

# 3<sup>rd</sup> Quarter Treasury Management Report 2016/2017

## **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.

## **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 23 February 2016 (report TMS/SE/16/002 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 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 £277k.

### 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 to the markets, at interest rates close to bank base rate, 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 by the Council's treasury advisers (Sector) 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 climate 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 show the credit criteria applicable from 1 October 2016 to 31 December 2016 (counterparty limits were increased from 1 Oct using 'Chief Executive's Urgency Powers' as reported to Treasury Management Sub-Committee 21 November 2016):

#### 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 35% 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

#### 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.

## 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;

<b>TREASURY MANAGEMENT – INTEREST EARNED SUMMARY</b>	
	<b>£</b>
Temporary Investments – Term Deposits	242,588.03
Santander Business Reserve Account	0.00
Bank of Scotland Current Account	492.31
Barclays Reserve Account	10,120.94
NatWest Call Account	3,050.04
NatWest 95 Day Account	0.00
Clydesdale 30 Day Account	3.35
Bank of Scotland Base Plus Account	0.34
Santander 365 Day Account	71,671.23
<b>TOTAL INTEREST EARNED/ACCRUED</b>	<b>£327,926.24</b>

- 6.2 The budgeted income from investments for the period 1 April to 31 December 2016 was £208,112 (average rate of return of 0.90%). Interest actually earned during the period totalled £327,926 (average rate of return 0.80%), an over-achievement of interest of £119,814 but an under-achievement of 0.10% on the average rate of return.
- 6.3 The over-achievement of interest earned was primarily due to higher cash balances being available for investment than expected. These increases in balances are due to timing differences in the collection and payment of Council Tax, NNDR and other revenue streams, and underspends relating to the budgeted capital programme.
- 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. £145k over achievement against budget of interest earned.

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

7.1 The table below summaries 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>44,600,000</b>
Investments made during the year (including transfers to business reserve accounts)	80,300,000
Sub Total	124,900,000
Investments realised during the year (including withdrawals from business reserve accounts)	69,450,000
<b>Closing Balance 31 December 2016</b>	<b>55,450,000</b>

7.2 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to one year, 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, £3.9m average 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;

<b>Investments held as at 31 December 2016</b>				
<b>Counterparty</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Date Loaned</b>	<b>Date Returned</b>
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
Bank of Scotland	1,500,000	1.05%	08/04/16	10/04/17
Nationwide B/Society	2,000,000	0.95%	03/06/16	02/06/17
Barclays Bank	3,000,000	0.94%	02/06/16	02/06/17
Skipton B/Society	3,000,000	0.98%	06/06/16	06/06/17
National Counties B/Soc	2,000,000	1.10%	06/07/16	05/07/17
Nationwide B/Society	4,000,000	0.70%	03/08/16	02/08/17
Newcastle B/Society	3,000,000	0.47%	03/10/16	03/04/17
Nationwide B/Society	3,000,000	0.39%	03/10/16	20/03/17
Skipton B/Society	3,000,000	0.43%	03/10/16	20/03/17
Coventry B/Society	2,500,000	0.23%	01/09/16	19/10/16
Bank of Scotland	2,000,000	1.00%	02/11/16	01/11/17
Newcastle B/Society	1,000,000	0.55%	15/11/16	15/05/17
Newcastle B/Society	2,000,000	0.33%	01/12/16	20/02/17
Nottingham B/Society	3,600,000	0.28%	01/12/16	19/01/17

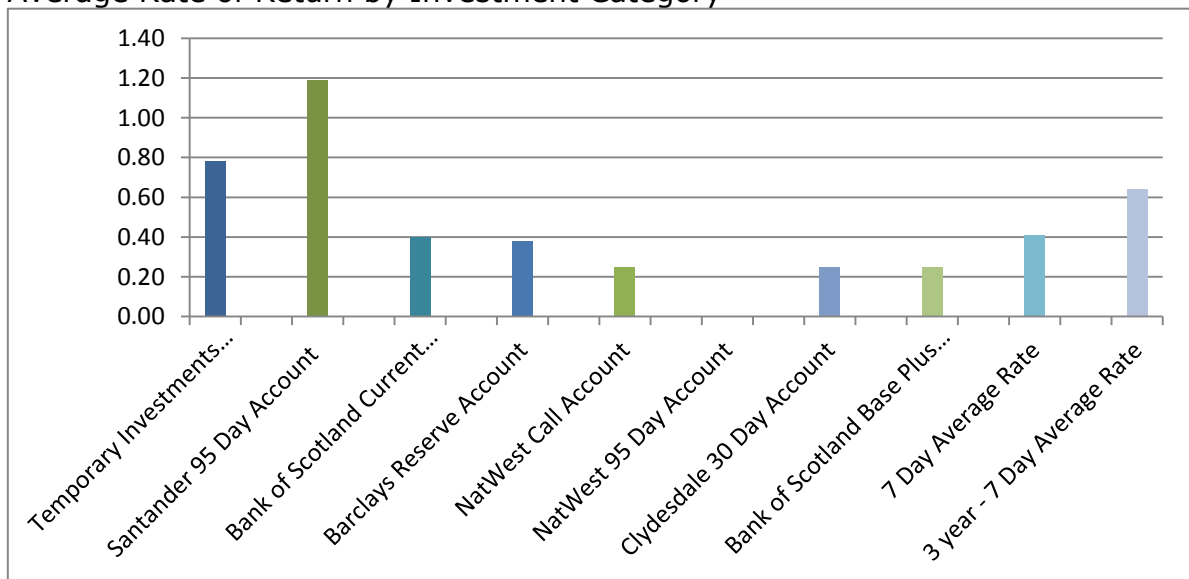
Santander 365 Day	8,000,000	1.05%	365 day	notice
Barclays Reserve	150,000	0.30%	Call	
NatWest Call Account	3,700,000	0.25%	Call	
<b>TOTAL</b>	<b>55,450,000</b>			

## 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;

<b>Comparison of Average Rate of Return</b>			
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>
Temporary Investments	0.84%	0.82%	0.78%
Santander 365 Day	1.30%	1.25%	1.19%
Bank of Scotland C/Acc	0.40%	0.40%	0.40%
Barclays Reserve	0.40%	0.38%	0.38%
NatWest Call Account	0.25%	0.25%	0.25%
NatWest 95 Day Account	0.00%	0.00%	0.00%
Clydesdale 30 Day Account	0.25%	0.25%	0.25%
Bank of Scotland Base Plus	0.25%	0.25%	0.25%
7 Day Average	0.45%	0.37%	0.41%
3 year – 7 Day Average	0.44%	0.37%	0.64%
<b>Overall Average return on Investments</b>	<b>0.87%</b>	<b>0.84%</b>	<b>0.80%</b>

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

<b>Summary of Funds held</b>	
<b>Fund</b>	<b>£</b>
Revenue Reserves	17,448,589
Capital Receipts Reserves	21,338,449
General Funds Reserve	3,035,694
Cash flow Balances	13,627,268
<b>Total Value of Investments</b>	<b>55,450,000</b>

## 10 Borrowing

10.1 The Council became debt free in 1992 and since then has refrained from any borrowing apart from the temporary use of overdraft facilities. This continues in 2016/17.