

3rd Quarter Treasury Management Report 2016/2017 - 1 April to 31 December 2016

1 Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 (the Code) as adopted by Council states that;
- 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 Performance and Audit Scrutiny 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 mid-year review report of treasury management activities, for the financial year 2016/17.

2. Investment Strategy for 2016/17

- 2.1 The Council's 2016/17 Annual Treasury Management and Investment Strategy was approved by full Council on 24 February 2016 (report PAS/FH/16/007 refers). The investment strategy for 2016/17 was to give priority to the security and liquidity of investments whilst at the same time seeking to optimise the return on investments.
- 2.2 The target rate of return for investments for 2016/17 was 1.50%. This target rate was based upon investment rate projections for the year provided by Tradition / CDCM (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 £350k.

3. Interest Rates & Market Activity

- 3.1 On August 4, 2016, the Bank of England reduced the base rate to 0.25% and at the same time introduced a number of measures to provide additional funds, at interest rates close to bank base rate, to the markets following the Brexit decision. One of these measures was the introduction of the Term Funding Scheme to provide funds that will allow the banks and building societies to pass on the rate reduction to consumers and businesses. This has had the knock on effect of making the financial institutions less reliant on money from local authorities. This in turn has reduced the returns available on investments, typical rates for short term, up to 3 months, is base rate or below with medium term 4 to 12 months struggling to achieve 1%.
- 3.2 Markets will continue to be closely monitored and higher rates of return secured whenever possible.

4. The Council's Lending Criteria 2016/17

- 4.1 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 based on data provided Fitch, Moodys and S&P (ratings agencies) or, for non-rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 4.2 The unprecedented nature of the current economic and banking crisis 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.
- 4.3 The below tables shows the credit criteria applicable at the 1 April 2016 and 30 September 2016:

<u>Institution</u>	<u>Credit Rating Short Term</u> (Fitch Moody's)	<u>Credit Rating Long Term</u> (Fitch Moody's)	<u>CDCM Maximum Investment</u>	<u>Internally Managed Maximum Investment</u>	<u>Aggregated Maximum Investment per Institution</u>
	<u>S&P)</u>	<u>S&P)</u>	£M	£M	£M
UK Clearing Banks (Lloyds/Bank of Scotland)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	6 (7)	2.5 (3.5)	8.5 (10.5)
UK Building Societies (The Top 10 & £1bn Assets)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	2.5	6.5
UK Building Societies (from Top 11 downwards & £1bn Assets)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	1.5	5.5
UK Clearing Bank Subsidiaries	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	2.5	6.5

Other UK Banks (with links to overseas banks)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	1.5	5.5
Overseas Banks	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	3	0	3
Local Authorities	N/A	N/A	7	3	10
Debt Management Office	N/A	N/A	Unlimited	Unlimited	Unlimited

5 Compliance with Treasury Management Strategy & Code of Practice

5.1 During the first nine months of 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 where applicable). No institutions in which investments were made had any difficulty in repaying investments and interest in full during the period.

6 Interest Earned from Treasury Investments during the period 1 April to 31 December 2016

6.1 The table below summaries the interest earned during the period 1 April to 31 December 2016 on the various Treasury Investments held by the Council;

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	£
Temporary Investments – Term Deposits	25,157.00
Externally Managed Funds – CDCM / Tradition	150,530.00
NatWest Liquidity Select Account	2,007.62
Barclays FIBCA Account	6,840.02
Lloyds 95 Day Account	11,032.60
Santander 180 Day Account	7,828.77
Santander 95 Day Account	2,713.70
TOTAL INTEREST EARNED/ACCRUED	£206,109.71

6.2 The budgeted income from investments for the period 1 April to 31 December 2016 was £262,500 (average rate of return of 1.50%). Interest actually earned during the period totalled £206,109 (average rate of return 1.11%), an under-achievement of interest of £56,391 and an under-achievement of 0.39% on the average rate of return.

6.3 The under-achievement of interest earned was primarily due to the reduction in cash balances following the purchase of the Toggam Solar Farm.

6.4 The reduced average rate of return is due to the reduction in the Bank of England base rate and resulting reduction of interest rates offered by institutions.

6.5 By year end there is predicted to be an approx. £97k under achievement against budget of interest earned. At the end of 2015 FHDC established an Interest Equalisation Reserve, the current balance of this reserve is £70k. If

required this can be used at year end to mitigate some of this under-achievement.

7 Investment Activity during the period 1 April to 31 December 2016

7.1 The table below summaries the investment activities during the period;

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2016/17 £
Opening Balance 01 April 2016	29,490,000
Investments made during the year (including transfers to business reserve accounts)	60,400,000
Sub Total	89,890,000
Investments realised during the year (including withdrawals from business reserve accounts)	70,135,000
Closing Balance 31 December 2015	19,755,000

7.2 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to five years, dependent on the Council's cash flows, the view on interest rates and the actual interest rates on offer.

7.3 Where possible, investments were made in fixed term investments in order to lock into interest rates which exceed the Council's budgeted rate and to provide some certainty of return for a proportion of the Council's investments.

7.4 During the period, for cash flow generated balances, use was made of the instant access and business reserve accounts with Barclays and NatWest. At 31 December 2016, in order to maintain liquidity whilst at the same time achieving a reasonable rate of return in relation to base rate, £605k was held in these accounts at interest rates between 0.25% and 0.30%.

7.5 The table below shows the investments held as at 31 December 2016;

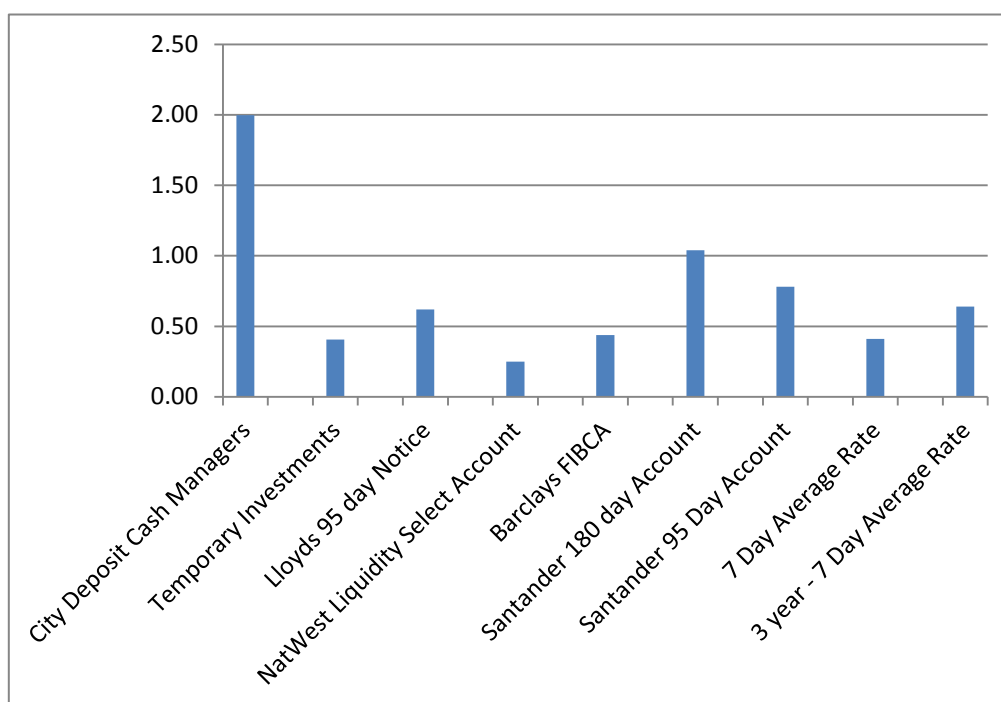
Investments held as at 31 December 2016				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Lloyds TSB Bank Plc	2,000,000	3.65%	17/05/12	15/05/17
Close Bros Ltd	3,000,000	2.05%	08/01/15	09/01/17
National Counties B/Soc	2,500,000	1.75%	09/2/15	09/02/17
Principality B/Society	2,500,000	0.47%	08/08/16	20/02/17
Skipton B/Society	2,000,000	0.50%	15/08/16	13/03/17
Newcastle B/Society	1,000,000	0.35%	26/06/16	01/02/17
Nottingham B/Society	1,000,000	0.27%	01/12/16	19/01/17
Coventry B/Society	1,250,000	0.23%	15/12/16	20/01/17
Lloyds 95 Day	2,400,000	0.62%	95 day	notice
Santander 180 Day	1,000,000	0.90%	180 day	notice
Santander 95 Day	500,000	0.65%	95 day	notice
Barclays FIBCA	5,000	0.30%	Call	
NatWest LSA	600,000	0.25%	Call	
TOTAL	19,755,000			

8 Average Rate of Return Comparison

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 – 7 day average rate;

Comparison of Average Rate of Return			
	Qtr 1	Qtr 2	Qtr 3
Temporary In-House Investments	0.39%	0.41%	0.40%
CDCM Investments	1.66%	1.87%	1.99%
Lloyds 95 Day Account	0.62%	0.6%	0.62%
Santander 180 Day Account	1.15%	1.11%	1.03%
Santander 95 Day Account	0.90%	0.85%	0.78%
Barclays FIBCA	0.45%	0.44%	0.43%
NatWest LSA	0.25%	0.25%	0.25%
Bank of Scotland Base Plus	0.00%	0.00%	0.00%
7 Day Average	0.47%	0.37%	0.41%
3 year – 7 Day Average	0.48%	0.37%	0.64%
Overall Average return on Investments	1.00%	1.07%	1.11%

Average Rate of Return by Investment Category



9 Summary of Funds Held

9.1 The table below shows a summary of the funds held as at 31 December 2016

Summary of Funds held	
Fund	£
Revenue Reserves	10,514,965
Capital Receipts Reserves	4,461,122
General Funds Reserve	2,000,217
Cash flow Balances	2,778,696
Total Value of Investments	19,755,000

10 Borrowing

- 10.1 The Council borrowed £4.0m on 31 March 2008 to part fund the new Newmarket Leisure Centre. This is a long term loan, for 70 years, to 31 March 2078, at a rate of 4.24%.
- 10.2 The loan was on a LOBO basis, which stands for Lenders' Option, Borrowers' Option, which gave the Lender the opportunity to increase the interest rate at pre-set dates throughout the period of the loan, but also gave the Council the option to repay the loan and any accrued interest if we did not want to accept these new terms. The first option date was 31 March 2018 and thereafter the last business day of each successive period of five years.
- 10.3 In June 2016 Barclays converted this LOBO loan to a fixed term loan at the same interest rate (4.24%) and final maturity date 31 March 2078. This removed the option for them to contact the council at break clause dates and offer a settlement figure (usually a multiple of the original loan) or offer a higher interest rate to keep the loan.
- 10.4 Officers contacted Barclays for a redemption cost early in December 2016 and they quoted £4 million breakage costs on top of the original loan as a settlement figure (£8m in total).
- 10.5 Officers suggest that an annual redemption figures is obtained but currently this would cost us an additional £1m on the loan over its life given current PWLB loan rates if we were to break it and replace it with another lender.
- 10.6 The first interest payment for 2016/17, £85,032.32, was paid on 30 September 2016.
- 10.7 The Council also has two temporary loans totalling £2,000 which are repayable on 7 days notices. No request to repay either loan has been received during the period covered by this report.