

Annual Treasury Management Report 2017/2018

1. Introduction

- 1.1 St Edmundsbury Borough 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.
- 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 2017/18.

2. The Council's Debt Free Status

- 2.1 As at 31 March 2018 the Council had no external debt.

3. Investment Strategy for 2017/18

- 3.1 The Council's 2017/18 Annual Treasury Management and Investment Strategy Statements 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.

Investment Rates in 2017/18

- 3.2 The Bank of England Base Rate increased the base rate from 0.25% to 0.50% on 2 November 2017 where it remained throughout the remainder of 2017/18. 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 also remained open until 31 January 2018. This meant that the reliance of financial institutions on the borrowing of wholesale funds (such as local authority investments) remained unchanged, resulting in a continued dampening of investment rates.
- 3.3 The Council's predicted average rate of return, included in the Annual Treasury Management and Investment Strategy Statements 2017/18, are detailed in the table below.

Average Rate of Return Predictions	
	Annual Treasury Management & Investment Strategy Statements 2017/18
2017/18	0.55%
2018/19	0.60%
2019/20	0.70%
2020/21	0.75%

The Council's Lending Criteria 2017/18

- 3.4 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 (Link Asset Services) or, for non-rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 3.5 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.
- 3.6 The below tables shows the credit criteria applicable as at 31 March 2018:

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 50% 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 2 years
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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

* In 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.

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 & 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 2017/18

- 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 2017	46.35
Add: Investments made during the year	115.85
Sub Total	162.20
Investments realised during the year	125.85
Closing balance at 31st March 2018	36.35

- 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, Bank of Scotland 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 31st March 2018 £4.45m was held in these accounts at an interest rate of between 0.10% and 0.40%. This level had been maintained to enable investment in the council's Investing in our Growth Agenda programme.
- 5.5 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 Link Asset Services (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 £253,000. This figure was used in the preparation of the Council's budget for 2017/18.
- 5.6 The average rate of return achieved during 2017/18 was 0.571%, an over achievement of 0.021%, and interest earned during the year totalled £292,825; an overachievement of £39,825. 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 2017/18, the list of investments held as at 31 March 2018 and comparison of average rates of return for 2017/18.

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

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	0.15%	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			

COMPARISON OF AVERAGE RATE OF RETURN 2017-18				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Temporary Investments	0.57%	0.55%	0.54%	0.54%
Bank of Scotland Current Account	0.15%	0.15%	0.15%	0.15%
Barclays Reserve Account	0.04%	0.03%	0.02%	0.33%
NatWest Call Account	0.01%	0.01%	0.01%	0.01%
Clydesdale 30 Day Account	0.25%	0.15%	0.25%	0.25%
Bank of Scotland Base Plus Account	0.25%	0.15%	0.25%	0.52%
Santander 365 Day Account	1.02%	0.98%	0.97%	0.97%
7 Day Average	0.475%	0.240%	0.240%	0.48%
3 year – 7 Day Average	0.484%	0.370%	0.370%	1.00%
Overall Average return on Investments	0.585%	0.575%	0.562%	0.571%