

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Treasury Management Report 2018-2019 and Investment Activity (April – December 2018)	
Report No:	TMS/SE/19/001	
Report to and dates:	Treasury Management Sub-Committee	21 January 2019
	Performance and Audit Scrutiny Committee	31 January 2019
	Joint Executive (Cabinet) Committee	12 March 2019
	Council	19 March 2019
Portfolio holder:	Councillor Ian Houlder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Gregory Stevenson Service Manager Finance & Performance Tel: 01284 757264 Email: gregory.stevenson@westsuffolk.gov.uk	
Purpose of report:	To present the Council's Treasury Management Report summarising the investment activities for the period to 31 December 2018.	
Recommendation:	<p>It is recommended that, the Treasury Management Sub-Committee:</p> <p>(1) Notes the Mid-Year Treasury Management Report; and</p> <p>(2) Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.</p>	

Key Decision:	<i>Is this a Key Decision and, if so, under which definition?</i> 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 Link Asset Services (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. 	
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 the continuation of in-house management of funds, the use of external brokers and advisors, 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"/> <ul style="list-style-type: none"> Please refer to 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"/> <ul style="list-style-type: none"> This report is in-line with the Treasury Management Practice 6, (TMP6), of the Treasury Management Code of Practice. 	
<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)
	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 – 2018/19 (COU/SE/18/002) Annual Treasury Management and Investment Strategy Statements (report COU/SE/18/002 approved 20 February 2018)	
Documents attached:		N/A	

1. December Monitoring Report 2018/19

Investment Activity: 1 April to 31 December 2018

- 1.1.1 The total amount invested at 1 April 2018 was £36.35m and at 31 December 2018 £44.30m. 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 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.
- 1.1.3 As at the end of December 2018 interest actually earned during the first nine months of the financial year amounted to £255,665 (average rate of return of 0.734%) against a profiled budget for the period of £231,000 (average rate of return of 0.70%); a budgetary surplus of £24,665.
- 1.1.4 The table below summaries the interest earned and the average rate of return achieved and compares with the LIBOR 3 month average at 31 December 2018.

INTEREST EARNED & AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned
Temporary Investments (Term Deposits)	1,862,610	0.716%	165,239
Bank of Scotland Current Account	3,797,924	0.578%	16,541
Barclays Reserve Account	3,739,424	0.400%	11,269
NatWest Call Account	87,220	0.010%	6
Clydesdale 30 Day Account	81	0.250%	1
Bank of Scotland Base Plus Account	325	0.250%	1
Santander 365 Day Account	8,000,000	1.039%	62,608
Total Overall Average Return on Investments %			0.734%
Total Interest Earned - 1 April 2018 to 31 December 2018			£255,665
LIBOR 3 month Average			0.722%

1.1.5 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)	83,200,000
Sub Total	120,050,000
Investments realised during the year (including withdrawals from business reserve accounts)	75,250,000
Closing Balance 31 December 2018	44,300,000

1.1.6 The table below shows the list of investments held as at 31 December 2018:

Investments held as at 31 December 2018				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Newcastle B/Soc	1,000,000	0.98%	19/03/18	19/03/19
Principality B/Soc	1,000,000	0.78%	11/07/18	22/02/19
Principality B/Soc	1,000,000	0.78%	16/07/18	18/12/19
National Counties B/Soc	2,500,000	0.88%	01/08/18	15/02/19
Coventry B/Soc	3,000,000	0.81%	15/08/18	19/03/19
Nottingham B/Soc	3,000,000	0.86%	03/09/18	04/03/19
Leeds B/Soc	2,000,000	0.82%	26/09/18	19/02/19
Leeds B/Soc	1,000,000	0.85%	03/10/18	15/03/19
Yorkshire B/Soc	1,000,000	0.76%	01/11/18	04/02/19
Yorkshire B/Soc	1,000,000	0.78%	01/11/18	19/02/19
Yorkshire B/Soc	2,000,000	0.75%	01/11/18	15/01/19
Coventry B/Soc	2,000,000	0.77%	01/11/18	18/03/19
Nottingham B/Soc	1,000,000	0.80%	03/12/18	11/03/19
National Counties B/Soc	2,000,000	0.75%	03/12/18	21/01/19
Newcastle B/Soc	2,000,000	0.67%	03/12/18	21/01/19
Principality B/Soc	1,500,000	0.99%	21/12/18	21/06/19
Santander 365 Day	8,000,000	1.15%	365 day	notice
Bank of Scotland C/A	8,300,000	0.65%	Call	
Barclays Reserve	950,000	0.50%	Call	
NatWest Call Account	50,000	0.015%	Call	
TOTAL	44,300,000			

1.1.7 The table below shows a summary of the funds held as at 31 December 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	22,305,723
Capital Receipts Reserves	16,965,564
General Funds Reserve	3,035,724
Cashflow Balances	1,992,899
Total Value of Investments	£44,300,000

*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, 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 Q3 FORECAST 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	£892,900	£0	£0
Suffolk Business Park Loan	£0	£0	£0	£0
Investing in our Growth Fund	£0	£1,955,000	£48,839	£0
Olding Road DHL Depot	£0	£0	£193,672	£0
Total Value of Investments	£0	£2,847,900	£242,511	£0

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

- Suffolk Business Park Loan facility no longer being required.
- £1.955m of the Growth Fund being invested in 20 High Street Haverhill which did not require external borrowing
- Lack of suitable investment opportunities for the investing in our growth fund
- 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 £540,750 in 2018/19.

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 As at the end of Quarter 3 there has been no requirement to borrow externally. Therefore there is no interest payable.

3. Other Market Considerations

3.1.1 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.