

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Annual Treasury Management Report 2016-2017 and Investment Activity 1 April to 30 June 2017	
Report No:	TMS/SE/17/003	
Report to and dates:	Treasury Management Sub - Committee	17 July 2017
	Performance And Audit Scrutiny Committee	27 July 2017
	Cabinet	19 September 2017
	Council	26 September 2017
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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 2016/17; and b) Provide a summary of investment activities for the first three months 2017/18 financial year. 	

Recommendation:	Treasury Management Sub-Committee: It is <u>RECOMMENDED</u> that, the Treasury Management Sub-Committee: (1) Scrutinises the content of this report, including details of the Treasury Management Performance for 2016-2017 and the first three months of the 2017-2018 financial year; and (2) Makes 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 2016-2017 (Appendix 1 refers).	
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"> 	

<p>Are there any legal and/or policy implications? If yes, please give details</p>		<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <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 2016/17. 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). 	
<p>Are there any equality implications? If yes, please give details</p>		<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> 	
<p>Risk/opportunity assessment:</p>		<p>(potential hazards or opportunities affecting corporate, service or project objectives)</p>	
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
<p>Ward(s) affected:</p>		<p>All Wards</p>	
<p>Background papers: (all background papers are to be published on the website and a link included)</p>		<p>Annual Treasury Management and Investment Strategy – 2016/17 (COU.SE.16.002)</p> <p>Annual Treasury Management and Investment Strategy Statements (Report COU.SE.17.002 approved 21 February 2017)</p>	

Documents attached:

Appendix 1 – Annual Report for 2016/17

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

1. Key issues and reasons for recommendations

1.1 Annual Report 2016/17

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summarises the interest earned during 2016/17 on the various Treasury investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2016/17 £
Bank of Scotland Investments – Term Deposits	83,284.93
Leeds B/Society – Term Deposits	2,761.64
Nationwide B/Society – Term Deposits	61,366.03
Newcastle B/Society – Term Deposits	23,473.70
Nottingham B/Society – Term Deposits	10,059.23
Skipton B/Society – Term Deposits	33,981.37
National Counties B/Society – Term Deposits	22,018.49
Coventry B/Society – Term Deposits	38,927.26
Principality B/Society – Term Deposits	14,109.59
Barclays Bank – Term Deposits	23,409.86
Yorkshire B/Society – Term Deposits	1,397.53
Bank of Scotland Current Account	527.47
Barclays Reserve Account	6,881.20
NatWest Call Account	2,771.34
Clydesdale 30 Day Account	4.39
Bank of Scotland Base Plus Account	0.41
Santander 365 Day Account	92,383.56
TOTAL INTEREST EARNED/ACCRUED	£417,358.01

1.2.3 The budgeted income from investments in 2016/17 was £277,482 (average rate of return of 0.90%). Interest actually earned during the year totalled £417,358 (average rate of return of 0.763%); an overachievement in interest of £139,876, but an under achievement of 0.137% 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 August 4, 2016, the Bank of England reduced its base rate to 0.25%, where it remained for the rest of 2016/17 and the bank's 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 2016/17 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 balance in this reserve, as at 31 March 2017, was £359,630.

1.3 Investment Activity during the year

1.3.1 The table below summarises the investment activities during 2016/17:

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)	95,800,000
Sub Total	140,400,000
Investments realised during the year (including withdrawals from business reserve accounts)	94,050,000
Closing Balance 31 March 2017	46,350,000

1.4 Investments held as at 31 March 2017

1.4.1 The table below shows the investments held as at 31 March 2017:

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
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
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
Bank of Scotland	5,000,000	0.90%	13/02/17	12/02/18
Principality B/Society	2,000,000	0.25%	01/03/17	20/04/17
Newcastle B/Society	1,000,000	0.24%	20/03/17	18/04/17
Nottingham B/Society	2,500,000	0.30%	20/03/17	15/05/17
Principality B/Society	2,500,000	0.25%	20/03/17	27/04/17
Santander 365 Day Acct	8,000,000	1.30%	365 day	
NatWest Call Account	3,700,000	0.10%	Call	
Barclays Reserve	150,000	0.10%	Call	
TOTAL	46,350,000			

2. First Quarter Report 2017/18 - Investment Activity: 1 April to 30 June 2017

2.1.1 The total amount invested at 1 April 2017 was £46.35m and at 30 June 2017 £50.90m. 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 2017/18 Annual Treasury Management and Investment Strategy Statements (Report COU/SE/17/002 approved 21 February 2017) sets out the Council's projections for the current financial year. The budget for investment income in 2017/18 is £253,000 which is based on a 0.55% target average rate of return on investments.

2.1.3 As at the end of June 2017 interest actually earned during the first quarter of the financial year amounted to £80,717 (average rate of return of 0.607%) against a profiled budget for the period of £63,250 (average rate of return of 0.55%); a budgetary surplus of £17,467. This budgetary surplus was due to the Council holding higher cash balances than projected when the budget was set in February 2017 and the prudent use of mid to longer term investments that achieve slightly higher rates of return.

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

INTEREST EARNED AND AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned in Q1
Temporary Investments (Term Deposits)	2,690,777	0.594	60,303
Bank of Scotland Current Account	304	0.100	0
Barclays Reserve Account	197,112	0.100	20
NatWest Call Account	4,393,965	0.100	109
Clydesdale 30 Day Account	81	0.010	0
Bank of Scotland Base Plus Account	179	0.100	0
Santander 365 Day Account	8,000,000	1.017	20285
Total Overall Average Return on Investments %			0.607
Total Interest Earned - 1 April 2017 to 30 June 2017			80,717

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

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)	32,650,000
Sub Total	79,000,000
Investments realised during the year (including withdrawals from business reserve accounts)	28,100,000
Closing Balance 30 June 2017	50,900,000

2.1.6 The table below shows the list of investments held as at 30 June 2017:

LIST OF INVESTMENTS HELD AS AT 30 JUNE 2017				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
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
Bank of Scotland	2,000,000	1.00%	02/11/17	01/11/18
Bank of Scotland	5,000,000	0.90%	13/02/17	12/02/18
National Counties B/Soc	1,750,000	0.37%	20/04/17	17/07/17
Principality B/Society	3,000,000	0.45%	28/04/17	02/10/17
Nottingham B/Society	2,000,000	0.34%	02/05/17	19/07/17
Nottingham B/Society	2,000,000	0.32%	15/05/17	21/07/17
Coventry B/Society	2,500,000	0.17%	01/06/17	19/07/17
Coventry B/ Society	4,000,000	0.21%	01/06/17	21/08/17
Skipton B/Society	2,500,000	0.65%	02/06/17	19/03/18
Yorkshire B/Society	3,000,000	0.15%	02/06/17	07/07/17
Skipton B/Society	3,000,000	0.77%	05/06/17	05/06/18
Nottingham B/Society	1,300,000	0.25%	28/06/17	15/08/17
Santander 365 Account	8,000,000	0.95%	01/04/17	NO notice given
NatWest Call Account	4,700,000	0.10%	Call	
Barclays Reserve Account	150,000	0.10%	Call	
TOTAL	50,900,000			

2.1.7 The table below shows a summary of the funds held as at 30 June 2017, the Budget and Council Tax 2017/18 (Report [COU.SE.17.004](#)) approved 21 February 2017) report shows the planned spending profile for these reserves/balances across the medium term financial period:

SUMMARY OF FUNDS HELD*	
Fund	£
Earmarked Revenue Reserves	21,672,560
Capital Receipts Reserves	20,070,982
General Funds Reserve	3,035,695
Cashflow Balances	6,120,763
Total Value of Investments	50,900,000

*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 The Bank of England base rate continues to remain at 0.25%. Sector/Capita (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 2019. 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.