East Northamptonshire Council

# Finance Sub Committee – 25 June 2014

## Treasury Management Report Quarter 4 2013/14

**Purpose of report**

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

**Attachment(s)**

Appendix 1 – Prudential Indicators

## 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. The Treasury Management Strategy 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 embraces 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.
- Return on investment.

## 2. Market Conditions

2.1. **Growth:** At the beginning of 2013/14 financial year markets were concerned about the lacklustre growth in the Eurozone, the UK and Japan, threatening the possibility of a triple dip in the UK economy. Only the US and Germany were showing signs of growth above the pre-crisis level. During the year the Bank of England have a new Governor, Mark Carney with renewed focus on unemployment levels and the trigger point for interest rate increases, expected to be in 2016.

2.2. During Q3 and Q4 the UK economy has shown stronger than anticipated economic activity and growth. Q4 GDP showed a year on year growth of 2.7%. What remains unclear is the impact of political risk to growth from the up and coming General Election in May 2015.

2.3. With the announcement of tapering of quantitative easing by the US Federal Reserve early this year, the US monetary policy with remain a key driver of the global financial markets.

2.4. The economic environment within the Eurozone has seen a period of stability, although still very fragile against a back drop of low inflation. During 2013/14 the European Central Bank (ECB) cut interest rates by 0.25% to 0.25% and deposit interest rates to zero. Markets reacted with disappointment by the lack of action by the ECB, with a looming threat of deflation.

2.5. There is a risk that the Chinese economy will suffer a credit crunch style crisis, as its banks come under stress and authorities seek to stem lending growth. This will have negative repercussions for domestic retail investors and the highly leveraged local government sector.

2.6. **Inflation:** The latter half of 2013/14 has seen a real growth in wages, with CPI rate falling further to 1.7% which is below the Bank of England's target of 2.0%. It is expected that this will remain low for some time.

2.7. **Monetary Policy:** There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.

2.8. **Interest Rates:** The latest forecast for interest rates, based on information 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 | 1.00 | 1.00 |
| **Central Case** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** |
| Downside Risk | | | | | | | 0.25 | 0.25 | 0.50 |

## 3. Treasury Management Activity

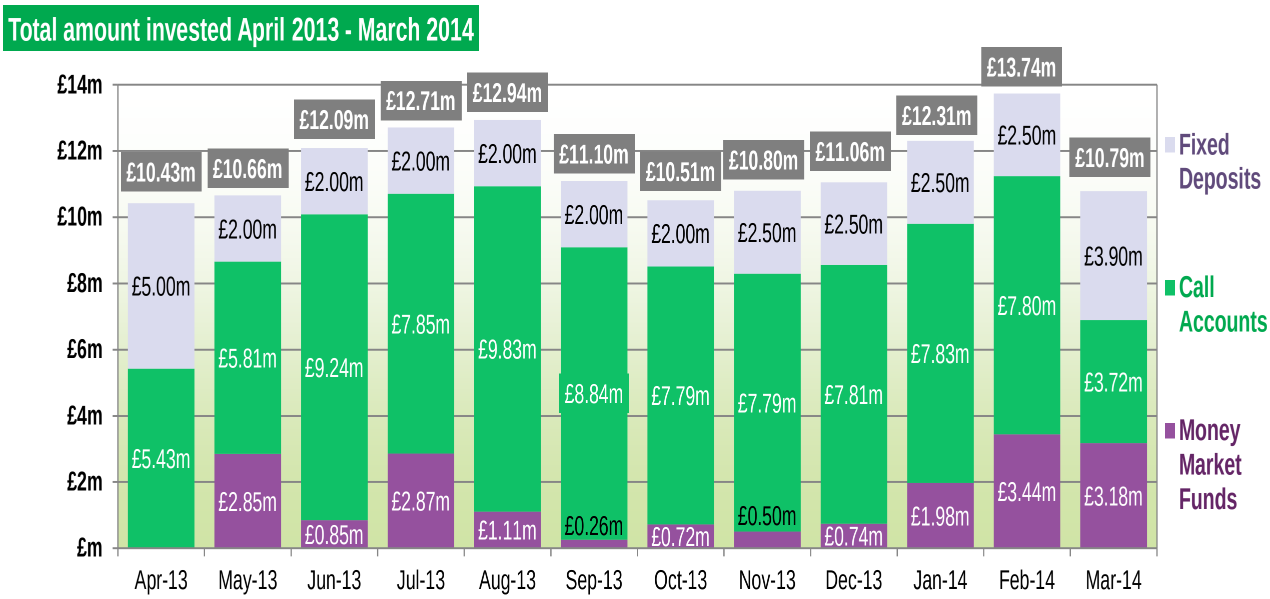
3.1. During the first nine months of the year, the opportunity for the Council to invest its surplus cash for periods in excess of 12 months in duration has diminished. This is partly due to the uncertainty of the draw on the Council's cash resources to fund the capital programme.

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 the Treasury Manager and 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 31st March 2014.




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

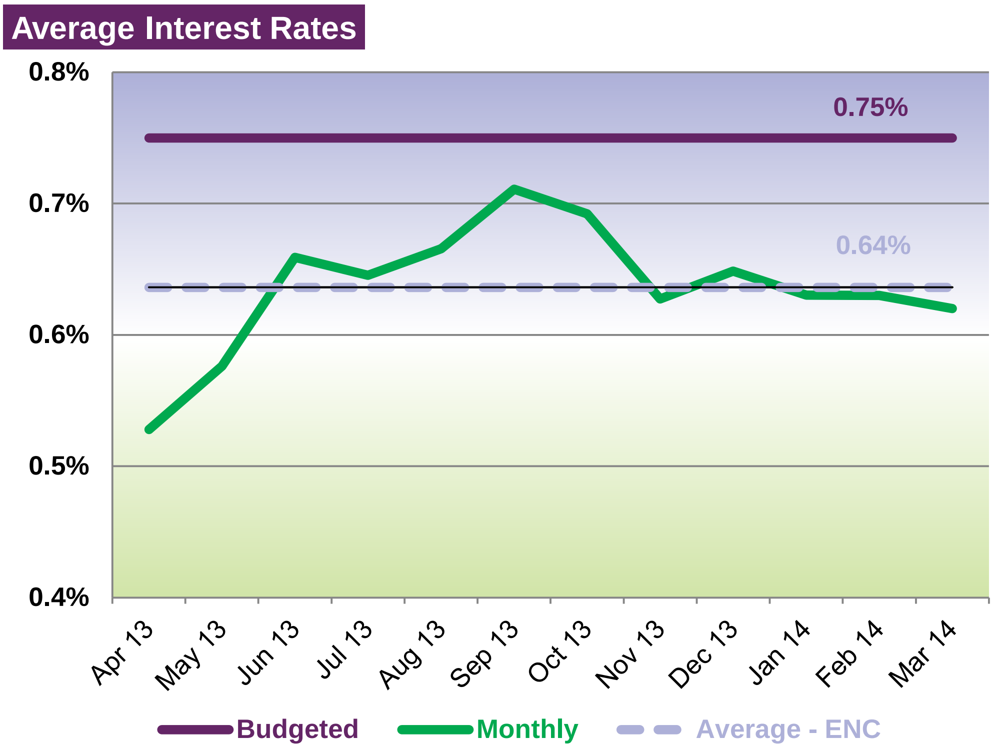
4.1. The table below summarises the council's current portfolio of investments as at 31st March 2014.

| Counterparty / Lender | Amount | Rate % | Maturity Date |
|---|---|---|---|
| **Call Accounts** | | | |
| Santander UK | £1,728,190 | 0.40 | |
| Bank of Scotland | £7,875 | 0.40 | |
| Close Brothers | £1,979,231 | 1.00 | |
| Nat West | £573 | 0.25 | |
| Federated Sterling Money Market Fund | £1,635,950 | 0.41 | |
| Deutsche Bank Money Market Fund | £1,541,488 | 0.34 | |
| **Fixed Term Deposits** | | | |
| Lloyds Bank | £2,500,000 | 0.75 | 22/05/2014 |
| DMADF (DMO) | £1,400,000 | 0.25 | 04/04/2014 |
| | **£10,793,307** | | |

4.2. The average return on the Council's portfolio to 31$^{st}$ March 2014 is 0.64%. This is 0.25% above the average 7 day London Interbank Bid Rate (LIBID) of 0.39%.

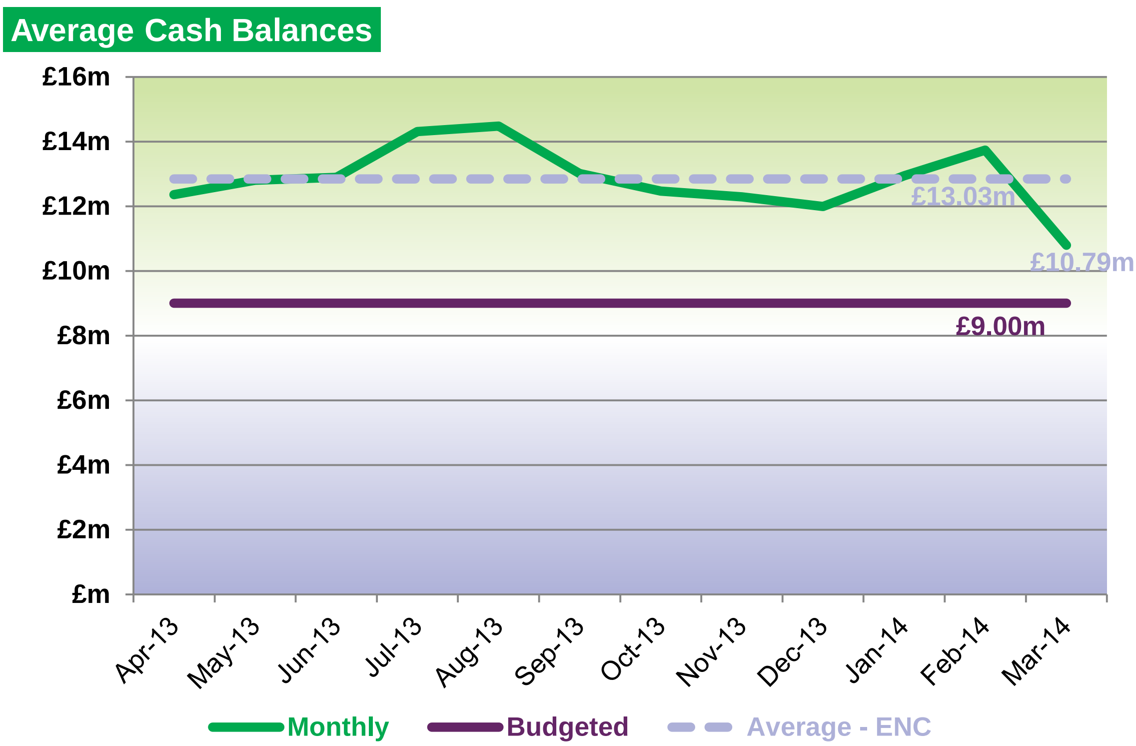
4.3. The amount of interest earned on the Council's portfolio for the period to 31$^{st}$ March is £82,000 against an annual budget of £67,500.

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.

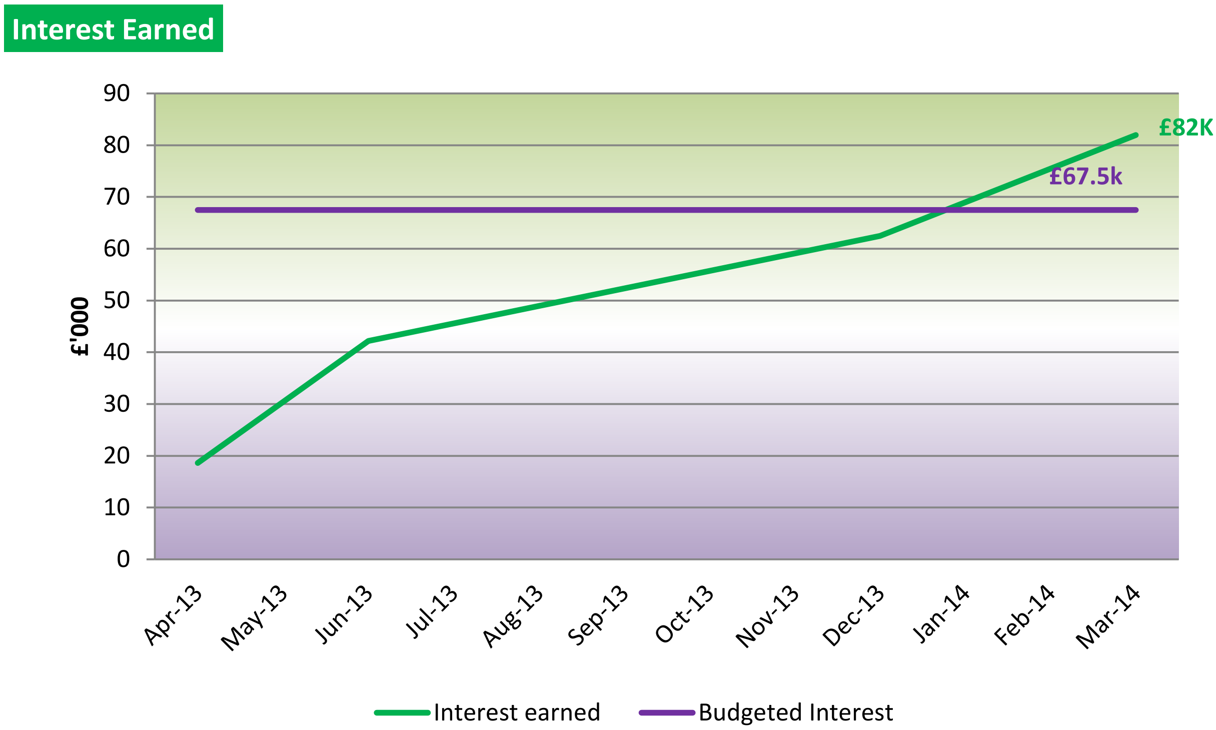



4.5. The graph above shows the average interest movement during the year for the Councils investments. As can be seen there was a reduction from October 2013. This reduction is due to the intervention by Central Government via the funding for lending scheme which was introduced at this time.

4.6. 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 the Nene Centre Roof mediation settlement, realisation of planned asset sales earlier than anticipated and slipage within the Capital Expenditure Programme.



4.7. Although the Council's investments are achieving lower rates of return, the volume of cash being held means that the amount of interest receivable is higher than the targeted amount of £67,500 to achieve the budget as shown below.




4.8. During 2013/14 it was expected that capital reserves would be fully depleted by the delay in asset sales. These asset sales were realised during periods 11 and 12 of the 2013/14 financial year, thus avoiding the requirement for short term borrowing to support the capital programme expenditure. Although it must be pointed out that this is only a temporary relief from any potential short term borrowing in the future.

| Capital Programme | £'000 |
|---|---|
| Capital Expenditure | 3,829 |
| **Funded By:** | |
| Asset Sales | 2,543 |
| Leisure Reserve | 885 |
| Grant Contribution | 171 |
| Revenue Contribution | 230 |
| **Total** | **3,829** |

4.9. The Council is seeking to release additional capital resources by undertaking a review of technical accounting treatment. For the Council this is the negative Capital Financing Requirement (CFR); this will enable the Council to access an additional amount of usable capital reserves. This CFR situation arose when the Council sold its housing stock, based on the accounting requirements prevailing at the time. Since adopting International Financial Accounting Standards (IFRS) the accounting treatment applied in 2001/2002 can be reversed, which has been supported by our external Treasury Advisors, Arlingclose. This position has not been reflected within the above table as this proposed treatment has yet to be agreed with our external auditors. The positive impact on the reserve position could be up to £2.4m.

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) | (£82,006) | (£14,506) | Lower interest rates being achieved, offset by higher than expected cash balances |
| Borrowing | £180,636 | £0 | (£180,636) | External Borrowing not requried (Apr to Mar 2014) |
| **Total** | **£113,136** | **(£82,006)** | **(£195,142)** | |

## 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.

## 9. Corporate Outcomes

9.1. The report demonstrates support for the following corporate outcomes:

- ***Good Value for Money***
  *This report demonstrates that the Council is ensuring it effectively manages its surplus cash to achieve good value for money for the Council*
- ***Effective Management***
  *Treasury Management allows the Council to manage its surplus cash balances to ensure the main principles (Security, Liquidity, Yield) are maintained, contributing to effective management of the Council*

## 10. Recommendations

10.1. Finance Sub Committee is recommended to note the Treasury Management performance for quarter 4 2013/14.
*(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)*

| | | | | | |
|---|---|---|---|---|---|
| **Legal** | Power: Local Government Finance Act 2002 | | | | |
| | Other considerations: | | | | |
| **Background Papers:** | | | | | |
| **Person Originating Report:** | Kelly Watson, Finance Manager, 01832 742267<br>kwatson@east-northamptonshire.gov.uk | | | | |
| **Date: 12 June 2014** | | | | | |
| **CFO 13/6/14** | | **MO 13/6/14** | S Matthews | **CX 13/6/14** | D. Oliver |

**Incremental Impact of Capital Investment Decisions**

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme. Below is a table comparing the estimated and actual impact on Council Tax of the capital investment decisions made by the council during 2013/14.

| **Capital Expenditure** | **2013/14 Revised £'000** | **2013/14 Actual £'000** |
|---|---|---|
| Capital Expenditure 2013/14 | 4,466 | 3,829 |
| **Incremental Impact of Capital Investment Decisions** | **2013/14 Revised £** | **2013/14 Actual £** |
| Increase in Band D Council Tax | 1.06 | 0.87 |