

Performance and Audit Scrutiny Committee



Forest Heath
District Council

Title of Report:	Mid-Year Treasury Management Report 2018/19 and Investment Activity 1 April to 30 September 2018	
Report No:	PAS/FH /18/040	
Report to and dates:	Performance and Audit Scrutiny Committee	28 November 2018
	Joint Executive (Cabinet) Committee	11 December 2018
	Council	19 December 2018
Portfolio holder:	Councillor Stephen Edwards Portfolio Holder for Resources and Performance Tel: 01799 530325 Email: stephen.edwards@forest-heath.gov.uk	
Lead officer:	Greg Stevenson Service Manager (Finance and Performance) Tel: 01638 719245 Email: gregory.stevenson@westsuffolk.gov.uk	
Purpose of report:	To present the Council's Mid-Year Treasury Management Report summarising the investment activity for the period 1 April to 30 September 2018	
Recommendation:	<p>Performance and Audit Scrutiny Committee:</p> <p>It is <u>RECOMMENDED</u> that the Committee:</p> <p>Make recommendations as appropriate to the Joint Executive (Cabinet) Committee and Council regarding the approval of the Mid-Year Treasury Management Report for 2018-2019.</p>	

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), Joint Executive (Cabinet) Committee 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:			
<i>Are there any financial implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • Please refer to the main report	
<i>Are there any staffing implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
<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"/> • This report is in-line with the Treasury Management Practice 6, (TMP6), of the Treasury Management Code of Practice, which requires a mid-year monitoring report to be submitted to Council by 31 December each year	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
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)

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	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Annual Treasury Management and Investment Strategy – 2018/19 (COU/FH/18/003)	
Documents attached:		None	

1. Mid-Year monitoring report 2018/2019

Investment Activity: 1 April to September 2018

- 1.1.1 The total amount invested at 1 April 2018 was £16.005m and at 30 September 2018 £19.800m. 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), the payment of precepts (i.e. to Suffolk County Council, Suffolk Police and central government) and changes in the profile of the Capital Programme.
- 1.1.2 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.
- 1.1.3 As at the end of September 2018 interest actually earned during the first quarter of the financial year amounted to £62,722 (average rate of return of 0.676%) against a profiled budget for the period of £112,000; a budgetary deficit of £49,278. This budgetary deficit was due to lower cash balances as a result of re-phasing 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. In addition investments were made on a shorter term basis for liquidity resulting in lower yields.
- 1.1.5 The table below summaries the interest earned and the average rate of return achieved and compares this with the 3 month LIBOR average.

INTEREST EARNED & AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned
City Deposit Cash Managers	2,000,000	0.798%	4,328.10
Temporary Investments	1,179,341	0.699%	39,820.27
Lloyds 95 Day Account	2,460,705	0.767%	9,459.53
NatWest LSA	61,130	0.062%	18.96
Barclays FIBCA	2,035,600	0.400%	4,082.36
Santander 180 Day Account	1,000,000	0.700%	3,509.59
Santander 95 Day Account	500,000	0.600%	1,504.11
Total Overall Average Return on Investments %			0.676%
Total Interest Earned - 1 April 2018 to 30 Sept 2018			62,722.92
LIBOR 3 Month Average			0.686%

1.1.6 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)	25,300,000
Sub Total	41,305,000
Investments realised during the year (including withdrawals from business reserve accounts)	21,505,000
Closing Balance 30 September 2017	19,800,000

1.1.7 The table below shows the list of investments held as at 30 September 2018:

INVESTMENTS HELD AS AT 30 SEPTEMBER 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
National Counties B/Soc	1,000,000	0.84%	09/02/18	19/11/18
Yorkshire B/Soc	1,500,000	0.57%	15/05/18	19/11/18
Newcastle B/Soc	1,500,000	0.80%	18/06/18	19/03/19
Newcastle B/soc	1,000,000	0.77%	25/06/18	21/01/19
Principality B/Society	1,500,000	0.59%	02/07/18	22/10/18
Nationwide B/soc	2,500,000	0.68%	13/07/18	02/01/19
Principality B/Soc	1,000,000	0.60%	23/07/18	29/10/18
Nottingham B/Soc	1,000,000	0.85%	01/08/18	15/02/19
Leeds B/Soc	1,500,000	0.77%	15/08/18	22/03/19
Nottingham B/Soc	1,000,000	0.77%	24/08/18	19/12/18
Yorkshire B/Soc	1,000,000	0.71%	03/09/18	23/10/18
Lloyds 95 Day Account	2,400,000	0.80%	95 day	notice
Santander 180 Day	1,000,000	0.70%	180 day	notice
Santander 95 Day	500,000	0.60%	95 day	notice
Barclays FIBCA	1,400,000	0.40%	Call	
TOTAL	19,800,000			

1.1.8 The table below shows a summary of the funds held as at 30 September 2018:

SUMMARY OF FUNDS HELD*	
Fund	£
Revenue Reserves	£14,624,838
Capital Receipts Reserves	£2,624,835
General Funds Reserve	£2,000,217
Cashflow Balances	£550,110
Total Value of Investments	£19,800,000

* 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. Borrowing and Capital Costs

2.1.1 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.

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

SUMMARY OF CAPITAL BORROWING Q2 FORECAST FOR 2018/19				
Project	External Borrowing	Use of Available Revenue Reserves (in place of External Borrowing)	Minimum Revenue Provision (MRP)	Interest Payable
West Suffolk Operational Hub	£0	£2,585,263	£0 **	£0
Mildenhall Hub	£0	£500,000	£0 **	£0
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	£0	£741,300	£18,531	£0
Newmarket Leisure Centre	£4,000,000	£0	£117,528	£169,600
Toggam Solar Farm	£0	£2,290,041	£91,602	£0
Total	£4,000,000	£6,144,104	£227,661	£169,600

*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

This forecast position for the Investing in our Growth Fund has moved due to the following reason:

- £0.74m of the Growth Fund being invested in 113 High Street Newmarket which was funded by internal borrowing.
- Lack of investment opportunities to utilise the Investment in our Growth Fund

2.1.3 As opportunities for growth fund investment arise the borrowing and MRP position will be reviewed as each business case is developed.

- 2.1.4 The impact of utilising internal funds is a reduction in forecast interest payable in 2018/19.
- 2.1.5 As at the end of Q2 there has been no requirement to borrow externally over and above the £4.0m Barclays loan. Therefore the only interest payable for Quarter 1 is the £169,600 relating to this.

2.2 Other Market Considerations

- 2.2.1 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.
- 2.2.2 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.

2.2 Borrowing and Temporary Loans

- 2.2.1 Below is a summary of the borrowings and temporary loans as at 30 September 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