

Performance and Audit Scrutiny Committee



Forest Heath
District Council

Title of Report:	Annual Treasury Management Report 2017-2018 and Investment Activity 1 April to 30 June 2018	
Report No:	PAS/FH/18/028	
Report to and dates:	Performance and Audit Scrutiny Committee	25 July 2018
	Joint Executive (Cabinet) Committee	4 September 2018
	Council	26 September 2018
Portfolio holder:	Stephen Edwards Portfolio Holder for Resources and Performance Tel: 01799 530325 Email: stephen.edwards@forest-heath.gov.uk	
Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
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; and b) Provide a summary of investment activities for the first three months of the 2018/19 financial year. 	

Recommendation:	Performance and Audit Scrutiny Committee: It is <u>RECOMMENDED</u> that the Committee: (1) Scrutinises the content of this report, including details of the Treasury Management Performance for the first three months of the 2018-2019 financial year; and, (2) Makes recommendations to the Joint Executive (Cabinet) Committee and Council regarding the approval of the attached Annual Treasury Management Report for 2017-2018 (Attachment 1 refers).	
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>	
Consultation:	<ul style="list-style-type: none"> Treasury management activities are undertaken in consultation with CDCM/Tradition (the Council's appointed brokers for longer term investments) and also takes into account information obtained from other investment brokers and economic commentators. Any changes in strategies and policies are subject to approval by the Assistant Director (Resources and Performance), Cabinet and full Council. 	
Alternative option(s):	<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 Council's borrowings, 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. 	
Implications:		
Are there any financial implications? <i>If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • Please refer to the main report	
Are there any staffing implications? <i>If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
Are there any ICT implications? <i>If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	

<p>Are there any legal and/or policy implications? If yes, please give details</p>		<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <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). 	
<p>Are there any equality implications? If yes, please give details</p>		<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> 	
<p>Risk/opportunity assessment:</p>		<p>(potential hazards or opportunities affecting corporate, service or project objectives)</p>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
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.	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of CDCM/Tradition 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	
<p>Background papers: (all background papers are to be published on the website and a link included)</p>		<p>CIPFA's revised Code of Practice for Treasury Management, (the Code), published in 2011.</p> <p>Annual Treasury Management and Investment Strategy – 2017/18 (COU/FH/17/003)</p>	

<p>Documents attached:</p>	<p>Attachment 1 - Annual Treasury Annual Report 2017/18</p> <p>Appendix 1 – Temporary Loans 2017/18</p> <p>Appendix 2 – CDCM Investments 2017/18</p> <p>Appendix 3 – Internally Managed Investments 2017/18</p> <p>Appendix 4 – Comparison of Rates 2017/18</p> <p>Appendix 5 – Statement of Compliance with the Treasury Management Code of Practice</p>
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1. Key issues and reasons for recommendation(s)

1.1 Annual Report 2017-2018

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summaries the interest earned during 2017/18.

1.2.2

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

1.2.3 The budgeted income from investments in 2017/18 was £181,000 (average rate of return of 0.75%). Interest actually earned during the year totalled £118,328 (average rate of return of 0.71%), an under achievement in interest of £62,671 and an under achievement of 0.04% on average rate of return.

1.2.4 The under achievement of interest earned was primarily due to reduced funds available for investment following the purchase the Solar Farm at Toggam Farm. This combined with the continuing low rates of return offered by our counterparties has resulted in this under achievement.

1.2.5 On November 2, 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.

1.3 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	18,005,000
Investments made during the year (including transfers to business reserve accounts)	35,800,000
Sub Total	53,805,000
Investments realised during the year (including withdrawals from business reserve accounts)	37,800,000
Closing Balance 31 March 2018	16,005,000

1.3.2 During the fourth quarter of 2017/18, £2.6m was placed in the Barclays FIBCA account and NatWest LSA account which had been earmarked for a payment

that would be required at short notice and purchases within the council's Investing in our Growth Agenda programme.

1.4 Investments held as at 31 March 2018

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

Investments Held as at 31 March 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Close Bros Ltd	2,000,000	1.00%	09/01/17	09/07/18
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
Lloyds 95 Day Account	2,400,000	0.70%	01/04/17	No notice given
Santander 180 Day Account	1,000,000	0.70%	01/04/17	No notice given
Santander 95 Day Account	500,000	0.60%	01/04/17	No notice given
NatWest LSA	600,000	0.05%	Call	
Barclays FIBCA	2,005,000	0.35%	Call	
TOTAL	16,005,000			

1.5 Market Activities

1.5.1 The Bank of England base rate remained at 0.25% until November 2, 2017 when it increased to 0.50%. Investment returns continue to be one to two basis points above or below base rate, depending on duration.

1.6 Borrowings

1.6.1 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.

1.6.2 Interest paid on the Barclays loan during 2017/18 totalled £168,671.

1.6.3 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.

1.7 Temporary Loans

- 1.7.1 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 2017/18 Treasury Management Strategy.
- 1.7.2 The balance of principal outstanding for temporary loans as at 31 March 2018 was £2,000. No loans were repaid during the year. The table below shows the temporary loans outstanding as at 31 March 2018.

Temporary Loans as at 31 March 2018			
Loan number	Interest Rate	Maturity Date	Loan Amount
1557	7 Day Average	7 Days Notice	1,000
1735	7 Day Average	7 Days Notice	1,000
Balance outstanding as at 31 March 2018			£2,000

1.8 Average Rate of Return

- 1.8.1 The table below shows the average rate of return for the various categories of investment against the 7 day average rate and 3 year – 7day average rate.

Comparison of Average Rate of Return				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Temporary Investments	0.288%	0.323%	0.439%	0.674%
CDCM Investments	1.213%	1.044%	0.982%	0.970%
NatWest LSA	0.010%	0.010%	0.010%	0.045%
Barclays FIBCA	0.000%	0.000%	0.000%	0.239%
Lloyds 95 day Account	0.370%	0.370%	0.441%	0.600%
Santander 180 day Acc	0.851%	0.699%	0.649%	0.662%
Santander 95 day Account	0.617%	0.508%	0.472%	0.503%
7 Day Average	0.475%	0.240%	0.240%	0.480%
3 year – 7 Day Average	0.484%	0.370%	0.370%	1.000%
Overall Average return on Investments	0.670%	0.580%	0.610%	0.710%

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 £16.005m and at 30 June 2018 £19.005m. 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 (report PAS/FH/18/009 refers) sets out the Council's projections for the current financial year. The budget for investment income in 2018/19 is £224,000 which is based on a 0.75% 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 £29,440 (average rate of return of 0.66%) against a profiled budget for the period of £56,000; a budgetary deficit of £26,559. This budgetary deficit was due to lower cash balances as a result of rephrasing of some income generating projects. These projects were budgeted

to be funded through external borrowing which would have temporarily boosted the cash balances and resultant interest.

- 2.1.5 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
City Deposit Cash Managers	2,000,000	1.000%	5,424.66
Temporary Investments	1,241,059	0.576%	14,786.58
Lloyds 95 Day Account	2,443,082	0.700%	4,290.35
NatWest LSA	75,727	0.010%	2.10
Barclays FIBCA	2,450,386	0.350%	2,443.67
Santander 180 Day Account	1,000,000	0.700%	1,745.21
Santander 95 Day Account	500,000	0.600%	747.95
Total Overall Average Return on Investments %			0.660%
Total Interest Earned - 1 April 2018 to 30 June 2018			29,440.51

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

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2018/19
Opening Balance 01 April 2018	16,005,000
Investments made during the year (including transfers to business reserve accounts)	13,000,000
Sub Total	29,005,000
Investments realised during the year (including withdrawals from business reserve accounts)	10,000,000
Closing Balance 30 June 2017	19,005,000

2.1.7 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
Close Bros Ltd	2,000,000	1.00%	09/01/17	09/07/18
Coventry B/Society	1,500,000	0.62%	09/02/17	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
Nottingham B/Society	1,500,000	0.61%	01/05/18	24/08/18
Yorkshire B/Society	1,500,000	0.57%	15/05/18	19/11/18
Principality B/Society	1,000,000	0.44%	01/06/18	19/07/18
Yorkshire B/Society	1,000,000	0.45%	01/06/18	23/07/18
Newcastle B/Society	1,500,000	0.80%	18/06/18	19/03/19
Newcastle B/Society	1,000,000	0.77%	26/06/18	21/01/19
Lloyds 95 Day Account	2,400,000	0.70%	01/04/18	No notice given
Barclays FIBCA	2,105,000	0.35%	Call	Account
NatWest LSA	000	0.05%	Call	Account
Santander 180 Day Acct	1,000,000	0.70%	01/04/18	No notice given
Santander 95 Day Acct	500,000	0.60%	01/04/18	No notice given
TOTAL	19,005,000			

2.1.8 The table below shows a summary of the funds held as at 30 June 2018:

SUMMARY OF FUNDS HELD*	
Fund	£
Revenue Reserves	13,454,593
Capital Receipts Reserves	3,281,717
General Funds Reserve	2,000,217
Cashflow Balances	268,473
Total Value of Investments	19,005,000

* 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 new assumptions on borrowing for capital projects included within it. This borrowing was based around seven specific projects, including:

- West Suffolk Operational Hub
- Mildenhall Hub
- Barley Homes – Loan facility
- Investing in our Growth Agenda Fund

There is also the long-standing £4.0m loan relating to the Newmarket Leisure Centre and £2.29m of internal borrowing relating to the purchase of the Toggam Solar Farm (see 1.6.3 for further details).

The detail on these Budgets is laid out below:

SUMMARY OF CAPITAL BORROWING BUDGET 2018/19 (including c/f amounts)			
Project	Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£2,585,263	£0	£0
Mildenhall Hub*	£4,560,000	£0	£0
Mildenhall Swimming Pool	£24,000	£0	£0
The Flowerpot – Brandon *	£50,000	£0	£0
Wellington Street Pedestrian Scheme – Newmarket *	£150,000	£0	£0
Barley Homes – Loan Facility *	£1,695,750	£0	£0
Investing in our Growth Fund	£20,000,000	£600,000	£412,500
Newmarket Leisure Centre (relating to £4m from 2008)	£4,000,000	£122,250	£169,600
Toggam Solar Farm (amount carried forward from 2017/18)	£2,290,041	£436,000	£202,000
Total	£35,355,054	£1,158,250	£784,100

*These projects were originally to be funded from capital receipts, however the Council took advantage of utilising capital receipts available at the time to finance the solar farm projects – creating additional (albeit temporary) savings in borrowing costs. The borrowing costs to fund these projects sits within the Toggam Solar Farm line.

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

SUMMARY OF CAPITAL BORROWING Q1 FORECAST FOR 2018/19				
Project	External Borrowing	Internal Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£0	£2,585,263	£0 **	£0
Mildenhall Hub	£4,560,000	£0	£0 **	£202,000

Mildenhall Swimming Pool*	£0	£0	£0	£0
The Flowerpot – Brandon *	£0	£0	£0	£0
Wellington Street Pedestrian Scheme – Newmarket*	£0	£0	£0	£0
Barley Homes*	£0	£27,500	£0	£0
Investing in our Growth Fund	£19,258,700	£741,300	£600,000	£412,500
Newmarket Leisure Centre	£4,000,000	£0	£122,250	£169,600
Toggam Solar Farm	£0	£2,290,041	£436,000	£0
Total	£27,818,700	£5,644,104	£1,158,250	£784,100

*These project budgets are now not expected to be spent/spent in full in 2018/19, they may be carried forward into 2019/20

** MRP is not charged until the asset goes into operation, neither West Suffolk Operational Hub nor Mildenhall Hub are expected to be operational in 2018/19

- 2.2.3 This forecast position for the Investing in our Growth Fund has moved due to the following reason:
- £0.7m of the Growth Fund being invested in 113 High Street Newmarket which was funded by internal borrowing.

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 being closely monitored.

- 2.2.4 The impact of utilising internal funds is a reduction in forecast interest payable in 2018/19, further savings are anticipated from the Investing in our Growth Funds use of internal borrowing – this will be reported next quarter.
- 2.2.5 As at the end of Q1 there has been no requirement to borrow externally over and above the £4.0m Barclays loan. Therefore the only interest payable for Q1 is the £169,600 relating to this.

2.3 Other Market Considerations

- 2.3.1 With uncertainty still surrounding the Brexit negotiations, the financial markets still remain volatile with low rates of return still being offered by the banks and building societies. The treasury team will continue to closely monitor the situation and provide undated information as it becomes available.

- 2.3.2 Market Analysts have recently revised their prediction on base rate, with the majority moving back to possibility a rise until the second quarter of 2019, which is likely to have an adverse effect on the Council's average rate of return. Treasury management performance will continue to be closely monitored.

2.4 **Borrowing and Temporary Loans**

- 2.4.1 Below is a summary of the borrowings and temporary loans as at 30 June 2018;

BORROWINGS AND TEMPORARY LOANS		
Lender / Loan number	Balance outstanding	Maturity date
Barclays Loan	£4,000,000	31 March 2078
1557	£1,000	7 Days Notice
1735	£1,000	7 Days Notice