

Annual 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, namely the annual review report of treasury management activities, for the financial year 2015/16.

2. The Council's Debt Free Status

2.1 As at 31 March 2017 the Council had no external debt.

3. Investment Strategy for 2016/17

3.1 The Council's 2016/17 Annual Treasury Management and Investment Strategy Statements was approved by full Council on 23 February 2016 (report COU/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.

3.2 This Investment Strategy was updated with increased investment limits in October 2016 using 'Chief Executive's Urgency Powers' and reported to Treasury Management Sub-Committee 21 November 2016.

Investment Rates in 2016/17

3.3 The Bank of England Base Rate reduced from 0.5% to an historic low of 0.25% on 4 August 2016 and remained at this level throughout the remainder of 2016/17. Investment rates continued to fluctuate during the year with investment returns being typically one or two basis points either side of the base rate. The Bank of England's Funding for Lending Scheme is also to 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, included in the Annual Treasury Management and Investment Strategy Statements 2016/17, are detailed in the table below. Since the 2016/17 Strategy was set in February 2016, Capita, the Council's Treasury Advisers, have revised their prediction on interest rates, and are now forecasting no movement in the Bank of England base rate until quarter 1 of 2019. Consequently the Council reduced its average rate of return predictions in the Annual Treasury Management and Investment Strategy Statements 2017/18 (these new rates are also included in the table below for comparison).

Average Rate of Return Predictions		
	Annual Treasury Management and Investment Strategy Statements 2016/17	Annual Treasury Management and Investment Strategy Statements 2017/18
2016/17	0.90%	
2017/18	1.50%	0.55%
2018/19	2.00%	0.70%
2019/20	2.50%	0.70%
2020/21		0.75%

The Council's Lending Criteria 2016/17

3.5 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).

3.6 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.

- 3.7 The below tables shows the credit criteria applicable between 1 April 2016 and 2 October 2016, as recommended by the Treasury Sub Committee on 18 January 2016 and subsequently approved by Council 23 February 2016.

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	£4m 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

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.*

- 3.8 With the further reduction in the Bank of England base rate and counterparties dropping out of the market, it was becoming increasingly difficult to find suitable counterparties for the Council's investment so on October 3, 2016, the Chief Executive, following consultation with the relevant members, used his Urgency Powers to amend the Investment Counterparty Limits. The revised investment limits are detailed in the tables below:

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 20% 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

4. Compliance with Treasury Limits and the Code of Practice

- 4.1 During the financial year the Council operated within the approved Treasury limits, Code of Practice requirements and Prudential Indicators (as set out in the Council's Annual Treasury Management and Investment Strategy Statements and Treasury Management Code of Practice, 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 A Statement of Compliance with the Treasury Management Code of Practice, issued by Internal Audit is attached in [Appendix 2](#).

5. Investment Performance 2016/17

- 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 2016	44.60
Add: Investments made during the year	95.80
Sub Total	140.40
Investments realised during the year	94.05
Closing balance at 31st March 2017	46.35

- 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 and NatWest 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 31 March 2017 £3.85m was held in these accounts at an interest rate of 0.10%. This level had been maintained to enable the payment of the council's contribution to the Eastern Relief Road scheme.
- 5.5 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 Capita (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 £277,482. This figure was used in the preparation of the Council's budget for 2016/17.
- 5.6 The average rate of return achieved during 2016/17 was 0.763%, an underachievement of 0.137%. However interest earned during the year totalled £417,358; an overachievement of £139,876. 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 2016/17, the list of investments held as at 31 March 2017 and comparison of average rates of return for 2016/17.

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

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			

COMPARISON OF AVERAGE RATE OF RETURN 2016-17				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Temporary Investments	0.84%	0.82%	0.78%	0.76%
Bank of Scotland Current Account	0.40%	0.40%	0.40%	0.36%
Barclays Reserve Account	0.40%	0.38%	0.37%	0.25%
NatWest Call Account	0.25%	0.25%	0.25%	0.18%
Clydesdale 30 Day Account	0.25%	0.25%	0.25%	0.25%
Bank of Scotland Base Plus Account	0.25%	0.25%	0.25%	0.22%
Santander 365 Day Account	1.30%	1.25%	1.18%	1.15%
7 Day Average	0.475%	0.475%	0.410%	0.410%
3 year – 7 Day Average	0.484%	0.484%	0.640%	0.640%
Overall Average return on Investments	0.872%	0.848%	0.797%	0.763%