

# Mid-Year Treasury Management Report 2017/2018

## **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 mid-year review report of treasury management activities, for the financial year 2017/18.

## **2. Annual Treasury Management and Investment Strategy for 2017/18**

- 2.1 The Council's 2017/18 Annual Treasury Management and Investment Strategy was approved by full Council on 21 February 2017 (report COU/SE/17/002 refers). The investment strategy for 2017/18 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 2017/18 was 0.55%. 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 £253k for the year.

### 3. Revision to Annual Treasury Management and Investment Strategy and Code of Practice

- 3.1 In recent months it has been increasingly difficult to place funds within the Council's current lending criteria due to changes in Capita's colour code ratings of institutions. The majority of UK banks now have a Capita Colour Code rating of Red, there are no longer any Purple or Blue UK banks and only 2 Orange UK banks. Consequently the 'maximum 35% of the portfolio' limit for Red institutions is becoming increasingly restrictive.
- 3.2 Consequently, following discussions with our treasury advisor, it is proposed that the 'Red' proportion of portfolio limit be revised from 35% to 50%. The maximum investment with any one 'Red' institution will remain the same at £11m.

#### **Lending Criteria - Rated Banks and Investment Scheme**

Capita Colour Code Key	<b>CURRENT</b> Maximum Duration / Investment Values*	<b>REVISED</b> Maximum Duration / Investment Values*
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)	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)	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max <b>35%</b> of portfolio)	£11m for max of 1 year (subject to max <b>50%</b> of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)	£9m for max of 6 months (subject to max 30% of portfolio)
Blue (nationalised / substantially owned by UK government )	£18m for max of 2 years	£18m for max of 2 years

\* Note – This represents an adaption of the Capita approach

### 4. Interest Rates and Market Activity

- 4.1 The Bank of England base Rate has risen from 0.25% to 0.5%, as predicted by our treasury advisors, Capita, who highlighted a revised expectation for the Bank Rate to increase to 0.5% as soon as Q4 2017. The Monetary policy Committee (MPC) meeting of the 2 November 2017 confirmed this increase and also the suspicion that interest rates may continue to rise, with confirmation from the Bank of England that by 2020 the Base Rate will rise incrementally to 1%. The knock on effect of this shift means further uncertainty in the Council's returns going forward. Currently the Council's returns for investments up to 3 months in length are at base rate or below, while those of 4 to 12 months are generally below 0.75%.
- 4.2 Markets will continue to be closely monitored and higher rates of return secured whenever possible.

## 5. The Council's Lending Criteria 2017/18

- 5.1 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 (Capita) or, for non-rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 5.2 The below tables shows the credit criteria applicable at the 1 April 2017 and 30 September 2017:

### Credit Criteria: Rated Banks and Institutions

Capita Colour Code Key	Maximum Duration / Investment Values*
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 of 2 years

### Credit Criteria: Rated Building Societies

Capita Colour Code Key*	Credit Criteria 01/04/17
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 01/04/17
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, Capita 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.

- 5.4 As per paragraph 3.2, it is proposed that the 'Red' % of portfolio limit be revised from 35% to 50%.

## 6 Compliance with Treasury Management Strategy and Code of Practice

- 6.1 During the first six 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). No institutions in which investments were made had any difficulty in repaying investments and interest in full during the period.

## 7 Interest Earned from Treasury Investments during the period 1 April to 30 September 2017

7.1 The table below summaries the interest earned during the period 1 April to 30 September 2017 on the various Treasury Investments held by the Council;

<b>TREASURY MANAGEMENT – INTEREST EARNED SUMMARY</b>	
	<b>£</b>
Temporary Investments – Term Deposits	116,181
Bank of Scotland Current Account	1
Barclays Reserve Account	24
NatWest Call Account	194
Santander 365 Day Account	39,441
<b>TOTAL INTEREST EARNED/ACCRUED</b>	<b>£155,841</b>

7.2 The budgeted income from investments for the period 1 April to 30 September 2017 was £126,500 (average rate of return of 0.55%). Interest actually earned during the period totalled £155,841 (average rate of return 0.575%), an over-achievement of interest of £29,341 and an over-achievement of 0.025% on the average rate of return.

7.3 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.

7.4 By year end it is predicted that interest earned will exceed the originally budgeted figure by approximately £26k, this is mainly due to higher cash balances as the predicted average rate of return remains at 0.55%.

## 8 Investment Activity during the period 1 April to 30 September 2017

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

<b>TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY</b>	
	<b>2017/18</b>
	<b>£</b>
<b>Opening Balance 01 April 2017</b>	<b>46,350,000</b>
Investments made during the year (including transfers to business reserve accounts)	64,250,000
Sub Total	110,600,000
Investments realised during the year (including withdrawals from business reserve accounts)	59,400,000
<b>Closing Balance 30 September 2017</b>	<b>51,200,000</b>

8.2 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.

- 8.3 Where possible, investments were made in longer term fixed term investments (up to 1 year) in order to lock into interest rates which exceed the Council's budgeted rate of return and to provide some certainty of return for a proportion of the Council's investments.
- 8.4 During the period, for cash flow purposes (in particular relating to capital projects/purchases), use was made of the instant access and business reserve accounts with Barclays and NatWest. As at 30 September 2017 £1.5m was held in these accounts at an interest rate of 0.01%.
- 8.5 The table below shows the investments held as at 30 September 2017;

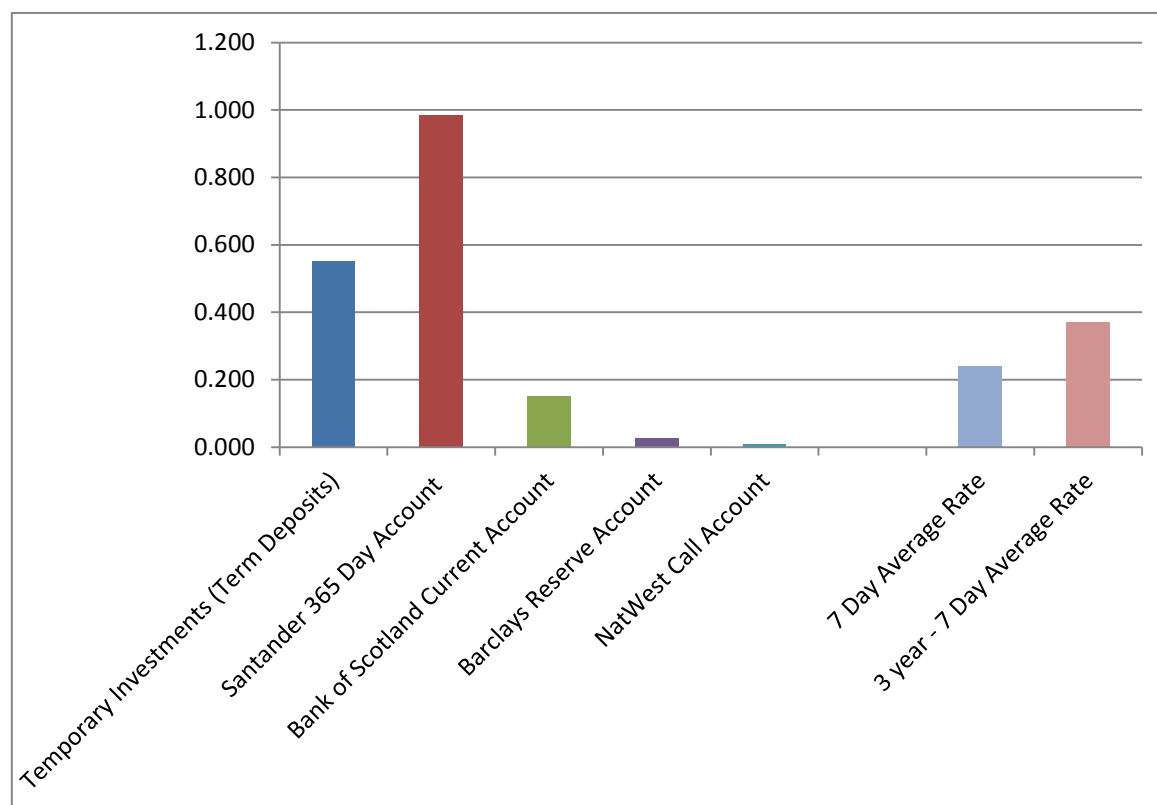
<b>Investments held as at 30 September 2017</b>				
<b>Counterparty</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Date Loaned</b>	<b>Date Returned</b>
Bank of Scotland	2,000,000	1.00%	02/11/16	01/11/17
Bank of Scotland	5,000,000	0.90%	13/02/17	12/02/18
Principality B/Society	3,000,000	0.45%	28/04/17	02/10/17
Skipton B/Society	2,500,000	0.65%	02/06/17	19/03/18
Skipton B/Society	3,000,000	0.77%	05/06/17	05/06/18
Newcastle B/Society	6,000,000	0.65%	03/07/17	15/03/18
National Counties B/Soc	2,000,000	0.55%	05/07/17	19/12/17
Nottingham B/Society	4,000,000	0.34%	01/08/17	19/10/17
Coventry B/Society	1,000,000	0.16%	01/08/17	30/10/17
Yorkshire B/Society	2,000,000	0.15%	02/08/17	16/10/17
Yorkshire B/Society	1,500,000	0.20%	02/08/17	15/11/17
Coventry B/Society	1,000,000	0.14%	21/08/17	23/10/17
Coventry B/Society	4,500,000	0.15%	01/09/17	20/11/17
Nottingham B/Society	2,000,000	0.32%	01/09/17	22/12/17
Coventry B/Society	1,000,000	0.24%	01/09/17	15/01/18
Principality B/Society	1,200,000	0.22%	15/09/17	15/11/17
Santander 365 Day	8,000,000	0.95%	365 day	notice
Barclays Reserve	100,000	0.01%	Call	
NatWest Call Account	1,400,000	0.01%	Call	
<b>TOTAL</b>	<b>51,200,000</b>			

## **9 Average Rate of Return Comparison**

- 9.1 The table below shows the change in the average rate of return for the various categories of investment quarter on quarter;

<b>Comparison of Average Rate of Return</b>		
	<b>Qtr 1</b>	<b>Qtr 2</b>
Temporary Investments	0.594%	0.552%
Santander 365 Day	1.017%	0.983%
Bank of Scotland C/Acc	0.100%	0.150%
Barclays Reserve	0.100%	0.026%
NatWest Call Account	0.010%	0.010%
7 Day Average	0.37%	0.24%
3 Year – 7 Day Average	0.48%	0.37%
<b>Overall Average return on Investments</b>	<b>0.607%</b>	<b>0.575%</b>

## Average Rate of Return by Investment Category



## 10 Summary of Funds Held

10.1 The table below shows a summary of the funds held as at 30 September 2017

Summary of Funds held	
Fund	£
Revenue Reserves	22,054,807
Capital Receipts Reserves	20,454,518
General Funds Reserve	3,035,694
Cash flow Balances	5,654,981
<b>Total Value of Investments</b>	<b>51,200,000</b>

## 11 Borrowing

11.1 As at 30 September 2017 the Council had no external debt.