

3rd Quarter Treasury Management Report 2017/18

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 (the Code) as adopted by Council states that;
- 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 Performance and Audit Scrutiny 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 22 February 2017 (report COU/FH/17/003 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 0.75%. This target rate was based upon investment rate projections for the year provided by Tradition / CDCM (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 £181k.

3. Interest Rates and Market Activity

- 3.1 As a result of the Monetary Policy Committee (MPC) meeting on 2 November 2017, the Bank of England increased the bank's Base Rate to 0.50%. Our advisors, Tradition, have stressed that given current circumstances it is difficult to forecast future interest rates at present. But have predicted that base rate will rise gradually to 1% by 2021. The knock on effect of this for the Council is continuing uncertainty on 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%.
- 3.2 Markets will continue to be closely monitored and higher rates of return secured whenever possible.

4. The Council's Lending Criteria 2017/18

- 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 based on data provided Fitch, Moody's and S&P (ratings agencies) or, for non-rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 4.2 The below tables shows the credit criteria applicable between the 1 April 2017 and 31 December 2017:

<u>Institution</u>	<u>Credit Rating Short Term</u> (Fitch Moody's)	<u>Credit Rating Long Term</u> (Fitch Moody's)	<u>CDCM Maximum Investment</u>	<u>Internally Managed Maximum Investment</u>	<u>Aggregated Maximum Investment per Institution</u>
	<u>S&P)</u>	<u>S&P)</u>	£M	£M	£M
UK Clearing Banks (Lloyds/Bank of Scotland)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	6 (7)	2.5 (3.5)	8.5 (10.5)
UK Building Societies (The Top 10 & £1bn Assets)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	2.5	6.5
UK Building Societies (from Top 11 downwards & £1bn Assets)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	1.5	5.5
UK Clearing Bank Subsidiaries	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	2.5	6.5
Other UK Banks (with links to overseas banks)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	1.5	5.5
Overseas Banks	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	3	0	3
Local Authorities	N/A	N/A	7	3	10
Debt Management Office	N/A	N/A	Unlimited	Unlimited	Unlimited

5. Compliance with Treasury Management Strategy and 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). 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 2017

- 6.1 The table below summaries the interest earned during the period 1 April to 31 December 2017 on the various Treasury Investments held by the Council;

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	£
Temporary Investments – Term Deposits	21,351.99
Externally Managed Funds – CDCM / Tradition	50,464.38
NatWest Liquidity Select Account	120.74
Barclays FIBCA Account	0.00
Lloyds 95 Day Account	8,123.09
Santander 180 Day Account	4,898.15
Santander 95 Day Account	1,777.40
TOTAL INTEREST EARNED/ACCRUED	£86,730.75

- 6.2 The budgeted income from investments for the period 1 April to 31 December 2017 was £135,750 (average rate of return of 0.75%). Interest actually earned during the period totalled £86,730 (average rate of return 0.61%), an under-achievement of interest of £49,020 and an under-achievement of 0.14% on the average rate of return.
- 6.3 The under-achievement of interest earned was primarily due to the reduction in cash balances following the purchase of the Solar Farm and the reduced average rate of return is due to the continuing low Bank of England base rate, resulting in reduced interest rates being offered by institutions. In addition as the Council now holds less funds, we have fewer longer term investment which are the investment that generate the higher rates of return.
- 6.4 By year end it is predicted that interest earned will be £75k under the original budget figure and the rate of return will be around 0.60%.

7. Investment Activity during the period 1 April to 31 December 2017

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

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2017/18
	£
Opening Balance 01 April 2017	18,005,000
Investments made during the year (including transfers to business reserve accounts)	26,300,000
Sub Total	44,305,000
Investments realised during the year (including withdrawals from business reserve accounts)	24,350,000
Closing Balance 31 December 2017*	19,955,000

*a summary of the breakdown of these funds is available in paragraph 9 of this report

7.2 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to five years, 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 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.

7.4 During the period, for cash flow purposes (in particular relating to capital projects), use was made of the instant access and business reserve accounts with Barclays and NatWest. At 31 December 2017 £1.6m was held in these accounts at an interest rate of 0.01%.

7.5 The table below shows the investments held as at 31 December 2017;

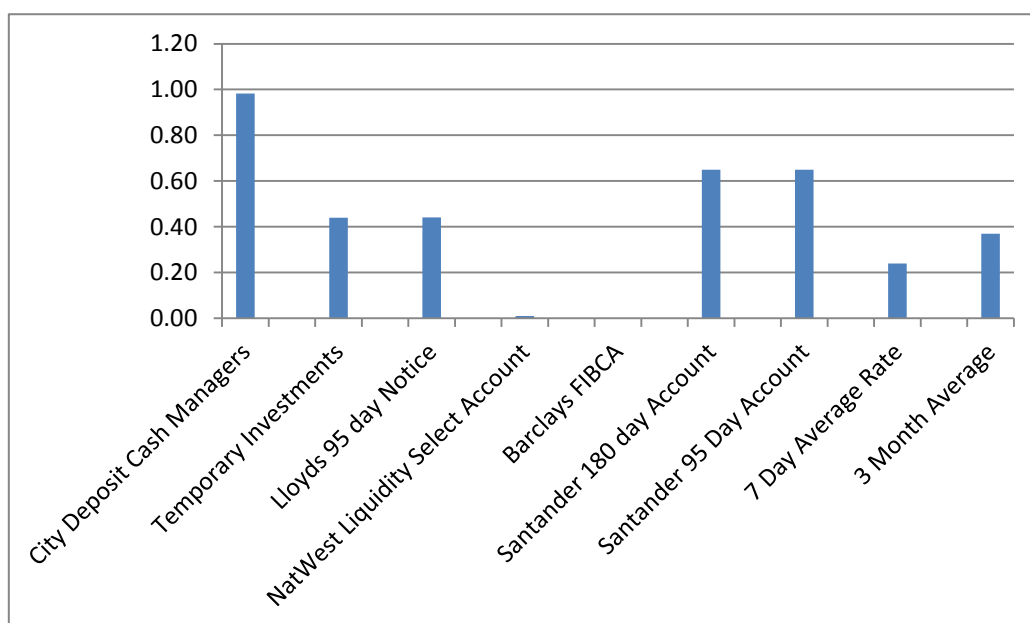
Investments held as at 31 December 2017				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Close Brothers Ltd	2,000,000	1.00%	09/01/17	09/07/18
Close Brothers Ltd	1,000,000	0.80%	09/01/17	08/01/18
National Counties B/Soc	3,500,000	0.78%	09/02/17	09/02/18
Newcastle Building Society	1,500,000	0.53%	29/09/17	19/03/18
Skipton Building Society	1,750,000	0.31%	02/10/17	19/02/18
National Counties B/Soc	1,500,000	0.38%	25/10/17	22/01/18
Yorkshire Building Society	1,200,000	0.40%	15/11/17	23/02/18
Principality B/Society	2,000,000	0.54%	01/12/17	23/04/18
Lloyds 95 Day Account	2,400,000	0.37%	95 day	notice
Santander 180 Day	1,000,000	0.55%	180 day	notice
Santander 95 Day	500,000	0.40%	95 day	notice
Barclays FIBCA	5,000	0.00%	Call	
NatWest LSA	1,600,000	0.01%	Call	
TOTAL	19,955,000			

8. Average Rate of Return Comparison

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

Comparison of Average Rate of Return			
	Qtr 1	Qtr 2	Qtr 3
Temporary In-House Investments	0.28%	0.32%	0.44%
CDCM Investments	1.21%	1.04%	0.98%
Lloyds 95 Day Account	0.37%	0.37%	0.44%
Santander 180 Day Account	0.85%	0.69%	0.65%
Santander 95 Day Account	0.61%	0.51%	0.47%
Barclays FIBCA	0.00%	0.00%	0.00%
NatWest LSA	0.01%	0.01%	0.01%
7 Day Average	0.37%	0.24%	0.24%
3 month Average	0.48%	0.37%	0.37%
Overall Average return on Investments	0.67%	0.58%	0.61%

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 2017

Summary of Funds held	
Fund	£
Revenue Reserves*	14,649,947
Capital Receipts Reserves*	2,758,970
General Funds Reserve	2,000,217
Cash flow Balances	545,866
Total Value of Investments	19,955,000

*these funds will be utilised through the Council's 5 year financial planning period

10. Borrowing

- 10.1 On 31 March 2008 the 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 31 March 2078, at a rate of 4.24%, with interest payable in arrears on the 31 March and 30 September each year.
- 10.2 The first interest payment for 2017/18, £84,567.67, was paid on 2 October 2017.
- 10.3 The Council also has two temporary loans totalling £2,000 which are repayable on 7 days notices. No request to repay either loan has been received during the period covered by this report.