

SUBJECT:	<i>Treasury Management – Annual Performance Report 2017/18</i>
REPORT OF:	<i>Jim Burness, Director of Resources</i>
RESPONSIBLE OFFICER	<i>Helen O'Keeffe, Principal Accountant</i>
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WARD/S AFFECTED	<i>All</i>

1. Purpose of Report

- 1.1 To report on the Treasury Management performance of the Council for 2017/18 as required under the Code of Practice for Treasury Management.

RECOMMENDATION to Cabinet

Members are requested to note the Treasury Management performance for 2017/18 as required by the Code of Practice for Treasury Management.

2. Background

- 2.1 The Council is required to comply with the CIPFA Code of Practice on Treasury Management. The primary requirements of the code are:
- (i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.
 - (ii) Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will achieve those policies and objectives.
 - (iii) Receipt by the Cabinet and Council of an annual strategy report for the year ahead **and an annual review report of the previous year.**
 - (iv) The 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.

3. Annual Report on Treasury Management 2017/18

- 3.1 As a debt free authority the treasury management activities of the Council in 2017/18 are exclusively concerned with the investment of its reserves, as the Council has not undertaken any borrowing in 2017/18.
- 3.2 The base rate was decreased from 0.5% to 0.25% in August 2016, with the rate having remained at 0.5% since March 2009. The base rate was increased to 0.5% on 2 November.
- 3.3 Officers invest cash flow surpluses with approved counter parties. During the year, officers invested funds in accordance with counter parties approved as part of the Treasury Management Strategy 2017/18 as in the table below.

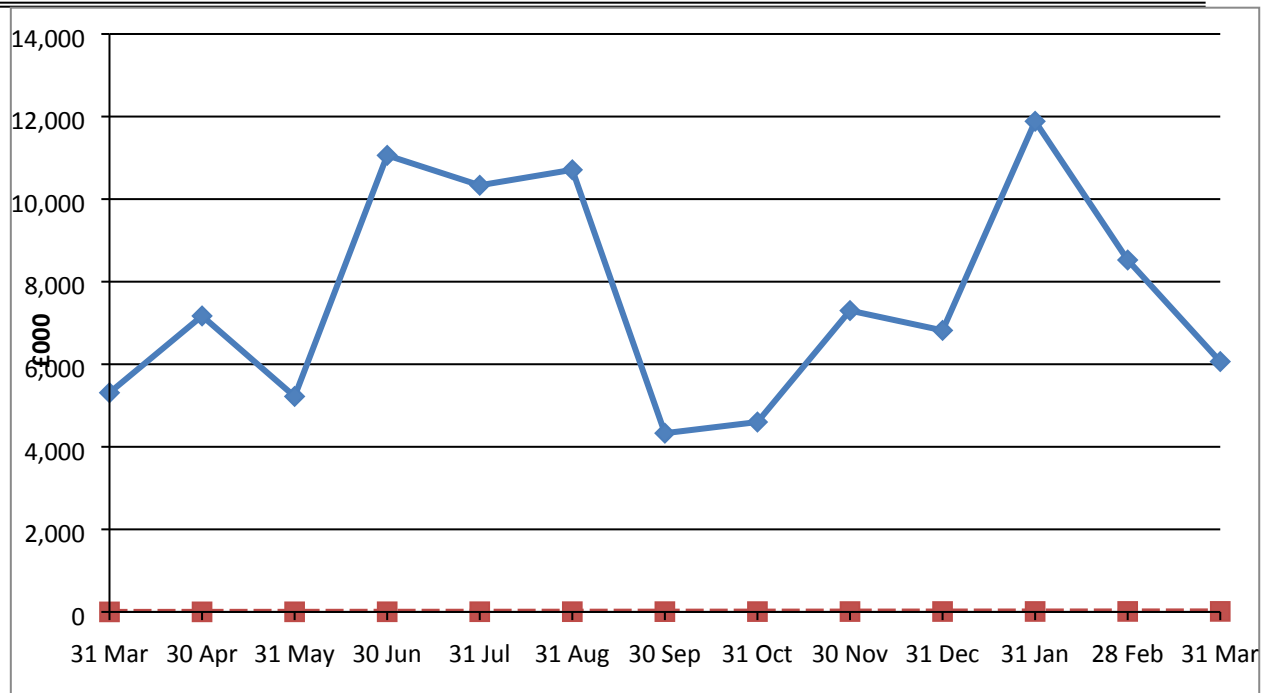
	Duration	Maximum Amount	Fitch Rating	Comment
Money Market Funds	-	£5m	AAA	
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB+ or better	
Non UK Institution	Up to 3 years	£2m	A or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	A- or better	
Other Approved Investments (eg Property Funds)	-	£5m	-	-

- 3.4 A summary of the movements in the year is as follows:

	Fund Balance 1.4.2017 £000	Fund Withdrawals £000	Added to Fund £000	Fund Balance 31.3.2018 £000
Instant access deposits	310	0	4,755	5,065
Money Market Funds	5,000	4,000	0	1,000
Fixed Deposits	11,000	13,000	10,000	8,000
Corporate Bonds	729	*139	0	590
Total	17,039	17,139	14,755	14,655

* Investments maturing in year and change in market value

- 3.5 The following graph shows how the level of cash and instant access investments has fluctuated over the year.



3.6 A summary of the Council's Fixed Deposits as at 31 March 2018 is detailed below:

UK Institutions	Fitch Credit Rating	Principal £	Interest Rate	Invested	Matures
Lloyds Banking Group	A+				
Fixed Deposit		1,000,000	0.65%	02/08/17	02/08/18
Royal Bank of Scotland	BBB+				
Fixed Deposit		3,000,000	3 mth LIBOR	09/02/15	09/02/20
Santander	A				
Fixed Deposit		1,000,000	0.85%	02/06/17	04/06/18
Close Brothers	A				
Fixed Deposit		3,000,000	0.80%	15/09/17	14/09/18
Total Deposits		8,000,000			

3.7 In addition, funds are held on a short term basis for day to day cashflow purposes with our bankers, Barclays. At the end of March £5,065k was held in an instant access account.

3.8 The following corporate bonds were held at the end of the March 2018:

Bond held	Valuation £	Coupon Interest Rate	Effective Interest Rate	Maturity date
Asif II (a)	94,983	6.38%	5.49%	05/10/20
Asif II (b)	31,288	6.38%	5.33%	05/10/20

Asif II (c)	50,285	6.38%	6.41%	05/10/20
UK Treasury	171,380	8.00%	4.77%	07/06/21
Atlantia SPA (a)	67,336	6.25%	5.65%	09/06/22
Atlantia SPA (b)	106,320	6.25%	5.55%	09/06/22
UK Treasury	68,274	6.00%	4.76%	07/12/28
Total	589,866			

- 3.9 The weighted average interest rate earned on fixed rate investments in the year was 0.58%.
- 3.10 Link Asset Services is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.

4 Corporate Implications

- 4.1 A comparison between the actual and budgeted interest returns for 2017/18 is shown in the table below:

	Budget 2017/18 £000	Actual 2017/18 £000
Fixed Deposits		70
Short Term Investments		20
Money Market Funds		7
Farnham Trust Clubhouse Loan		32
Other Miscellaneous Interest ⁽¹⁾		4
Corporate Bonds		30
Total Interest	200	163

Note 1: miscellaneous interest includes interest from car loans and Swan Road.

- 4.2 There was an underachievement of £37k from the budget during 2017/18. Despite the increase in the base rate, interest rates remained lower than the assumptions made in the budget. The budget assumed that new medium and long term investments would achieve an average interest rate of 1.0% which has not proved to be achievable. In addition, the overall level of investments has decreased during the year.
- 4.3 The target figure for investment income for 2018/19 has been set at £150,000.

Background Papers:	None
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