

TREASURY MANAGEMENT ANNUAL REPORT 2017/18

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 2017/18 on 14 February 2017, (report CAB/FH/17/006 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.
7. On the 30 September 2017 interest was paid to Barclays Bank Plc in the sum of £84,567.67, and on the 31 March 2018 a further £84,103.01 was paid (Totalling £168,670.68).
8. 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.
9. During 2016/17 the Council purchased Toggam Solar Farm. This purchase was part funded by £2.29m of internal borrowing, which resulted in an annual minimum

revenue provision (MRP) contribution of £91,602. This internal borrowing and subsequent MRP contribution would have been higher (in line with the approved business case), but at the time the S151 Officer used the discretion under the MRP Policy to utilise £8.18m of available capital receipts instead (future borrowing will need to ultimately replace these), reducing the level of borrowing at this point in time.

TEMPORARY LOANS – SUMMARY POSITION

10. The balance of principal outstanding for temporary loans as at the 31 March 2018 was £2,000.
11. A list of temporary loans outstanding as at 31 March 2018 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 2017/18 was reported to the Council on 22 February 2017.

INTEREST RATES

14. The Bank of England Base Rate remained at 0.25% until 2 November 2017 when it was increased to 0.50% 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 Funding for Lending Scheme 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.
15. 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	0.75%
2018/19	0.90%
2019/20	0.90%
2020/21	0.90%

16. As we continue to approach the withdrawal 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 2017/18 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 2017/18 as follows:-

- Investments made on the advice of the broker 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 2018) in respect of the 2017/18 financial year totalled £118,328. This represents a shortfall of £62,671 against the budget of £181,000 as forecast in the Council's Medium Term Financial Strategy.

20. This shortfall in interest earned was due to two main factors, the continuing low rates of return and a reduced level of cash balances following the purchase of the Solar Farm at Toggam Farm.

21. The tables below summarise the interest earned during 2017/18 and compares it to 2016/17 and total investments held as at 31 March 2018 compared to 31 March 2017.

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY		
	2017/18 £	2016/17 £
CDCM/ Tradition Investments	58,466.30	184,657.53
In-House Investments	34,900.14	31,557.84
Lloyds 95 day Notice Account	14,701.17	11,116.42
Barclays FIBCA	425.87	7,840.85
NatWest LSA	698.59	2,011.02
Santander 180 day Account	6,619.18	10,047.95
Santander 95 day Account	2,517.12	3,515.07
TOTAL INTEREST EARNED/ACCRUED	£118,328.36	£250,746.67

TOTAL VALUE OF INVESTMENTS (PRINCIPAL) HELD AT YEAR END		
	At 31 March 18 £	At 31 March 17 £
City Deposit Cash Managers Investments	2,000,000	8,500,000
Internally Managed Temporary Investments	7,500,000	4,000,000
Lloyds 95 day Notice Account	2,400,000	2,400,000
NatWest Liquidity Select Account	600,000	1,600,000

Barclays FIBCA	2,005,000	5,000
Santander 180 day Notice Account	1,000,000	1,000,000
Santander 95 day Notice Account	500,000	500,000
Total Value of Investments	16,005,000	18,005,000

INVESTMENTS MADE THROUGH CITY DEPOSIT CASH MANAGERS (TRADITION) ADVICE

22. No new investments were made nor maturing investments re-invested through City Deposit Cash Managers advice during the financial year. However, £8.5m of CDCM investments made prior to 2017/18 were still in place during 2017/18. Interest earned during the year on CDCM investments amounted to £58,466.30. **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 0.970%. 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 1.00%.
24. A list of outstanding investments made on City Deposit Cash Managers advice, as at 31 March 2018 is shown below.

CDCM Investments Held as at 31 March 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Close Bros	2,000,000	1.00%	09/01/17	09/07/18
TOTAL	2,500,000			

INTERNALLY MANAGED TEMPORARY INVESTMENTS

25. Internally Managed Temporary Investments and re-investments totalling £40,800,000 were made during the 2017/18 financial year. Interest earned during the year on these investments amounted to £34,900.14. **Appendix 3** contains details of individual investments.
26. A list of outstanding Internally Managed Temporary Investments as at 31 March 2018 is shown below.

Investments Held as at 31 March 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Principality B/Society	2,000,000	0.54%	01/12/17	23/04/18
Newcastle B/Society	1,000,000	0.53%	08/01/18	30/04/18
Yorkshire B/Society	1,000,000	0.40%	17/01/18	27/04/18
Coventry B/Society	1,500,000	0.62%	09/02/18	20/08/18
Coventry B/Society	1,000,000	0.63%	09/02/18	21/09/18
National Counties B/Soc	1,000,000	0.84%	09/02/18	19/11/18
TOTAL	7,500,000			

27. The average rate of return on Internally Managed Temporary Investments was 0.674%.

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 1.000%.

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 0.050%. 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 £698.59.

THE BARCLAYS FIBCA ACCOUNT

31. Barclays Fixed Interest Bearing Call Account (Barclays FIBCA) has seen a recovery in its interest rate following the increase in the Bank of England Base Rate ending the year on 0.400%. 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 £425.87.

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. Although the rate fell to 0.37% when the Base Rate fell, like the Barclays FIBCA account it too recovered to end the year on 0.70%
34. Interest earned on this account during the year amounted to £14,701.17.

SANTANDER 180 DAY NOTICE ACCOUNT

35. In October 2015 the Council opened a Santander 180 day Notice Account that offers a return of 1.15%, however falling Base Rates has seen the return on this account reduced to 0.70% at year end, which still remains comparable to one year, fixed term rates currently available.
36. Interest earned on this account during the year amounted to £6,619.18.
37. The balance held on the account as at 31 March 2018 was £1,000,000.

SANTANDER 95 DAY NOTICE ACCOUNT

38. The Santander 95 day Notice Account was opened on 22 April 2016, with an initial interest rate of 0.90%, and like the 190 day account has seen the rate of return reduce to 0.60% at year end. This rate still remains comparable to 3 months, fixed term rates currently available.
39. Interest earned on this account during the year amounted to £2,517.12.
40. The balance held on this account as the 31 March 2018 was £500,000.