East Northamptonshire Council

Finance Sub-Committee – 22 October 2014

Treasury Management Report

Purpose of report

The purpose of this report is to note the latest position for Treasury Management 2014/15.

Attachment(s)

None

1. Introduction

1.1. The Treasury Management Strategy for 2014/15 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2014. 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:** The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014. Although confirming that the UK has one of the fastest rates of economic growth in the western world, the breakdown of economic data did not provide any additional information supporting a trend towards the rebalancing of the economy, which remains a key plank of the government's economic strategy. House prices continued on their upward trend but there were some signs of cooling in the housing market evident from the fall in the number of housing transactions and new mortgage lending due to tighter lending standards following the introduction of the Mortgage Market Review in March.

2.2 In June the European Central Bank announced interest rate cuts, along with a raft of non conventional measures to head off the growing threat of deflation in the Eurozone. The ECB cut the main policy rate (refinancing rate) from 0.25% to 0.15% and, to encourage banks to lend to businesses and generate economic growth, it also cut the deposit rate to -0.10% which in effect means that commercial banks must pay for the privilege of depositing their funds at the central bank.

2.3 There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by $10 billion to $35 billion per month. The sharp downward revision to US GDP in Q1 to -2.9% annualised was strongly influenced by severe weather deterring consumers from going out and spending. GDP in Q2 of 2014 is expected to rebound, taking the annual average rate of growth over the last four quarters ending in Q2 to a more sustainable level of 2%.

2.4 **Inflation :** CPI inflation fell to 1.5% year-on-year, which was lower than market expectations. Even though inflation was expected to tick marginally higher in coming months, it was still expected to remain just below the Bank's 2% target.

2.5 **Monetary Policy:** The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June, Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. The minutes of the MPC's June meeting outlined the Bank's central view that, whilst wage growth and inflation had been weak, economic activity had been stronger than expected and the policy decision had therefore become more 'balanced' for some members on the Committee than earlier in the year.

2.6 **Interest Rates:** The latest forecast for interest rates, based on information from the Council's Treasury Management advisors, is shown below:

Official Bank Rate	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Upside Risk	0.25	0.25	0.25	0.50	0.25	0.50	0.50	0.50	0.50
Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**
Downside Risk					0.25	0.25	0.50	0.50	0.75

3. Treasury Management Activity

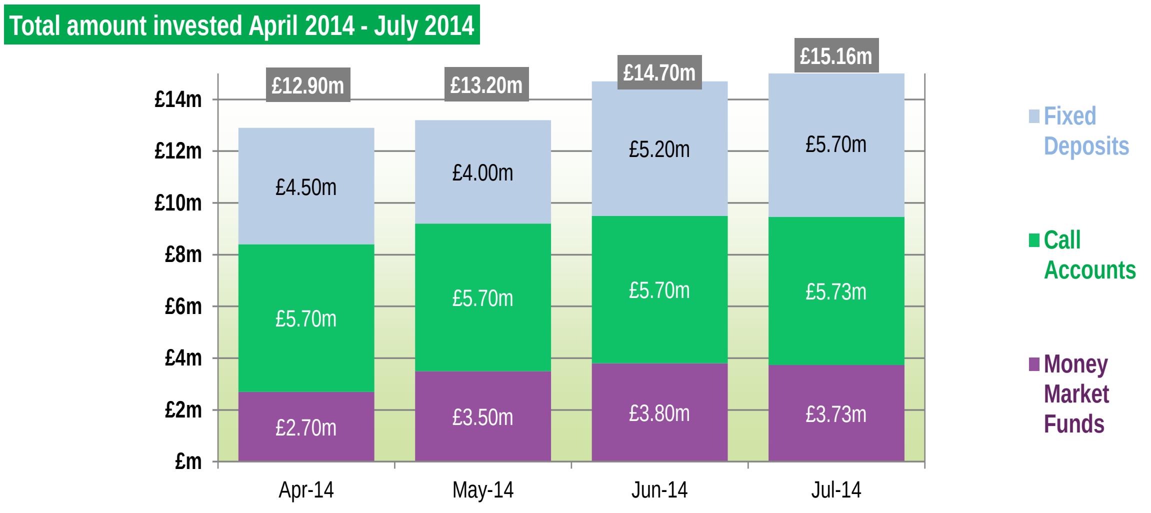
3.1. During the first four months of the year, the opportunity for the Council to invest its surplus cash for periods of up to 12 months in duration has improved. This is partly due to the surplus cash resources generated from the sale of Council assets. The authority has recently placed a 12 month fixed deposit with Lloyds Bank.

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 ENCor 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 31st July 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 it prior to the maturity date of the deposit.

4. Treasury Management Position and Performance

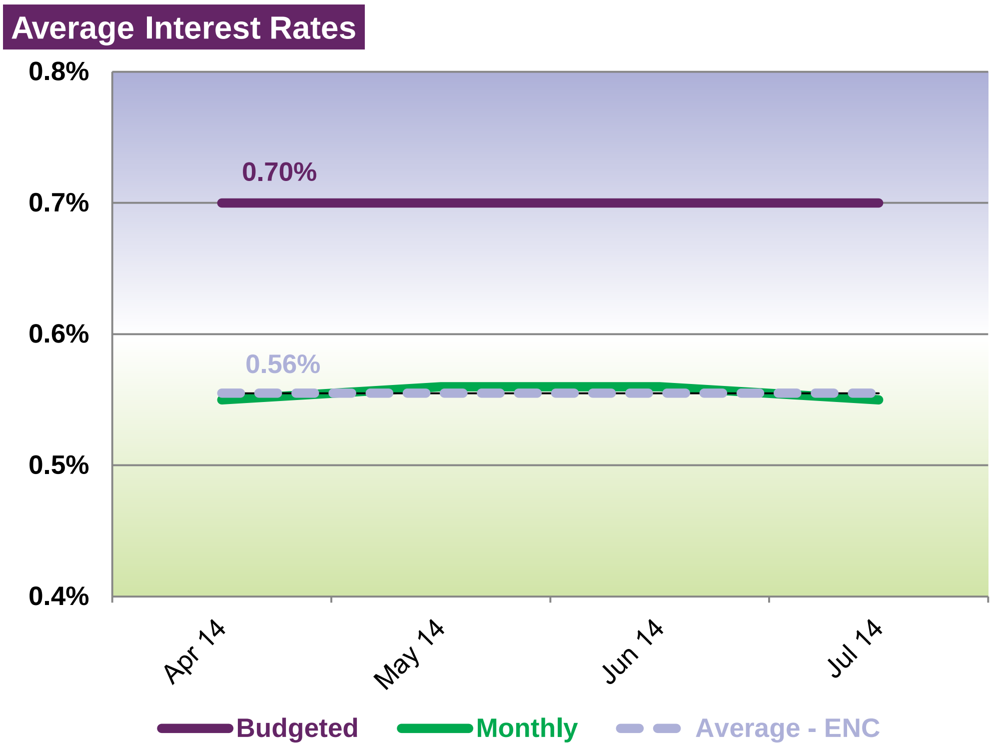
4.1. The table below summarises the council's current portfolio of investments as at 31st July 2014.

Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,728,190	0.40	
Bank of Scotland	£7,858	0.40	
Close Brothers (30 day notice)	£1,991,407	1.00	
Svenska Handelsbanken	£2,000,000	0.50	
Federated Sterling Liquidity Fund (Money Market Fund)	£1,937,892	0.40	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,792,908	0.33	
Fixed Term Deposits			
Lloyds Bank	£2,000,000	0.95	25/07/2014
DMADF (DMO)	£1,700,000	0.25	18/08/2014
Nationwide Building Society	£2,000,000	0.58	01/12/2014
	£15,158,256		

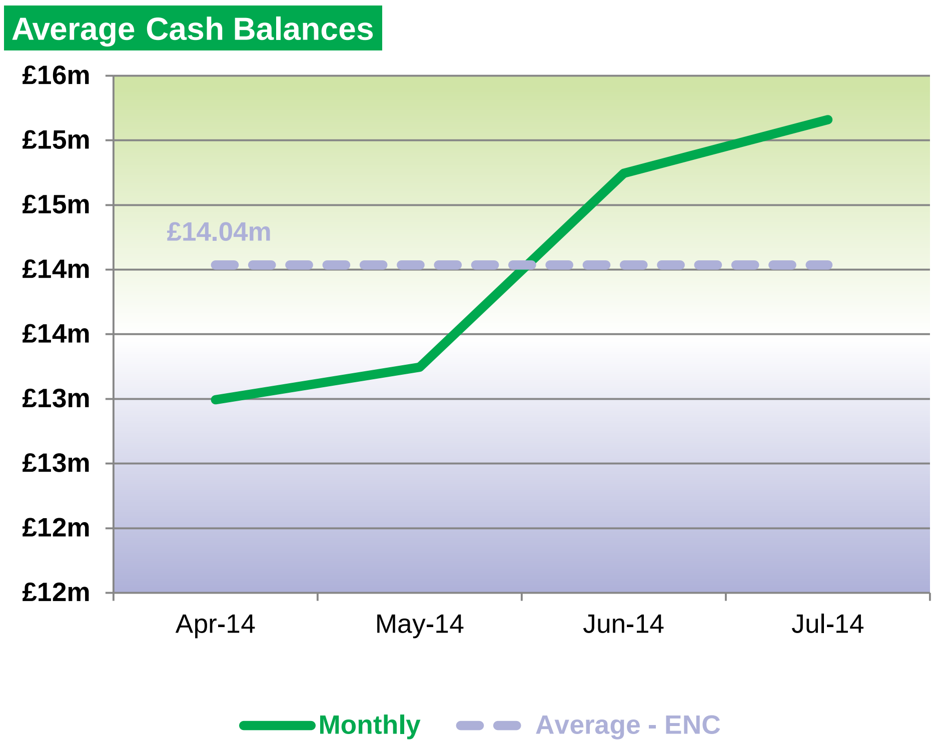
4.2. The average return on the Council's portfolio to 31st July 2014 is 0.55%. This is 0.15% above the average 7day London Interbank Bid Rate (LIBID) of 0.40%.

4.3. The amount of interest earned on the Council's portfolio for the period to 31st July is £28,373 against an annual budget of £56,000.

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 2014.



4.5. The level of cash balances held by the Council is higher than anticipated when the budget was set in February 2014. The majority of the increase in cash balances is due to the income received as a result of the realisation of planned asset sales earlier than anticipated and slippage within the Capital Expenditure Programme.



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 is anticipated to achieve the targeted amount of £56,000.

4.7. 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.

4.8. The overall Treasury Management outturn is set out below.

Treasury Management Budget vs. Outturn				
	Budget £000	**Outturn £000**	**Variance £000**	
Investments	(£56,000)	(£56,000)	£0	Lower interest rates being achieved, offset by higher than expected cash balances
Total	**(£56,000)**	**(£56,000)**	**£0**	

Equality and Diversity Implications

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

5. Legal Implications

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

6. Risk Management

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

7. Financial Implications

7.1. This report is for information, there are no financial implications arising from this report.

8. Corporate Outcomes

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

9. Recommendations

9.1. Finance Sub Committee is recommended to note the latest Treasury Management performance.

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

Legal	Power: **Local Government Act 2003**				
	Other considerations:				
Background Papers:					
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Date: 28 August 2014					
CFO		**MO**		**CX**	