

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Annual Treasury Management Report 2017/18 and Investment Activity 1 April to 30 June 2018	
Report No:	TMS/SE/18/003	
Report to and dates:	Treasury Management Sub-Committee	16 July 2018
	Performance and Audit Scrutiny Committee	25 July 2018
	Joint Executive (Cabinet) Committee	4 September 2018
	Council	25 September 2018
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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 2017/18 b) Provide a summary of investment activities for the first three months of 2018/19 financial year. 	

<p>Recommendation:</p>	<p>It is RECOMMENDED that, the Treasury Management Sub-Committee:</p> <p>(1) Scrutinise the content of this report, including details of the treasury management performance for 2017/18 and the first three months of the 2018/19 financial year; and</p> <p>(2) Make recommendations as appropriate via the Performance and Audit Scrutiny Committee to the Joint Executive (Cabinet) Committee and Council regarding the approval of the attached Annual Treasury Management Report for 2017/18 (Appendix 1 refers).</p>	
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>	
<p>Consultation:</p>	<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 the Joint Executive (Cabinet) and Council. 	
<p>Alternative option(s):</p>	<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. 	
<p>Implications:</p>		
<p><i>Are there any financial implications? If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> Please refer to main report 	
<p><i>Are there any staffing implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <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"/>	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <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 2017/18. 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). 	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> 	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
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
Ward(s) affected:		All Wards	
Background papers:		Annual Treasury Management and Investment Strategy – 2017/18 (COU/SE/17/002) Annual Treasury Management and Investment Strategy Statements (report COU/SE/17/002 approved 21 February 2017)	

Documents attached:

Appendix 1 – Annual Report for 2017/18

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

1. Key issues and reasons for recommendation(s)

1.1 Annual Report 2017/18

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summarises the interest earned during 2017/18 on the various Treasury investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2017/18 £
Bank of Scotland Investments – Term Deposits	51,196.58
Barclays Bank – Term Deposits	4,790.14
Coventry B/Society – Term Deposits	11,817.53
National Counties B/Society – Term Deposits	22,482.60
Nationwide B/Society – Term Deposits	12,663.01
Newcastle B/Society – Term Deposits	31,063.56
Nottingham B/Society – Term Deposits	16,887.40
Principality B/Society – Term Deposits	15,607.70
Skipton B/Society – Term Deposits	37,132.88
Yorkshire B/Society – Term Deposits	8,491.23
Bank of Scotland Current Account	1,609.50
Barclays Reserve Account	1,469.26
NatWest Call Account	276.65
Clydesdale 30 Day Account	0.20
Bank of Scotland Base Plus Account	0.45
Santander 365 Day Account	77,336.99
TOTAL INTEREST EARNED/ACCRUED	£292,825.68

1.2.3 The budgeted income from investments in 2017/18 was £253,000 (average rate of return of 0.55%). Interest actually earned during the year totalled £292,825 (average rate of return of 0.571%); an overachievement in interest of £39,825, and an over achievement of 0.021% 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 2 November 2017, the Bank of England increased its base rate to 0.50%, where it remained for the rest of 2017/18. As a result on the increase in base rate we have seen only a marginal increase in the rates being offered by the banks and building societies.

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 2018, was £359,630.

1.3 Investment Activity during the year

1.3.1 The table below summarises the investment activities during 2017/18:

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)	115,850,000
Sub Total	162,200,000
Investments realised during the year (including withdrawals from business reserve accounts)	125,850,000
Closing Balance 31 March 2017	36,350,000

1.4 Investments held as at 31 March 2018

1.4.1 The table below shows the investments held as at 31 March 2018:

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Skipton B/Society	3,000,000	0.77%	05/06/17	05/06/18
Principality B/Society	1,000,000	0.52%	07/12/17	03/04/18
National Counties B/Soc	2,500,000	0.71%	02/01/18	02/07/18
Principality B/Society	1,500,000	0.53%	15/01/18	21/05/18
Coventry B/Society	1,500,000	0.45%	01/02/18	21/05/18
Coventry B/Society	2,500,000	0.39%	12/02/18	23/04/18
Yorkshire B/Society	3,000,000	0.47%	12/02/18	15/05/18
Yorkshire b/Society	1,000,000	0.40%	26/02/18	16/04/18
National Counties B/Soc	1,000,000	0.78%	01/03/18	21/09/18
Newcastle B/Society	1,000,000	0.98%	19/03/18	19/03/19
Nottingham B/Society	1,500,000	0.75%	26/03/18	26/09/18
Bank of Scotland	3,100,000	0.40%	Call	
Barclays Bank	5,600,000	0.50%	Call	
NatWest Bank	150,000	0.05%	Call	
Santander 365 Day Acct	8,000,000	1.30%	365 day	
TOTAL	36,350,000			

2. First Quarter Report 2018/19

Investment Activity: 1 April to 30 June 2018

- 2.1.1 The total amount invested at 1 April 2018 was £36.35m and at 30 June 2018 £40.15m. 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 2018/19 Annual Treasury Management and Investment Strategy Statements (report COU/SE/18/002 approved 20 February 2018) sets out the Council's projections for the current financial year. The budget for investment income in 2018/19 is £308,000 which is based on a 0.70% target average rate of return on investments.
- 2.1.3 As at the end of June 2018 interest actually earned during the first quarter of the financial year amounted to £68,693 (average rate of return of 0.636%) against a profiled budget for the period of £77,000 (average rate of return of

0.70%); a budgetary deficit of £8,306. This deficit relates to lower than anticipated interest rates offered by lenders.

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

INTEREST EARNED & AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned in Q1
Temporary Investments (Term Deposits)	1,932,989	0.657%	47,264
Bank of Scotland Current Account	1,201,157	0.400%	1,197
Barclays Reserve Account	5,134,321	0.100%	1,280
NatWest Call Account	108,538	0.010%	2
Clydesdale 30 Day Account	81	0.250%	0
Bank of Scotland Base Plus Account	324	0.250%	0
Santander 365 Day Account	8,000,000	0.950%	18,947
Total Overall Average Return on Investments %			0.636%
Total Interest Earned - 1 April 2018 to 30 June 2018			68,693

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

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2018/19
Opening Balance 01 April 2018	36,350,000
Investments made during the year (including transfers to business reserve accounts)	31,200,000
Sub Total	67,550,000
Investments realised during the year (including withdrawals from business reserve accounts)	27,400,000
Closing Balance 30 June 2018	40,150,000

- 2.1.6 The table below shows the list of investments held as at 30 June 2018:

LIST OF INVESTMENTS HELD AS AT 30 JUNE 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
National Counties B/Soc	2,500,000	0.71%	02/01/18	02/07/18
National Counties B/Soc	1,000,000	0.78%	01/03/18	21/09/18
Newcastle B/Society	1,000,000	0.98%	19/03/18	19/03/19
Nottingham B/Society	1,500,000	0.75%	26/03/18	26/09/18
Nottingham B/Society	3,000,000	0.65%	03/04/18	16/07/18
Newcastle B/Society	2,000,000	0.82%	03/04/18	03/10/18
Newcastle B/Society	2,000,000	0.85%	05/04/18	15/10/18
Newcastle B/Society	1,000,000	0.82%	09/05/18	12/11/18
National Counties B/Soc	1,500,000	0.80%	15/05/18	15/11/18
Nottingham B/Society	1,500,000	0.77%	15/05/18	19/11/18
Coventry B/Society	3,000,000	0.45%	01/06/18	19/07/18
Coventry B/Society	1,000,000	0.48%	01/06/18	30/07/18

Coventry B/Society	2,000,000	0.50%	01/06/18	15/08/18
Coventry B/Society	3,500,000	0.69%	05/06/18	19/12/18
Santander 365 Account	8,000,000	0.95%	01/04/18	No notice given
NatWest Call Account	50,000	0.05%	Call	
Barclays Reserve Account	4,400,000	0.50%	Call	
Bank of Scotland	1,200,000	0.40%	Call	
TOTAL	40,150,000			

- 2.1.7 The table below shows a summary of the funds held as at 30 June 2018, the Budget and Council Tax 2018/19 (report COU/SE/18/004 approved 20 February 2018) report shows the planned spending profile for these reserves/balances across the medium term financial period:

SUMMARY OF FUNDS HELD*	
Fund	£
Earmarked Revenue Reserves	22,447,357
Capital Receipts Reserves	14,642,135
General Funds Reserve	3,035,725
Cashflow Balances	24,783
Total Value of Investments	40,150,000

*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 Borrowing and Capital Costs

- 2.2.1 The 2018/19 Budget has, for the first time, assumptions on borrowing for capital projects included within it. This borrowing was based around four specific projects:
- West Suffolk Operational Hub
 - Suffolk Business Park Loan
 - Investing in our Growth Fund
 - Olding Road (DHL Depot)

The detail on these Budgets is laid out below:

SUMMARY OF CAPITAL BORROWING BUDGET 2018/19			
Project	External Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£5,550,000	£0	£0
Suffolk Business Park Loan	£3,000,000	£0	£0
Investing in our Growth Fund	£20,000,000	£600,000	£412,500
Olding Road DHL Depot	£0	£197,750	£128,250
Total Value of Investments	£28,550,000	£797,750	£540,750

The position on each of these projects for the full year of 2018/19 is forecast as below:

SUMMARY OF CAPITAL BORROWING Q1 FORECAST 2018/19			
Project	External Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£5,550,000	£0	£0
Suffolk Business Park Loan	£0	£0	£0
Investing in our Growth Fund	£20,000,000	£600,000	£358,300
Olding Road DHL Depot	£0	£197,750	£0
Total Value of Investments	£25,550,000	£797,750	£358,300

2.2.2 This forecast position has moved due to the following reasons:

- Suffolk Business Park Loan facility no longer being required.
- £1.9m of the Growth Fund being invested in 20 High Street Haverhill which did not require external borrowing
- The purchase of Olding Road DHL Depot did not require external borrowing.

The impact of these changes is a reduction in forecast Interest Payable of £182,450 in 2018/19.

2.2.3 The remainder of MRP and Interest Payable relating to the Growth Fund is dependent on the £20m being invested within 2018/19. This situation is somewhat market dependant and is closely monitored.

2.2.4 As at the end of Quarter 1 there has been no requirement to borrow externally. Therefore there is no interest payable for Quarter 1.

2.3 Other Market Considerations

2.3.1 The Bank of England base rate continues to remain at 0.50%. Link Asset Services (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 the 2019/20 financial year. 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.