



East
Northamptonshire
Council

Finance Sub Committee – 3 February 2014

Treasury Management Report Quarter 3 2013/14

Purpose of report

The purpose of this report is to note the latest position for Treasury Management 2013/14.

Attachment(s)

None

1. Introduction

- 1.1. The Treasury Management Strategy for 2013/14 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2013. It was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009.
- 1.2. The CIPFA Code of Practice recommends that Members are informed of treasury management activities at least twice a year; this report therefore follows this best practice.
- 1.3. The report provides:
 - A summary of the economic conditions affecting the Council's investment strategy.
 - Details of investments made during the year.
 - A summary of the Council's current investment portfolio.
- 1.4. The Council's investment priorities are:
 - Security of capital invested.
 - Liquidity of capital invested.
 - Yield, Return on investment.

2. Market Conditions

- 2.1. **Growth:** The UK economy showed stronger growth than expected within 2013 (0.4% Q1, 0.7% in Q2 and 0.8% in Q3), alongside a pick-up in property prices, possibly linked to Government funding initiatives to boost mortgage lending. Unemployment announced in January 2014 showed a reduction from 7.4% to 7.1%. Jobs growth is picking up, but with many employees working shorter hours and the benefit cuts set to gather pace, economic growth may still be gradual.
- 2.2. **Inflation:** Consumer confidence has improved during 2013/14, in particular households, with consumer price inflation falling from the high of 5.2% in September 2011 to 2.1% in November 2013.
- 2.3. **Monetary Policy:** There has been no change during 2013 to UK monetary policy, with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.
- 2.4. Whilst the outlook for the global economy appears to have improved in 2013/14, it remains a fragile economic recovery. The European Central Bank (ECB) has recently cut official bank rate from 0.5% to 0.25% due to the continued subdued inflation and depressed bank lending across the Eurozone and to demonstrate its continued commitment to its pledge to keep interest rates low for as long as necessary, and warned that it was too soon to say the euro region is out of danger.

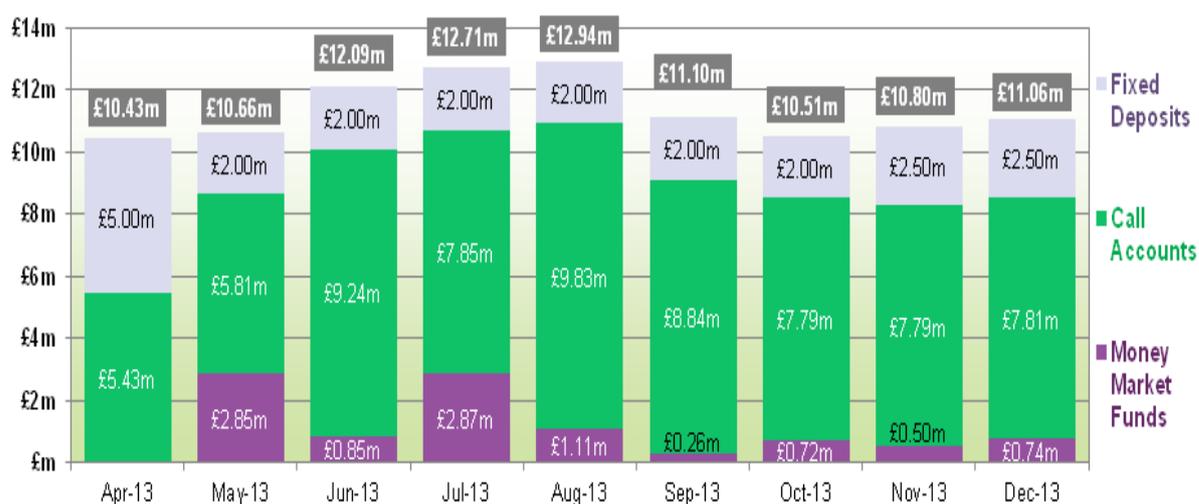
- 2.5. **Interest Rates:** The latest forecast for interest rates from the Council's Treasury Management advisors, is shown below:

Official Bank										
Rate	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Mar-17	
Upside Risk	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	1.00	
Central Case	0.50									
Downside Risk										

3. Treasury Management Activity

- 3.1. During the first nine months of the year, the opportunity for the Council to invest its surplus cash for periods in excess of 12 months in duration has diminished. This is partly due to the uncertainty of the use of the Council's cash resources to fund the capital programme in the short term. In addition, the interest rates being offered for periods of 12 months or more, reduced during the first quarter of 2013/14 as confidence increased across the banking sector.
- 3.2. Investing for shorter durations reduces the counterparty risk the Council is exposed to and the potential yield (interest rate) the Council can achieve. To mitigate some of the impact of not being able to place funds beyond 12 months, the council has looked at alternative options to fixed term deposits, by investing in a 30 day notice account which is yielding 1%.
- 3.3. The Council will continue to monitor the economic outlook and money markets to ensure it is able to achieve a yield in line with market expectations whilst ensuring security and liquidity of capital are maintained.
- 3.4. Future investment decisions are discussed between EnCor's Treasury Manager and our Finance Manager, and are made in line with the Annual Treasury Management Strategy and the advice from the Council's Treasury Management Advisors (Arlingclose).
- 3.5. The charts below demonstrate the change in investment type (i.e. shift towards shorter investments) up to 31 December 2013.

Total amount invested April - December 2013



- 3.6. Call accounts and Money Market Funds (MMF) are very short term, liquid investments. They are generally overnight deposits or short term notice accounts where the balance invested can be withdrawn immediately. Fixed Deposits are investments with a longer duration, where cash is invested for a contractually agreed period with no opportunity to withdraw cash prior to the maturity date of the deposit.

4. Treasury Management Position and Performance

4.1. The table below summarises the council's current portfolio of investments as at 31st December 2013.

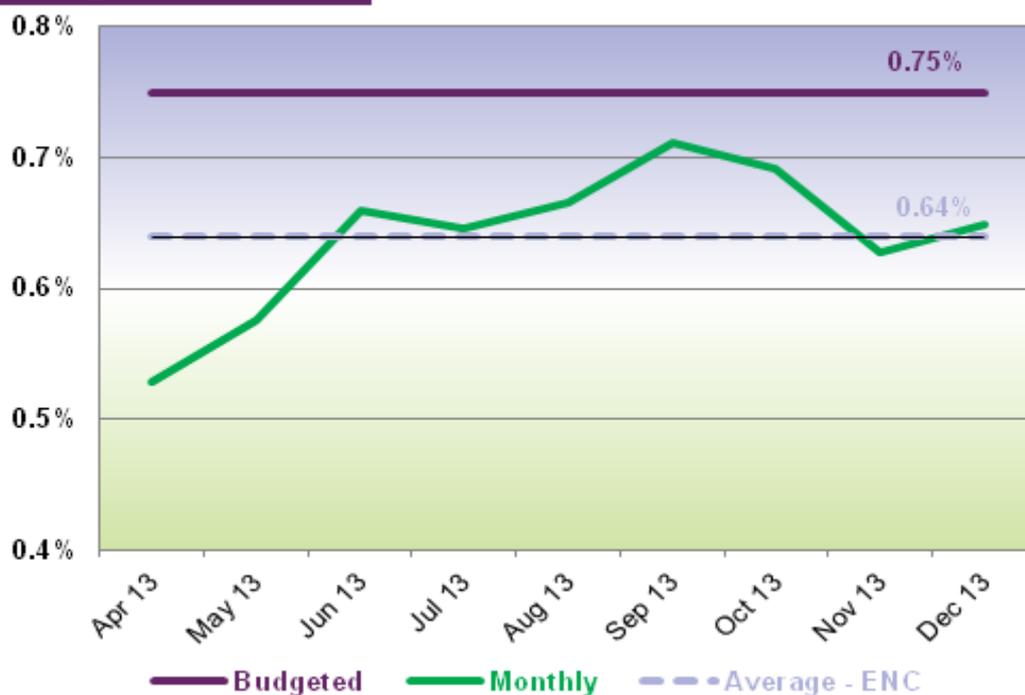
Counterparty / Lender	Amount (£)	Rate (%)	Maturity Date
Call Accounts			
Santander UK	1,828,190	0.40	
Bank of Scotland	7,864	0.40	
Close Brothers (30 day notice account)	2,990,164	1.00	
Nat West SIBA	2,987,455	0.50	
Federated Sterling Liquidity Fund (Money Market Fund)	743,477	0.41	
Deutsche Bank Sterling Fund (Money Market Fund)	844	0.33	
Fixed Term Deposits			
Lloyds Bank	2,500,000	0.75	22/05/2014
11,057,992			

4.2. The average return on the Council's portfolio to 31st December 2013 is 0.64%. This is 0.29% above the average 7-day London Interbank Bid Rate (LIBID) of 0.35%.

4.3. The amount of interest earned on the Council's portfolio for the period to 31st December is £62,518 against an annual budget of £67,500.

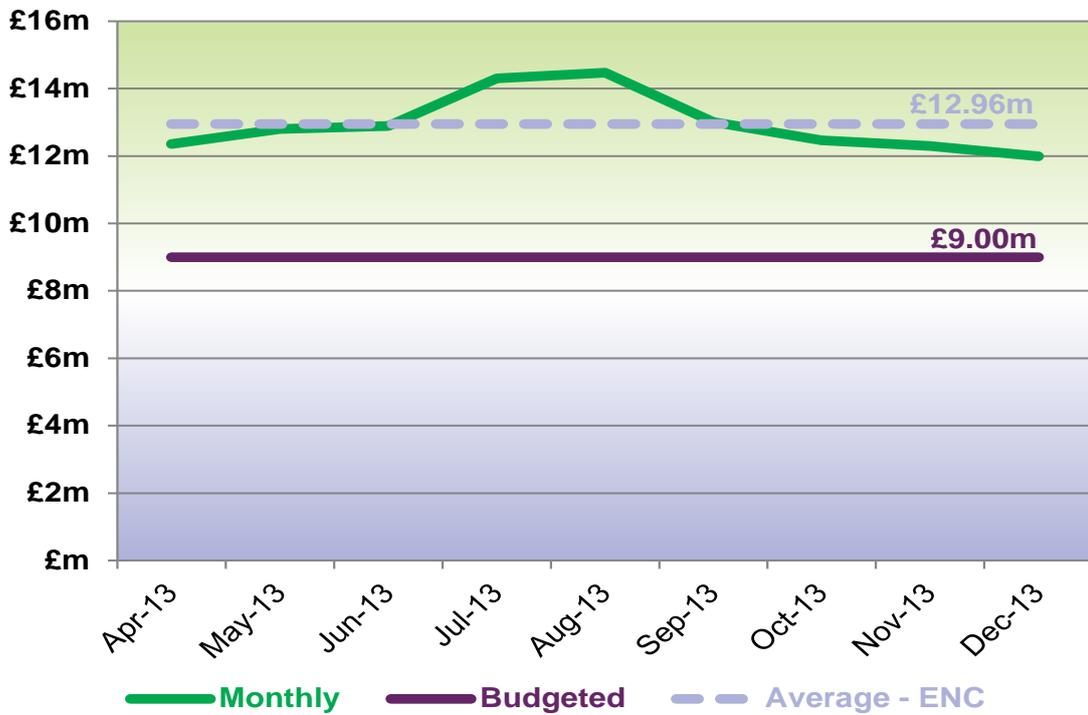
4.4. As detailed above, the Council's current interest rate achievable on its investment portfolio is lower than anticipated when the budget was set in February 2013.

Average Interest Rates



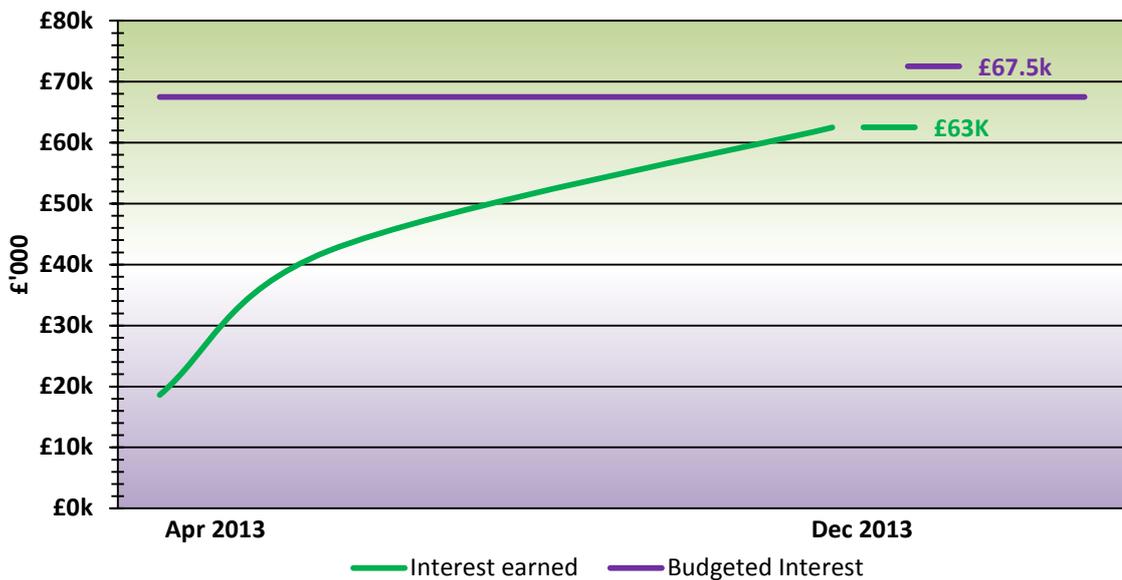
4.5. The level of cash balances held by the Council is higher than anticipated when the budget was set in February 2013. The majority of the increase in cash balances is due to the income received as a result of Nene Centre Roof mediation settlement.

Average Cash Balances



- 4.6. Although the Council's investments are achieving lower rates of return, the volume of cash being held means that the amount of interest receivable remains on target to achieve the budget (£67,500) as shown below.

Interest Earned



- 4.7. Due to uncertainty over the timing of capital receipts, the Council originally forecast that it may have required to borrow externally to support the short term borrowing position the Council is current faced with. The Council has been able to use its surplus cash reserves and balances to finance this borrowing requirement in 2013/14, rather than borrowing externally. This variance accounts for £181k of the underspend position being reported for Q3.
- 4.8. During 2013/14 the capital reserves will be fully depleted. Delayed asset sales will lead to a requirement for short term borrowing to support the capital programme expenditure in 2013/14. The Council is planning to use its surplus cash reserves to finance this borrowing requirement in 2013/14, rather than borrowing externally. As at 31st December 2013 the council is internally borrowed to fund its capital programme as follows:

Capital Programme	£000
Forecast Capital Outturn	3,942
Funded By:	
Capital Reserve	175
Leisure Reserve	885
Asset Proceeds	85
Grant Contribution	171
Revenue Contribution	200
Internal Borrowing	2,426
Total	3,942

- 4.9. There will be an opportunity cost of using surplus cash reserves to finance the capital programme, namely lost investment income on the surplus monies. However, this is considered a better value for money option than borrowing externally for a short term period at this point in time, and will be kept under review as the interest rate environment changes.
- 4.10. As a result of using surplus monies there has been no requirement during quarter 3 to undertake any external borrowing. No interest payable has been incurred during this period.
- 4.11. The overall Treasury Management outturn is set out below.

Treasury Management Budget vs. Outturn				
	Budget £000	Outturn £000	Variance £000	
Investments	(67,500)	(74,500)	(7,000)	Lower interest rates being achieved, offset by higher than expected cash balances
Borrowing	180,636	0	(180,636)	External Borrowing not required
Total	113,136	(74,500)	(187,636)	

5. Equality and Diversity Implications

- 5.1. This report is for information. There are no equality and diversity implications arising from the content.

6. Legal Implications

- 6.1. This report is for information. There are no legal implications arising from the content.

7. Risk Management

- 7.1. This risks arising from Treasury Management activity are recorded in the Risk Register. The risks are subject to regular review and update.

8. Financial Implications

- 8.1. This report is for information, there are no financial implications arising from this report. However, it should be noted that the Council currently has a clear policy not to incur long-term borrowings to support the capital programme and as set out within the report the Council is in a short term, not in a long term, borrowing position.

9. Corporate Outcomes

- 9.1. The report demonstrates support for the following corporate outcomes:
- Good Value for Money
 - Effective Management

10. Recommendations

- 10.1. Finance Sub-Committee is recommended to note the Treasury Management performance for quarter 3 2013/14.

(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)

Legal	Power:			
	Other considerations:			
Background Papers:				
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Date: 22 January 2014				
CFO 24.01.14		MO		CX