

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

INTRODUCTION

1. Forest Heath District Council's Treasury Management Code of Practice is based on the 2011 Fully Revised Code recommended nationally by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code also incorporates revisions introduced by CIPFA in its document "Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes.
2. Treasury Management in this context is defined as:-

"The management of the Local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks."
3. This Council has adopted the Code fully, and complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement (Treasury Management Code of Practice). This sets out Council and Committee responsibilities, as well as those of the Section 151 Officer (Head of Resources and Performance), in addition to the delegation and reporting arrangements. The Cabinet approved the Treasury Management Code of Practice for 2016/17 on 10 February 2016, (report COU/FH/16/003 refers).
4. A requirement of the Council's Treasury Management Code of Practice is the reporting to the Council of both the expected Treasury activity for the forthcoming financial year (the Treasury Management and Annual Investment Strategy Report) and subsequently the results of the Council's Treasury Management activities in that year (Treasury Management Annual Report).
5. This Report fulfils the requirements in accordance with **TMP6**, of the Treasury Management Code of Practice, which requires the submission of the Treasury Management Annual Report prior to 30 September following a financial year's end.

BORROWING

6. On the 31 March 2008 Forest Heath District 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 the 31 March 2078, at a rate of 4.24%, with interest payable in arrears on the 31 March and 30 September each year. The loan is on a LOBO basis, which stands for Lender's Option Borrower's Option, which gives the lender the opportunity to increase the interest rate at pre-set dates through the period of the loan, but also gives the Council the option to repay the loan and any accrued interest if they do not want to accept these new terms.
7. The first Lender's Option Date is the 31 March 2018 and thereafter, the last Business Day of each successive period of five years. Appropriate requirements for notice periods for the Lender and the Borrower are set out in the loan instrument.

8. On the 30 September 2016 interest was paid to Barclays Bank Plc in the sum of £85,032.32, and on the 31 March 2017 a further £84,567.67 was paid.
9. 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 Report. These are detailed in the following paragraph.

TEMPORARY LOANS – SUMMARY POSITION

10. The balance of principal outstanding for temporary loans as at the 31 March 2017 was £2,000.
11. A list of temporary loans outstanding as at 31 March 2017 is shown in **Appendix 1**.

PUBLIC WORKS LOAN BOARD (PWLB)

12. No loans are outstanding with the Public Works Loan Board.

TREASURY MANAGEMENT STRATEGY

13. The strategy for Treasury Management during 2016/17 was reported to the Council on 24 February 2016.

INTEREST RATES

14. The Bank of England Base Rate remained at 0.50% until 4 August 2016 when it was further reduced to 0.25% where it remained for the rest of the year. Investment rates fluctuated during the year with investment returns on short term investments typically one or two basis points either side of the base rate. The Bank of England also announced that the Funding for Lending Scheme would 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.
15. 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, 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 & Investment Strategy Statements 2016/17	Annual Treasury Management & Investment Strategy Statements 2017/18
2016/17	1.50%	
2017/18	1.75%	0.75%
2018/19	2.00%	0.90%
2019/20	2.50%	0.90%
2020/21		0.90%

16. Following the start of the process to withdraw from Europe there may be a need to revise these predictions. The treasury team will continue to closely monitor the situation and provide updated information as it becomes available.

COMPLIANCE WITH THE TREASURY MANAGEMENT STRATEGY & CODE OF PRACTICE

17. During the financial year 2016/17 the Council operated within the requirements of the approved Annual Treasury Management & Investment Strategy and Treasury Management Code of Practice.

INVESTMENTS SUMMARY

18. The Council had five main investment categories in 2016/17 as follows:-

- Investments made on the advice of the brokers firm CDCM (Tradition)
- Internally Managed Temporary Investments by the Council
- NatWest Liquidity Select Call Account
- Barclays FIBCA Call Account
- Lloyds 95 day Notice Account
- Santander 180 and 95 day Notice Accounts

19. The overall amount of interest earned from investments (including accrued interest to 31 March 2017) in respect of the 2016/17 financial year totalled £250,972.82. This represents a shortfall of £99,000 against the budget of £350,000 as forecast in the Council's Medium Term Financial Strategy.

20. This shortfall in interest earned was due to two main factors, the lower than budgeted return that were available during the year and the use of £14m of reserves to fund the purchase of the Toggam Solar Farm.

21. The tables below summarise the interest earned during 2016/17 and compares it to 2015/16 and total investments held as at 31 March 2017 compared to 31 March 2016.

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY		
	2016/17	2015/16
	£	£
CDCM/ Tradition Investments	184,657.53	348,117.67
In-House Investments	31,557.84	43,990.05

Lloyds 95 day Notice Account	11,116.42	11,168.00
Barclays FIBCA	7,840.85	8,264.24
NatWest LSA	2,011.02	555.41
Santander 180 day Account	10,047.95	5,324.66
Santander 95 day Account	3,515.07	0.00
TOTAL INTEREST EARNED/ACCRUED	£250,746.67	£417,402.03

TOTAL VALUE OF INVESTMENTS (PRINCIPAL) HELD AT YEAR END		
	At 31 March 17	At 31 March 16
	£	£
City Deposit Cash Managers Investments	8,500,000	16,000,000
Internally Managed Temporary Investments	4,000,000	8,900,000
Lloyds 95 day Notice Account	2,400,000	1,900,000
NatWest Liquidity Select Account	1,600,000	0
Barclays FIBCA	5,000	1,690,000
Santander 180 day Notice Account	1,000,000	1,000,000
Santander 95 day Notice Account	500,000	0
Total Value of Investments	18,005,000	29,490,000

INVESTMENTS MADE THROUGH CITY DEPOSIT CASH MANAGERS (TRADITION) ADVICE

22. Maturing investments re-invested through City Deposit Cash Managers advice during the financial year totalled £5.5m. In addition £7.5m of CDCM investments made prior to 2016/17 were still in place during 2016/17. Interest earned during the year on CDCM investments amounted to £184,657.53. **Appendix 2** contains details of individual investments.
23. The average rate of return from investments made through the advice of City Deposit Cash Managers was 1.938%. The table in **Appendix 4** compares the rates returned on the maturing investments during the year, compared to the Benchmark 3 year - 7 Day Average Rate of 0.640%.
24. A list of outstanding investments made on City Deposit Cash Managers advice, as at 31 March 2016 is shown below.

CDCM Investments Held as at 31 March 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	2,000,000	1.00%	09/01/17	09/07/18
Close Bros	1,000,000	1.80%	09/01/17	08/01/18
National Counties B/Society	3,500,000	0.78%	09/02/17	09/02/18
TOTAL	8,500,000			

INTERNALLY MANAGED TEMPORARY INVESTMENTS

25. Internally Managed Temporary Investments and re-investments totalling £46,000,000 were made during the 2016/17 financial year. Interest earned during the year on these investments amounted to £31,557.83. **Appendix 3** contains details of individual investments.

26. A list of outstanding Internally Managed Temporary Investments as at 31 March 2015 is shown below.

Internally Managed Investments Held as at 31 March 2016				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Principality B/Society	1,000,000	0.25%	06/03/17	18/04/17
Newcastle B/Society	1,000,000	0.27%	27/03/17	22/05/17
Coventry B/Society	2,000,000	0.22%	27/03/17	02/05/17
Santander 180 day Account	1,000,000	0.90%	01/04/16	Call
Santander 95 day Account	500,000	0.65%	22/04/16	Call
Lloyds 95 Day Account	2,400,000	0.37%	Call	
NatWest LSA	1,600,000	0.10%	Call	
Barclays FIBCA	5,000	0.40%	Call	
TOTAL	9,505,000			

27. The average rate of return on Internally Managed Temporary Investments was 0.395%.

28. The table in **Appendix 4** illustrates the average monthly rate of return on Internally Managed Temporary Investments, compared to the 3 year - 7 Day Average Rate of 0.484%.

THE NATWEST LIQUIDITY SELECT ACCOUNT

29. The NatWest Liquidity Select Account (NatWest LSA) has seen a steady drop in the interest rate offered, ending the year on 0.10%. Use of this account has been limited to holding funds that have been required at short notice and would not have been viable to use alternative investment vehicles.

30. Interest earned on this account amounted to £2,011.02.

THE BARCLAYS FIBCA ACCOUNT

31. Similar to the NatWest LSA account, the Barclays Fixed Interest Bearing Call Account (Barclays FIBCA) has seen a steady decline in the interest rate offered, again ending the year at 0.10%. Use of this account has also been limited to holding funds required at short notice.

32. Interest earned on this account during the year amounted to £7,840.83.

THE LLOYDS 95 DAY NOTICE ACCOUNT

33. The Lloyds 95 Day Notice Account was opened 2 April 2013 to take advantage of the 0.75% rate of interest offered. The rate has reduced during the year to 0.37% which is still comparable with short term investment rates available in the market.

34. Interest earned on this account during the year amounted to £11,116.41.

35. During the course of the year an additional investment of £500,000 was made in this account. The balance held on the account as at the 31 March 2017 was £2,400,000.

SANTANDER 180 DAY NOTICE ACCOUNT

36. In October 2015 the Council opened a Santander 180 day Notice Account that offers a return of 1.15%, when the base rate was cut to 0.25% in August 2016 the interest rate on this account was cut to 0.90%, which still remains comparable to one year, fixed term rates currently available.

37. Interest earned on this account during the year amounted to £10,047.94.

38. The balance held on the account as at 31 March 2017 was £1,000,000.

SANTANDER 95 DAY NOTICE ACCOUNT

39. The Santander 95 day Notice Account was opened on 22 April 2016, with an initial interest rate of 0.90%, this was also reduced in August, following the base rate cut, to 0.65% which still remains comparable to three month, fixed term rates currently available/

40. Interest earned on this account during the year amounted to £3,515.06.

41. The balance held on this account as the 31 March 2017 was £500,000.