East Northamptonshire Council

Finance Sub-Committee – 9 February 2015

Treasury Management Report Period 9 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. 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 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 and Inflation:** Falling prices and the outlook for commodities, most notably oil, were the main drivers of markets in the final calendar quarter of 2014 as crude oil prices more than halved over the 12 month period and fell to a four year low.

The UK economy slowed a little in Q3 following stronger performance in Q2. Output grew by 0.7%, following 0.6% in Q1 2014 and at 0.8% in Q2. The services sector drove the expansion once again, with marginal contributions from industrial production and construction. In spending terms, growth was led by household consumption.

Concerns about the strength of global GDP growth became more widespread, with data showing that the Eurozone was stagnating and facing deflation and that Chinese growth was easing. Other emerging market economies also experienced softer economic activity. The main consequence of the weaker global outlook was a significant decline in oil prices, which had already been under pressure due to increased supply. This fed into domestic fuel prices and placed downward pressure on inflation rates. The annual UK CPI inflation rate fell to 0.5% year-on-year in December, outside of the Monetary Policy Committee's target range of 2% +/- 1%.

The Eurozone inflation rate dipped below zero in December. Pressure grew on the European Central Bank to implement outright quantitative easing (QE) beyond the current asset purchase programme focused on covered bonds and asset backed securities; the ECB's Executive Committee made speeches across Europe giving stronger hints that the first quarter of 2015 would be the most likely period for its announcement, and on 22 January 2015 the ECB confirmed that a further period of quantitative easing would take place. The MPC viewed the Eurozone's economic weakness and deflation as significant risks to the UK's economic prospects.

The US Federal Reserve concluded monthly asset purchases under its QE program as expected in October. After a weather-hit Q1, the US economy expanded strongly in Q2 and Q3, prompting analysts to bring forward expectations of a rise in the official policy rate.

2.2 **Monetary Policy**: The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. MPC members Ian McCafferty and Martin Weale continued to vote for an increase in Bank Rate by 0.25%, arguing economic circumstances were sufficient to justify an immediate rise. However, the softening outlook for CPI inflation appears to have given the more dovish members of the Committee a strong argument for maintaining Bank Rate at 0.5%. The MPC continued to emphasise that when the Bank Rate did begin to rise, it was expected to do so only gradually and would likely remain below average historical levels for some time to come.

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

Official Bank Rate	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Upside Risk				0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central Case	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**
Downside Risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00

3. Treasury Management Activity

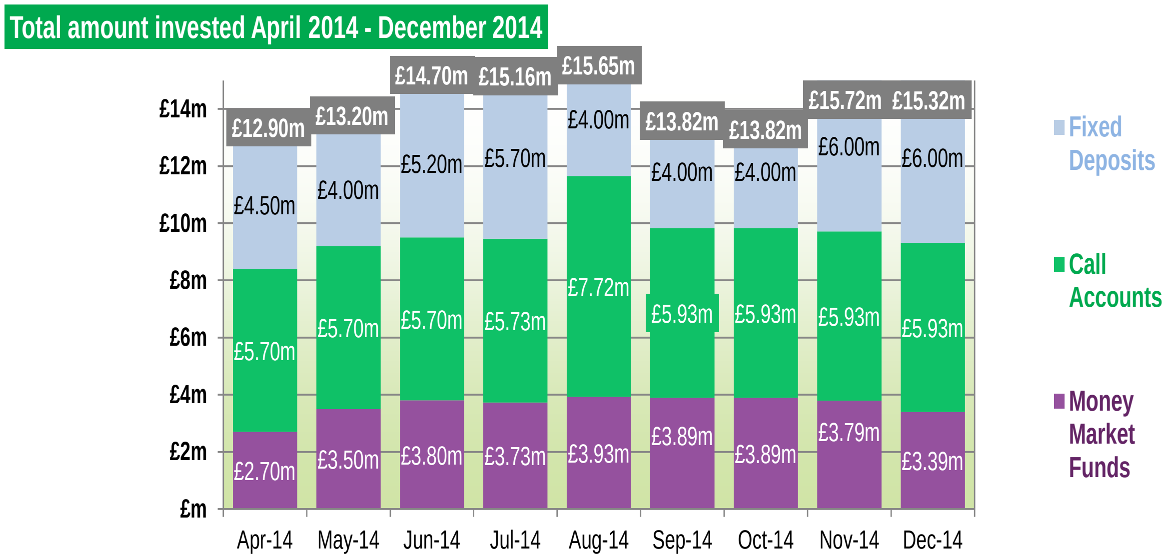
3.1. During the year, the opportunity for the Council to invest its surplus cash for periods of up to 12 months in duration has improved. This is partly due to the surplus cash resources generated from the sale of Council assets.

3.2. Investing for shorter durations 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 investments) up to 31st December 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

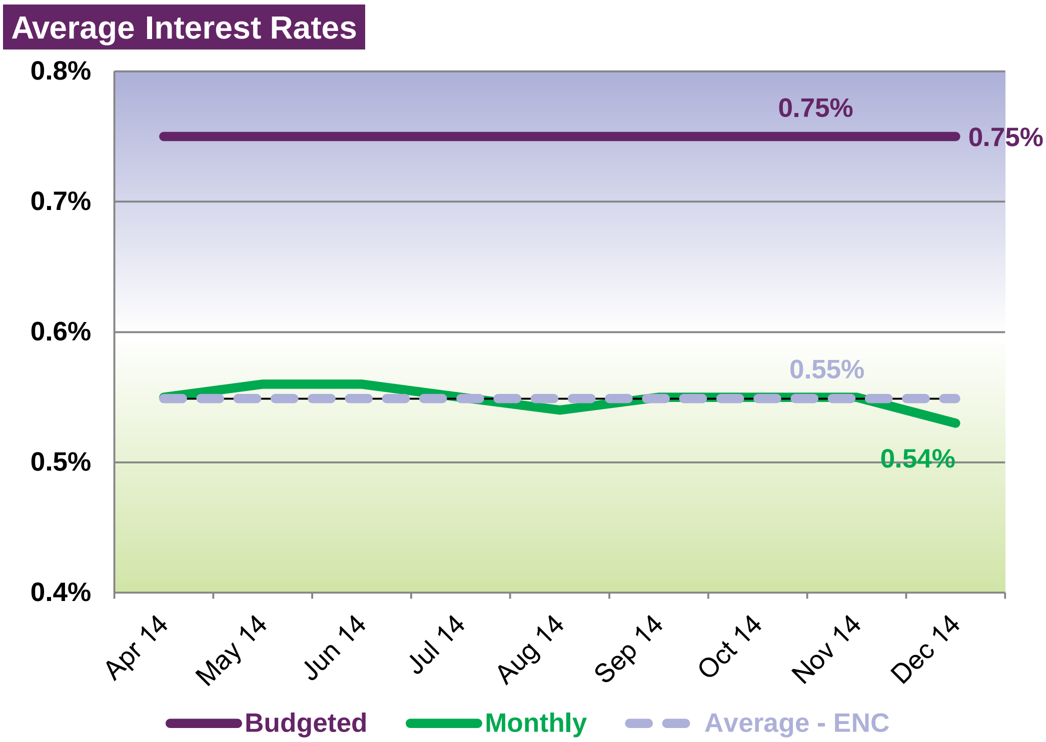
4.1. The table below summarises the council's current portfolio of investments as at 31st December 2014.

Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,935,495	0.40	
Bank of Scotland	£7,868	0.40	
Close Brothers (30 day notice)	£1,991,407	1.00	
Svenska Handelsbanken	£2,000,000	0.40	
Federated Sterling Liquidity Fund (Money Market Fund)	£1,941,413	0.45	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,451,281	0.37	
Fixed Term Deposits			
Lloyds Bank	£2,000,000	0.95	22/05/2015
Nationwide Building Society	£2,000,000	0.50	02/03/2015
Telford & Wrekin Council	£1,000,000	0.40	02/03/2015
Barnsley Metropolitan Council	£1,000,000	0.40	19/02/2015
Total amount invested	**£15,327,464**		
Barclays Bank (Current a/c)	£619,254		
Total Surplus Cash	**£15,946,718**		

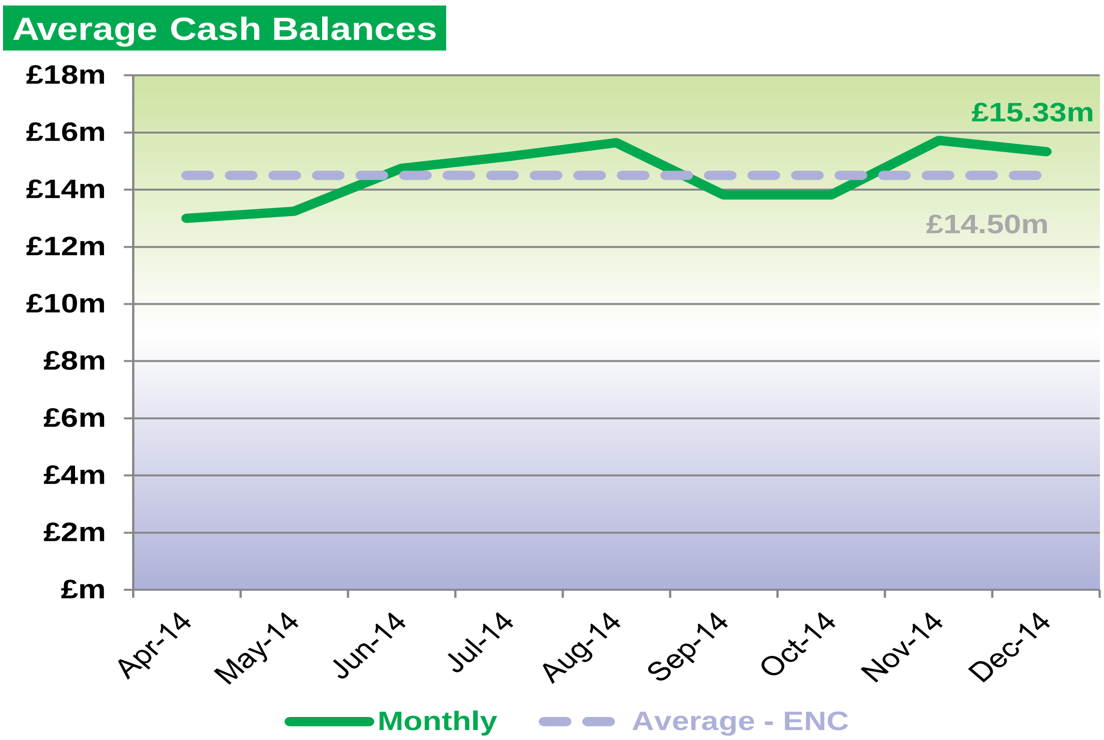
4.2. The average return on the Council's portfolio to 31st December 2014 is 0.54%. This is 0.06% above the average 7 day London Interbank Bid Rate (LIBID) of 0.48%.

4.3. The amount of interest earned on the Council's portfolio for the period to 31st December is £66,280 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. 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.

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

Treasury Management Budget vs. Outturn				
	Budget £000	**Outturn £000**	**Variance £000**	
Investments	(£56,000)	(£80,000)	(£24,000)	Lower interest rates being achieved, offset by higher than expected cash balances
Total	**(£56,000)**	**(£80,000)**	**(£24,000)**	

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. They 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
- 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: 26th January 2015					
CFO 29/1/15		**MO**		**CX**	