treasury Management Code of Practice	

1. Key issues and reasons for recommendation(s)

1.1 Annual Report 2015/16

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summarises the interest earned during 2015/16 on the various Treasury investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2015/16 £
Bank of Scotland Investments – Term Deposits	112,486.30
Ulster Bank Investments – Term Deposits	2,049.86
Skipton B/Society – Term Deposits	17,696.59
Coventry B/Society – Term Deposits	11,051.23
Nationwide B/Society – Term Deposits	64,340.68
Leeds B/Society	33,139.73
National Counties B/Society	10,591.78
Newcastle B/Society	11,280.82
Nottingham B/Society	14,723.97
Principality B/Society	9,073.97
Progressive B/Society	5,609.59
West Bromwich B/Society	7,019.18
Santander Business Reserve Account	14,832.84
Bank of Scotland Current Account	656.40
Barclays Reserve Account	29748.95
NatWest Call Account	182.07
NatWest 95 Day Account	11,202.74
Clydesdale 30 Day Account	4.45
Bank of Scotland Base Plus Account	0.45
Santander 365 Day Account	46,657.53
TOTAL INTEREST EARNED/ACCRUED	£402,622.16

1.2.3 The budgeted income from investments in 2015/16 was £255,850 (average rate of return of 1.5%). Interest actually earned during the year totalled £402,622 (average rate of return of 0.769%); an overachievement of interest of £146,772 but an under achievement of 0.731% 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 as a result of timing differences in the receipts and payments of NNDR, an under spend on the Council's original capital programme and higher than predicted revenue reserve balances being held.

1.2.5 The Bank of England base rate remained at 0.5% throughout the whole of 2015/16 and the banks Funding for Lending Scheme also remained open during the year consequently interest rates offered by institutions remained low which resulted in a lower average rate of return being achieved by the council during 2015/16 than originally predicted.

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 excess over budget achieved in 2015/16 has been transferred to this reserve resulting in a balance, as at 31 March 2016, of £353,331.

1.3 Investment Activity during the year

1.3.1 The table below summarises the investment activities during 2015/16:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2015/16
Opening Balance 01 April 2015	40,050,000
Investments made during the year (including transfers to business reserve accounts)	96,750,000
Sub Total	136,800,000
Investments realised during the year (including withdrawals from business reserve accounts)	92,200,000
Closing Balance 31 March 2016	44,600,000

1.4 Investments held as at 31 March 2016

1.4.1 The table below shows the investments held as at 31 March 2016:

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Bank of Scotland	1,500,000	1.00%	10/04/15	08/04/16
Leeds B/Society	4,000,000	0.90%	01/05/15	29/04/16
Nationwide B/Society	2,500,000	0.90%	04/06/15	03/06/16
Nationwide B/Society	4,000,000	0.90%	03/08/15	03/08/16
Nationwide B/Society	1,500,000	0.90%	03/09/15	01/09/16
Newcastle B/Society	3,000,000	0.75%	01/10/15	01/04/16
Bank of Scotland	2,000,000	1.05%	03/11/15	02/11/16
Nottingham B/Society	2,500,000	0.73%	04/12/15	06/06/16
Skipton B/Society	3,000,000	0.73%	04/12/15	06/06/16
National Counties B/Soc	2,000,000	0.75%	06/01/16	06/07/16
Bank of Scotland	4,500,000	1.05%	12/02/16	13/02/17
Coventry B/Society	2,500,000	0.80%	22/02/16	20/02/17
Coventry B/Society	1,000,000	0.81%	01/03/16	01/03/17
Santander 365 Day Acct	8,000,000	1.30%	365 day	
Barclays Reserve	2,600,000	0.40%	Call	
TOTAL	44,600,000			

2. Quarter One Report 2016/17

Investment Activity: 1 April to 30 June 2016

2.1.1 The total amount invested at 1 April 2016 was £44.60m and at 30 June 2016 £48.15m. 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 2016/17 Annual Treasury Management and Investment Strategy (report E225 refers) sets out the Council's projections for the current financial year. The budget for investment income in 2016/17 is £277,488 which is based on a 0.90% target average rate of return on investments.
- 2.1.3 As at the end of June 2016 interest actually earned during the first quarter of the financial year amounted to £111,303 (average rate of return of 0.87%) against a profiled budget for the period of £69,372; a budgetary surplus of £41,930. This budgetary surplus was due to higher cash balances than projected during the period. However, the underlying reduction in the interest rates achieved is primarily due to the continuing low Bank of England base rate and subsequent poor investment rates being offered by the banks, building societies and financial institutions and falling rates being offered on Call Accounts/Notice Accounts.
- 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)	2,357,629	0.846	80,257
Santander Business Reserve	0	0.000	0
Bank of Scotland Current Account	163,357	0.400	163
Barclays Reserve Account	4,951,838	0.400	4,938
NatWest Call Account	23,611	0.250	15
NatWest 95 Day Account	0	0.000	0
Clydesdale 30 Day Account	1774	0.250	1
Bank of Scotland Base Plus Account	179	0.250	0
Santander 365 Day Account	8,000,000	1.300	25,929
Total Overall Average Return on Investments %			0.872
Total Interest Earned - 1 April 2016 to 30 June 2016			111,303

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

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2016/17
Opening Balance 01 April 2016	44,600,000
Investments made during the year (including transfers to business reserve accounts)	27,500,000
Sub Total	72,100,000
Investments realised during the year (including withdrawals from business reserve accounts)	23,950,000
Closing Balance 30 June 2016	48,150,000

2.1.6 The table below shows the list of investments held as at 30 June 2016:

LIST OF INVESTMENTS HELD AS AT 30 JUNE 2016				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Nationwide Building Society	4,000,000	0.90%	03/08/15	03/08/16
Nationwide Building Society	1,500,000	0.90%	03/09/15	01/09/16
Bank of Scotland	2,000,000	1.05%	03/11/15	02/11/16
National Counties Building Society	2,000,000	0.75%	06/01/16	06/07/16
Bank of Scotland	4,500,000	1.05%	12/02/16	13/02/17
Coventry Building Society	2,500,000	0.80%	22/12/16	20/02/17
Coventry Building Society	1,000,000	0.81%	01/04/16	01/03/17
Newcastle Building Society	3,000,000	0.82%	01/04/16	03/10/16
Principality Building Society	3,000,000	0.75%	01/04/16	01/10/16
Bank of Scotland	1,500,000	1.05%	08/04/16	10/04/17
Coventry Building Society	2,000,000	0.61%	03/05/16	03/11/16
National Counties Building Society	500,000	0.75%	06/05/16	03/11/16
Nottingham Building Society	500,000	0.74%	06/05/16	03/11/16
Nationwide Building Society	2,000,000	0.95%	03/06/16	02/06/17
Barclays Fixed Term	3,000,000	0.94%	02/06/16	02/06/17
Skipton Building Society	3,000,000	0.98%	06/06/16	06/06/17
Nottingham Building Society	1,000,000	0.41%	20/06/16	11/07/16
Santander 365 Account	8,000,000	1.30%	01/04/16	NO notice given
Barclays Reserve Account	3,150,000	0.40%	Call	
TOTAL	48,150,000			

2.1.7 The table below shows a summary of the funds held as at 30 June 2016:

SUMMARY OF FUNDS HELD*	
Fund	£
Revenue Reserves	16,781,390
Capital Receipts Reserves	20,124,276
General Funds Reserve	3,035,694
Cashflow Balances	8,208,640
Total Value of Investments	48,150,000

*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 Other Market Considerations

- 2.2.1 Following the majority vote in favour of leaving the European Union in the referendum held on 23 June, at the time of writing this report markets around the world were still coming to terms with the immediate reaction to the news and markets remain volatile. The treasury team will continue to closely monitor the situation and provide undated information as it becomes available.
- 2.2.3 Sector/Capita (the Council's treasury management advisers) have recently revised their prediction on base rate, and are now potentially predicting a base rate cut during 2016/17 with an increase not predicted until 2018, this is likely to have an adverse effect on the Council's average rate of return. Treasury management performance will continue to be closely monitored with further quarterly performance reports being brought to this sub-committee for scrutiny.

Annual Treasury Management Report 2015/2016

1 Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 (the Code) was adopted by Council on 23 February 2010.

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 2015/16.

2 The Council's Debt Free Status

2.1 The Council became debt free in 1992 and since then has refrained from any borrowing apart from the temporary use of overdraft facilities. This was continued in 2015/16 with the result that the Council had no Prudential Code indicators so far as borrowing was concerned in the year. During the financial year all the Council's investments were managed by in-house staff.

3 Investment Strategy for 2015/16

3.1 The Council’s 2015/16 Annual Treasury Management and Investment Strategy was approved by full Council on 24 February 2015 (report COU/SE/15/001 refers). The investment strategy for 2015/16 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 2015/16

3.3 The Bank of England Base Rate remained at its historic low of 0.50% for the whole of 2015/16. Investment rates fluctuated during the year with investment returns typically one or two basis points either side of the base rate. The Bank of England also announced that the Funding for Lending Scheme would remain open until 31 January 2018. This could mean that the reliance of financial institutions on the borrowing of wholesale funds (such as local authority investments) remains unchanged, resulting in a continued dampening of investment rates.

3.4 The Council’s predicted average rate of return for the next 3 years, include in the Annual Treasury Management and Investment Statements 2016/17, is as follows:

Average Rate of Return Predictions	
2015/16	0.90%
2016/17	1.50%
2017/18	2.00%
2018/19	2.50%

3.5 However following the recent referendum result there may be a need to revise these predictions. The treasury team will continue to closely monitor the situation and provide updated information as it becomes available.

The Council’s Lending Criteria 2015/16

3.6 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 (Sector/Capita) or, for non rated building societies, subject to their meeting minimum financial criteria (based on asset base size).

3.7 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.

3.8 The below tables shows the credit criteria applicable during 2015/16 as recommended by the Treasury Sub Committee on 29 January 2015 and subsequently approved by Council 24 February 2015.

Credit Criteria: Rated Banks and Institutions

Sector Colour Code Key*	Credit Criteria
Purple	Max £10m for max of 2 years (subject to max 50% of portfolio)
Orange	£9m for max of 2 years (subject to max 40% of portfolio)
Red	£8m for max of 1 year (subject to max 35% of portfolio)
Green	£6m for max of 6 months (subject to max 20% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£15m for max 2 years

Credit Criteria: Rated Building Societies

Sector Colour Code Key*	Credit Criteria
Red	£8m for max of 1 year (subject to max 35% of portfolio)
Green	£6m 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	£3m for max 6 months
Asset base > £1,000m	£2.5m 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.

3.9 During the financial year the Council adhered to these lending criteria.

4 Compliance with Treasury Limits

4.1 During the financial year the Council operated within the approved Treasury limits and Prudential Indicators (as set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement, 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 During the financial year there have been occasions when higher levels of funds have been held in the Council's current account. This has been due to two main factors; funds have been required on consecutive days to cover cash flow requirements and it would not have been economically viable to make a short term fixed term investment or rates offered were lower than the rate being paid by the current account, currently 0.4%.

4.3 The decisions to hold these additional funds were made following consultation with the Head of Resources and Performance.

5 Investment Outturn 2015/16

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 2015	40.05
Add: Investments made during the year	96.75
Sub Total	136.80
Investments realised during the year	92.20
Closing balance at 31st March 2016	44.60

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, NatWest and Santander 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 2016 £10.6m was held in these accounts at interest rates between 0.40% and 1.30%.

5.5 The target rate of return for investments for 2015/16 was 0.90%. This target rate was based upon investment rate projections for the year provided by Sector (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 £255k. This figure was used in the preparation of the Council's budget for 2015/16.

5.6 The average rate of return achieved during 2015/16 was 0.769% and interest earned during the year totalled £402,622.16; an overachievement of £146,772.16. 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 2015/16, the list of investments held as at 31 March 2016 and comparison of average rates of return for 2015/16.

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2015/16
	£
Bank of Scotland Investments – Term Deposits	112,486.30
Ulster Bank Investments – Term Deposits	2,049.86
Skipton B/Society – Term Deposits	17,696.59
Coventry B/Society – Term Deposits	11,051.23
Nationwide B/Society – Term Deposits	64,340.68
Leeds B/Society	33,139.73
National Counties B/Society	10,591.78
Newcastle B/Society	11,280.82
Nottingham B/Society	14,723.97
Principality B/Society	9,073.97
Progressive B/Society	5,609.59
West Bromwich B/Society	7,019.18
Santander Business Reserve Account	14,832.84
Bank of Scotland Current Account	656.40
Barclays Reserve Account	29748.95
NatWest Call Account	182.07
NatWest 95 Day Account	11,202.74
Clydesdale 30 Day Account	4.45
Bank of Scotland Base Plus Account	0.45
Santander 365 Day Account	46,657.53
TOTAL INTEREST EARNED/ACCRUED	£402,622.16

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Bank of Scotland	1,500,000	1.00%	10/04/15	08/04/16
Leeds B/Society	4,000,000	0.90%	01/05/15	29/04/16
Nationwide B/Society	2,500,000	0.90%	04/06/15	03/06/16
Nationwide B/Society	4,000,000	0.90%	03/08/15	03/08/16
Nationwide B/Society	1,500,000	0.90%	03/09/15	01/09/16
Newcastle B/Society	3,000,000	0.75%	01/10/15	01/04/16
Bank of Scotland	2,000,000	1.05%	03/11/15	02/11/16
Nottingham B/Society	2,500,000	0.73%	04/12/15	06/06/16
Skipton B/Society	3,000,000	0.73%	04/12/15	06/06/16
National Counties B/Soc	2,000,000	0.75%	06/01/16	06/07/16
Bank of Scotland	4,500,000	1.05%	12/02/16	13/02/17
Coventry B/Society	2,500,000	0.80%	22/02/16	20/02/17
Coventry B/Society	1,000,000	0.81%	01/03/16	01/03/17
Santander 365 Day Acct	8,000,000	1.30%	365 day	
Barclays Reserve	2,600,000	0.40%	Call	
TOTAL	44,600,000			

Comparison of Average Rate of Return				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Temporary Investments	0.93%	0.90%	0.86%	0.85%
Santander Business Reserve	0.40%	0.40%	0.40%	0.40%
Bank of Scotland Current Account	0.40%	0.40%	0.40%	0.40%
Barclays Reserve Account	0.45%	0.42%	0.41%	0.41%
NatWest Call Account	0.25%	0.25%	0.25%	0.25%
NatWest 95 Day Account	0.48%	0.46%	0.46%	0.46%
Clydesdale 30 Day Account	0.25%	0.25%	0.25%	0.25%
Bank of Scotland Base Plus Account	0.25%	0.25%	0.25%	0.25%
Santander 365 Day Account	0	0	1.30%	1.30%
7 Day Average	0.475%	0.476%	0.476%	0.475%
3 year – 7 Day Average	0.484%	0.484%	0.484%	0.484%
Overall Average return on Investments	0.70%	0.71%	0.74%	0.769%