

# Performance and Audit Scrutiny Committee



Forest Heath  
District Council

<b>Title of Report:</b>	<b>Annual Treasury Management Report 2015/16 and Investment Activity (April – June 2016)</b>	
<b>Report No:</b>	<b>PAS/FH/16/019</b>	
<b>Report to and dates:</b>	<b>Performance and Audit Scrutiny Committee</b>	27 July 2016
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<b>Lead officer:</b>	Rachael Mann Head of Resources and Performance <b>Tel:</b> 01638 719245 <b>Email:</b> <a href="mailto:rachael.mann@westsuffolk.gov.uk">rachael.mann@westsuffolk.gov.uk</a>	
<b>Purpose of report:</b>	To:  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.	

<b>Recommendation:</b>	<b>Performance and Audit Scrutiny Committee:</b>  <b>It is <u>RECOMMENDED</u> that:</b>  <b>(1) Scrutinise the content of this report, including details of the treasury management performance for the first three months of the 2016-2017 financial year; and,</b>  <b>(2) Make recommendations to Cabinet and Council regarding the approval of the attached Annual Treasury Management Report for 2015-2016 (Attachment 1 refers).</b>
<b>Key Decision:</b>  <i>(Check the appropriate box and delete all those that <b>do not</b> 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"/>

<b>Consultation:</b>	<ul style="list-style-type: none"> <li>Treasury management activities are undertaken in consultation with CDCM/Tradition (the Council's appointed brokers for longer term investments) and also takes into account information obtained from other investment brokers and economic commentators. Any changes in strategies and policies are subject to approval by the Head of Resources and Performance, Cabinet and full Council.</li> </ul>
<b>Alternative option(s):</b>	<ul style="list-style-type: none"> <li>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 Council's borrowings, 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.</li> </ul>

<b>Implications:</b>	
<i>Are there any <b>financial</b> implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • Please refer to the main report
<i>Are there any <b>staffing</b> implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •
<i>Are there any <b>ICT</b> implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •

<i>Are there any <b>legal and/or policy</b> implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> <li>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).</li> </ul>	
<i>Are there any <b>equality</b> implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> <li></li> </ul>	
<b>Risk/opportunity assessment:</b>		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
<b>Risk area</b>	<b>Inherent level of risk (before controls)</b>	<b>Controls</b>	<b>Residual risk (after controls)</b>
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.	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of CDCM/Tradition 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
<b>Ward(s) affected:</b>		All Wards	
<b>Background papers:</b> <i>(all background papers are to be published on the website and a link included)</i>		CIPFA's revised Code of Practice for Treasury Management, (the Code), published in 2011.  Annual Treasury Management and Investment Strategy – 2015/16 ( <a href="#">COU/FH/15/003</a> )	

<b>Documents attached:</b>	Attachment 1 - Annual Treasury Management Report 2015/16  Appendix 1 – Temp Loans 2015/16  Appendix 2 – CDCM Investments 2015/16  Appendix 3 – Internally Managed Investments 2015/16  Appendix 4 – Comparison of Rates 2015/16  Appendix 5 – Statement of Compliance with the Treasury Management Code of Practice
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## 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 summaries the interest earned during 2015/16.

1.2.2

<b>TREASURY MANAGEMENT – INTEREST EARNED SUMMARY</b>		
	<b>2015/16</b>	<b>2014/15</b>
	<b>£</b>	<b>£</b>
CDCM/ Tradition Investments	348,117.67	432,188.69
In-House Investments	43,990.05	20,294.63
Lloyds 95 day Notice Account	11,168.00	9,521.76
Barclays FIBCA	8,264.24	8,944.07
NatWest LSA	555.41	1,562.28
Santander 180 day Account	5,324.66	
<b>TOTAL INTEREST EARNED/ACCRUED</b>	<b>£417,402.03</b>	<b>£472,511.43</b>

1.2.3 The budgeted income from investments in 2015/16 was £379,500 (average rate of return of 1.75%). Interest actually earned during the year totalled £417,402 (average rate of return of 1.27%), an overachievement of interest of £37,902 but an under achievement of 0.48% 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.

### 1.3 Investment Activity during the year

1.3.1 The table below summaries the investment activities during 2015/16;

<b>TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY</b>	
	<b>2015/16</b>
<b>Opening Balance 01 April 2015</b>	<b>28,585,000</b>
Investments made during the year (including transfers to business reserve accounts)	46,000,000
Sub Total	74,585,000
Investments realised during the year (including withdrawals from business reserve accounts)	45,095,000
<b>Closing Balance 31 March 2016</b>	<b>29,490,000</b>

1.3.2 During the fourth quarter of 2015/16 we were required to keep a substantial amount of money available for a major project. To achieve this investments were made for unusually short periods of time hence the high volume of investments and withdrawals'

#### **1.4 Investments held as at 31 March 2016**

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

<b>Investments Held as at 31 March 2016</b>				
<b>Counterparty</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Date Loaned</b>	<b>Date Returned</b>
Lloyds TSB Bank Plc	2,000,000	3.65%	17/05/12	15/05/17
Close Bros	3,000,000	2.05%	08/01/15	09/01/17
National Counties Building Society	2,500,000	1.75%	09/02/15	09/02/17
Principality Building Society	2,500,000	1.02%	10/08/15	08/08/16
Progressive Building Society	3,000,000	0.72%	01/12/15	01/06/16
West Bromwich Building Society	3,000,000	0.72%	01/12/15	01/06/16
Nottingham Building Society	1,500,000	0.57%	19/01/16	22/04/16
National Counties Building Society	500,000	0.45%	23/02/16	22/04/16
Newcastle Building Society	1,200,000	0.45%	15/03/16	15/04/16
Yorkshire Building Society	2,000,000	0.25%	15/03/16	01/04/16
Nottingham Building Society	500,000	0.40%	18/03/16	01/04/16
Coventry Building Society	1,200,000	0.41%	24/03/16	15/04/16
Principality Building Society	2,000,000	0.39%	31/03/16	22/04/16
Santander 180 day Account	1,000,000	1.15%	15/10/15	Call
Lloyds 95 Day Account	1,900,000	0.62%	Call	
Barclays FIBCA	1,690,000	0.40%	Call	
<b>TOTAL</b>	<b>29,490,000</b>			

#### **1.5 Market Activities**

1.5.1 Base rate remained at 0.5% throughout the year. Investment returns continue to be one to two basis points above or below base rate, depending on duration. New investments for one year or more are attracting returns of around 1%.

#### **1.6 Borrowings**

1.6.1 On 31 March 2008 the Council borrowed £4.0m from Barclays Bank Plc, to part fund the new Newmarket Leisure Centre. It is a long term loan, for 70 years, to 31 March 2078, at a rate of 4.24%, with interest payable in arrears on the 31 March and 30 September each year.

1.6.2 Interest paid on the Barclays loan during 2015/16 totalled £169,600.

## **1.7 Temporary Loans**

1.7.1 The only other debt that the Council has is on a short term basis (i.e. 364 days or less) in the form of temporary loans in accordance with the 2015/16 Treasury Management Strategy.

1.7.2 The balance of principal outstanding for temporary loans as at 31 March 2016 was £2,000. Loan number 1727 was repaid during the financial year 2015/16. The table below shows the temporary loans outstanding as at 31 March 2016.

<b>Temporary Loans as at 31 march 2015</b>			
<b>Loan number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Loan Amount</b>
1557	7 Day Average	7 Days Notice	1,000
1727	7 Day Average	7 Days Notice	<i>Repaid in year</i>
1735	7 Day Average	7 Days Notice	1,000
<b>Balance outstanding as at 31 march 2013</b>			<b>£2,000</b>

## **1.8 Average Rate of Return**

1.8.1 The table below shows the average rate of return for the various categories of investment against the 7 day average rate and 3 year – 7day average rate.

<b>Comparison of Average Rate of Return</b>				
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>
Temporary Investments	0.502%	0.532%	0.570%	0.574%
CDCM Investments	1.772%	1.780%	1.724%	1.699%
NatWest LSA	0.250%	0.250%	0.250%	0.250%
Barclays FIBCA	0.450%	0.450%	0.450%	0.449%
Santander 180 day Acc			1.151%	1.150%
7 Day Average	0.475%	0.476%	0.476%	0.475%
3 year – 7 Day Average	0.484%	0.484%	0.484%	0.484%
<b>Overall Average return on Investments</b>	<b>1.360%</b>	<b>1.340%</b>	<b>1.290%</b>	<b>1.270%</b>

## **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 £29.49m and at 30 June 2016 £30.70m. 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 PAS/FH/16/007 refers) sets out the Council's projections for the current financial year. The budget for investment income in 2016/17 is £347,000 which is based on a 1.50% 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 £79,527 (average rate of return of 1.00%) against a profiled budget for the period of £86,750; a budgetary deficit of £7,223. This budgetary deficit was 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. Shorter than usual investments have also been used in order to ensure liquidity of funds for a major capital project which is due to complete imminently.

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

<b>INTEREST EARNED &amp; AVERAGE RATE OF RETURN SUMMARY</b>			
<b>Investment Category</b>	<b>Total Average Investment</b>	<b>Average Rate of Return (%)</b>	<b>Interest Earned in Q1</b>
City Deposit Cash Managers	2,625,514	1.66%	58,017.67
Temporary Investments	1,919,998	0.39%	11,324.74
Lloyds 95 Day Account	2,283,333	0.62%	3,490.68
NatWest LSA	692,308	0.25%	431.82
Barclays FIBCA	2,257,472	0.45%	2,532.70
Santander 180 Day Account	1,000,000	1.15%	2,867.12
Santander 95 Day Account	500,000	0.90%	863.01
<b>Total Overall Average Return on Investments %</b>			<b>1.00%</b>
<b>Total Interest Earned - 1 April 2016 to 30 June 2016</b>			<b>79,527.74</b>

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

<b>TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY</b>	
	<b>2016/17</b>
<b>Opening Balance 01 April 2016</b>	<b>29,490,000</b>
Investments made during the year (including transfers to business reserve accounts)	29,550,000
Sub Total	59,040,000
Investments realised during the year (including withdrawals from business reserve accounts)	28,340,000
<b>Closing Balance 30 June 2016</b>	<b>30,700,000</b>

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

<b>LIST OF INVESTMENTS HELD AS AT 30 JUNE 2016</b>				
<b>Counterparty</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Date Loaned</b>	<b>Date Returned</b>
Lloyds TSB Bank Plc	2,000,000	3.65%	17/05/12	15/05/17
Close Bros	3,000,000	2.05%	08/01/15	09/01/17
National Counties B/Soc	2,500,000	1.75%	09/02/15	09/02/17
Principality B/Soc	2,500,000	1.02%	10/08/15	08/08/16
Newcastle B/Soc	1,000,000	0.57%	15/06/16	26/09/16



National Counties B/Soc	1,500,000	0.45%	17/06/16	01/07/16
Yorkshire B/Soc	2,500,000	0.25%	29/06/16	06/07/16
Skipton B/Soc	2,500,000	0.25%	29/06/16	06/07/16
Coventry B/Soc	2,500,000	0.40%	30/06/16	07/07/16
Nottingham B/Soc	2,500,000	0.40%	30/06/16	07/07/16
Lloyds 95 Day Account	2,400,000	0.62%	01/04/16	No notice given
Barclays FIBCA	2,200,000	0.45%	Call	Account
NatWest LSA	2,100,000	0.25%	Call	Account
Santander 180 Day Acct	1,000,000	1.15%	01/04/16	No notice given
Santander 95 Day Acct	500,000	0.90%	22/04/16	No notice given
<b>TOTAL</b>	<b>30,700,000</b>			

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

<b>SUMMARY OF FUNDS HELD*</b>	
<b>Fund</b>	<b>£</b>
Revenue Reserves	10,298,157
Capital Receipts Reserves	16,555,971
General Funds Reserve	2,000,217
Cashflow Balances	1,845,655
<b>Total Value of Investments</b>	<b>30,700,000</b>

\* 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.

2.2.2 Market Analysts 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.