



East
Northamptonshire
Council

Finance Sub-Committee – 1 December 2014

Treasury Management Report Period 6 2014/15

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 objectives in priority order are:
 - Security of capital invested.
 - Liquidity of capital invested.
 - Return on investment.

2. Market Conditions

- 2.1 **Major Economies:** The recent strong performance of the UK economy continued with output growing at 0.9% in Q2 2014. The services and manufacturing sector once again grew strongly. On the back of the strong performance in Q1 and Q2, business investment appeared to be recovering quickly. The UK economy is expected to grow by 2.2% this year.

The Eurozone saw inflation fall towards zero at just 0.3%, indicating that the fragile recovery was showing signs of faltering, together with unemployment rates continuing to remain high at 11.5%. The European Central Bank once again cut interest rates from 0.15% to 0.05%. This has raised concerns with the Bank of England to comment that 'weakness within the euro area had been the most significant development during the month' and that, if any uncertainty arises about the Eurozone with regards to sustainability of public and external debt, it could damage confidence and disrupt financial markets.

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.

2.2 **UK Inflation:** CPI inflation for May fell to 1.5% during Q2 and has now reduced further to 1.2%.

2.3 **UK Monetary Policy:** The Monetary Policy Committee (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 August and September meeting revealed a split vote with regards to Bank Rates. Two members voted for an immediate rise as the current market conditions were sufficient to justify such an increase. However, the MPC maintained that when interest did rise, it would do so on a gradual basis.

2.4 **UK 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	Dec-16	Mar-17
Upside Risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
Downside Risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00

3. Treasury Management Activity

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

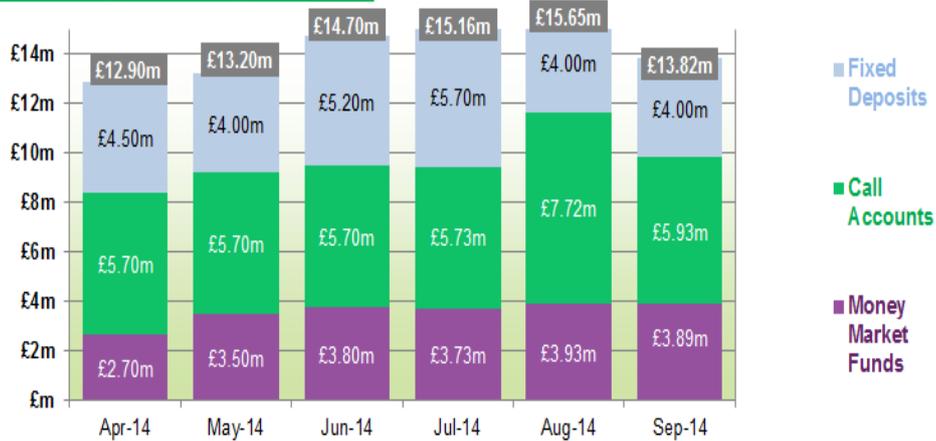
3.2. Investing for durations of up to 12 months reduces the counterparty risk the Council is exposed to and the yield (interest rate) the Council can achieve. To mitigate some of the impact of not being able to place funds beyond 12 months, the council has looked at alternative options to fixed term 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, more liquid, investments) up to 30th September 2014.

Total amount invested April 2014 - September 2014



- 3.6. Cash balances have reduced by £2m between August and September due to Parish Precept payments of £943k, Housing Benefit payments of £857k (timing issue due to 5 week month) and capital project payments of £144k.
- 3.7. 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.

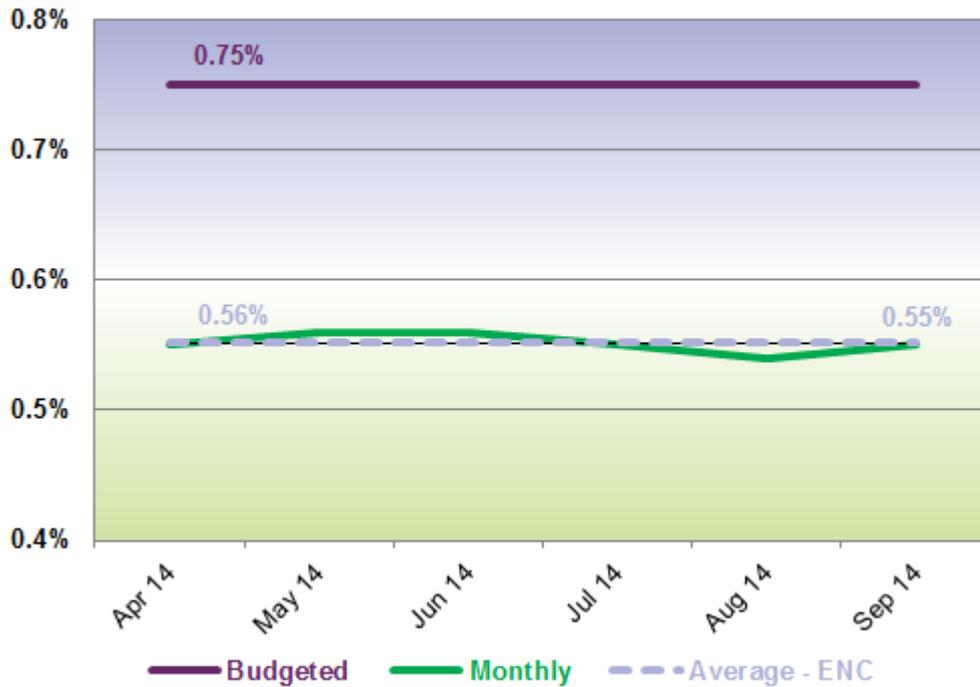
4. Treasury Management Position and Performance

- 4.1. The table below summarises the council’s current portfolio of investments as at 30th September 2014.

Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,928,190	0.40	
Bank of Scotland	£7,860	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)	£1,939,270	0.45	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,950,000	0.37	
Fixed Term Deposits			
Lloyds Bank	£2,000,000	0.95	22/05/2014
Nationwide Building Society	£2,000,000	0.58	01/12/2014
£13,816,727			

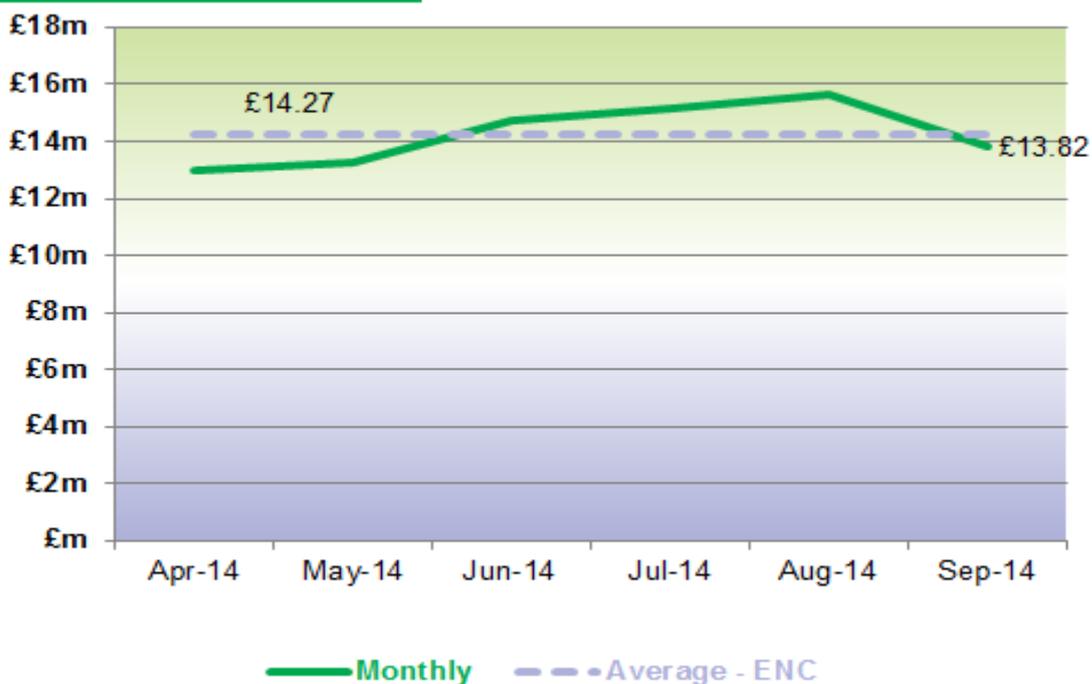
- 4.2. The average return on the Council’s portfolio to 30th September 2014 is 0.54%. This is 0.09% above the average 7day London Interbank Bid Rate (LIBID) of 0.45%.
- 4.3. The amount of interest earned on the Council’s portfolio for the period to 30th September is £43,519 against an annual budget of £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.

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 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.

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 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 predicted Treasury Management outturn is set out below.

Treasury Management Budget vs. Outturn			
	Budget £000	Outturn £000	Variance £000
Investments	(£55,536)	(£75,000)	(£19,464)
			Lower interest rates being achieved, offset by higher than expected cash balances
Total	(£55,536)	(£75,000)	(£19,464)

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, the financial implications are set out in paragraph 4.8 of this report.

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.

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

Legal	Power:				
	Other considerations:				
Background Papers:					
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Date: 21/11/14					
CFO 21/11/14		MO		CX 21/11/14	