East Northamptonshire Council

Finance Sub-Committee – 22 June 2015

Treasury Management Report Period 4 2014/15

Purpose of report

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

Attachment(s)

Appendix 1: Prudential Indicators – as at 31st March 2014/15

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 be 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:** During 2014/15 there has been a robust pace of Gross Domestic Product (GDP) growth of 3%, mainly underpinned by a buoyant services sector, with positive contributions from the production and construction sectors. Recently, houses prices have seen a level of resurgence and there has been improved consumer confidence, adding to a positive outlook for the UK economy.

The European Central Bank (ECB) lowered its official benchmark interest rate from 0.15% to 0.05% in September with the commercial rate reduced from -0.10% to -0.20% (this means that commercial banks must pay for the privilege of depositing their funds at the central bank). The much anticipated quantitative easing, which will expand the European Central Bank's balance sheet by €1.1 trillion, was announced by the central bank at its January meeting. The possibility of a Greek exit from the Eurozone has continued to escalate as the frustration between the new government and its creditors grow.

The US economy has rebounded strongly during 2014, employment growth was robust and there are early signs of wage pressures building, although relatively small. The Central bank has continued with 'tapering' (reduction in asset purchases by $10 billion per month, and ended them altogether in October 2014) in 2014. The US economy appears to be resilient enough to weather any potential weaknesses of any key trading partner, with the possibility of rate increases later in 2015.

2.2 **Inflation:** Consumer Price Index (CPI) inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the reduction in the price of oil and the steep drop in the wholesale energy prices, together with an increase in supermarket completion resulting in lower food prices. The Bank of England also anticipated that the CPI would temporarily turn negative but rebound by the end of 2015.

2.3 **Monetary Policy:** The Monetary Policy Committee (MPC) made no change to the Bank Rate of 0.5% and maintained asset purchases at £375 billion. The MPC felt that is was appropriate not to panic in response to the CPI falling to zero in March, which was nearly 5% a few years ago. The stance was taken that the economic headwind for the UK and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited.

Political uncertainty has had a large bearing on market confidence during the year, with the Scottish referendum and the start of a closely contested general election, markets had braced themselves for another hung parliament.

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

3. Treasury Management Activity

3.1. During the first four months of the 2014/15 financial year, the opportunity for the Council to invest its surplus cash for periods in up to 12 months in duration improved. However, with the impending changes to EU legislation the duration periods available have reduced for fixed term deposits during the later half of the financial year.

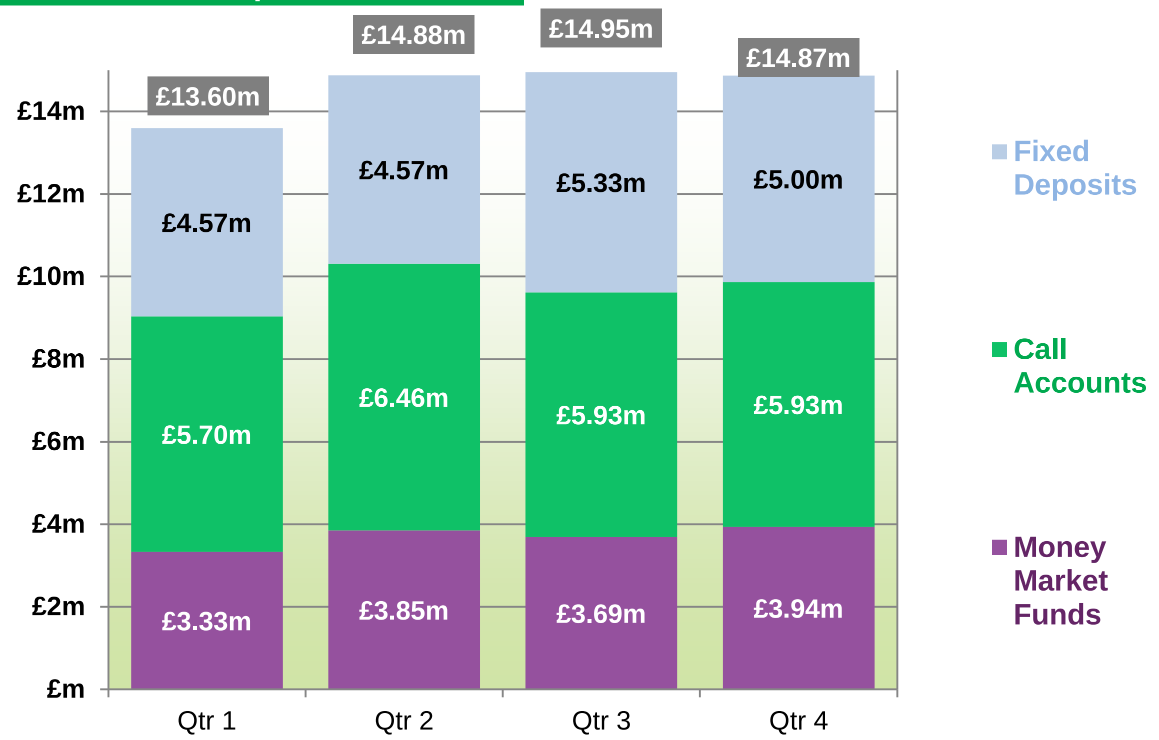
3.2. Investing for shorter durations reduces the counterparty risk the Council is exposed to and the potential yield (interest rate) the Council can achieve. To mitigate some of the impact of not being able to place funds beyond 12 months, the council has looked at alternative options to fixed term deposits, 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 by type up to 31st March 2015.

Total amount invested April 14 - March 15



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

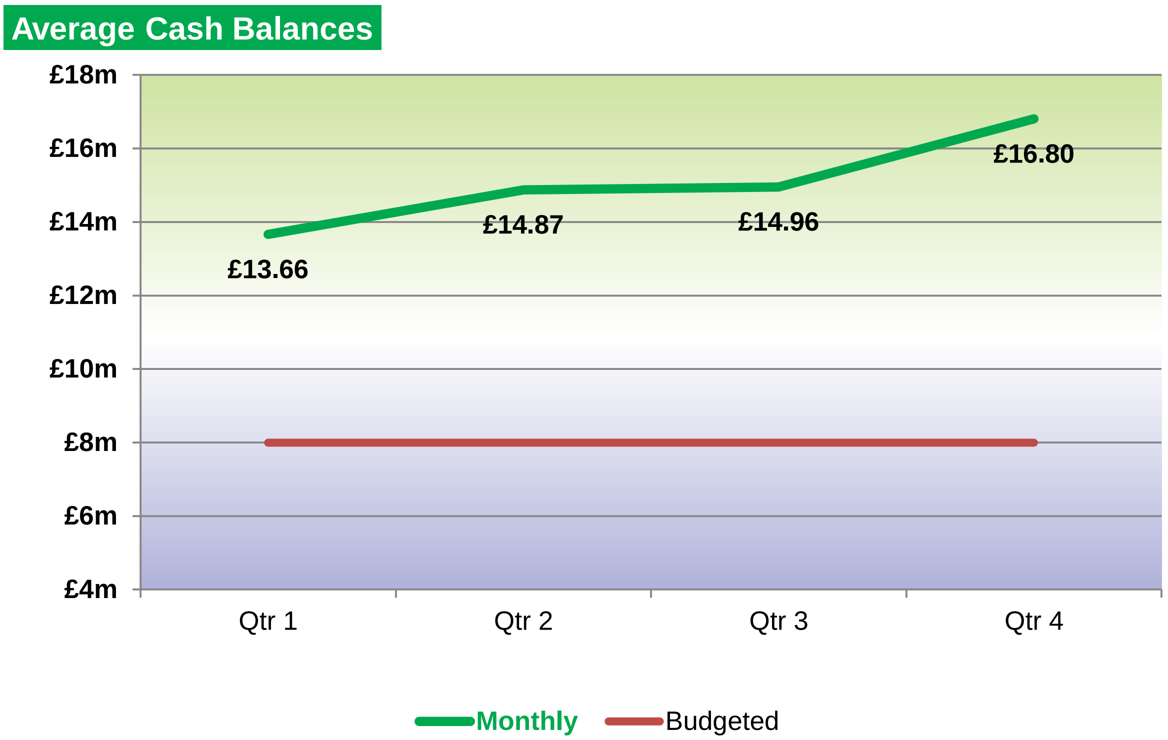
4.1. The table below summarises the council's current portfolio of investments as at 31st March 2015.

Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,935,495	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)	£1,943,578	0.45	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,997,913	0.37	
Fixed Term Deposits			
Lloyds Bank	£2,000,000	0.95	22/05/15
Fife Council	£1,000,000	0.40	21/09/15
Nationwide Building Society	£2,000,000	0.50	02/06/15
	£14,868,393		

4.2. The average return on the Council's portfolio to 31st March 2015 is 0.55%. This is 0.11% above the average 7-day London Interbank Bid Rate (LIBID) of 0.44%.

4.3. The Council's current interest rate achievable on its investment portfolio is lower than anticipated when the budget was set in February 2014. At that time, the expected rate was 0.70%. This is demonstrated in the table below:

4.4. Whilst the Council's investments are achieving lower rates of return, the level of cash balances held by the Council is higher than anticipated when the budget was set in February 2014 as demonstrated in the table below. 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.



4.5. This has resulted in a higher amount of interest earned on the Council's portfolio for the period to 31st March 2015. An amount of £88,532 was achieved against an annual budget of £56,000.

4.6. As a result of using surplus monies there has been no requirement during the year 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)	(£88,532)	(£32,532)	Lower interest rates being achieved, offset by higher than expected cash balances
Borrowing	£30,464	£0	(£30,464)	External Borrowing not requried (Apr to Mar 2015)
Total	**(£25,536)**	**(£88,532)**	**(£62,996)**	

5. Prudential Indicators

5.1. Prudential Indicators look at the Councils capital expenditure in terms of affordability and sustainability over the medium term and in particular the impact of these capital investment decisions on Council Tax. Details of each of the prudential indicators are shown in **Appendix 1.**

5.2. A key indicator for the Council is the Incremental Impact of Capital Investment Decisions. This shows the impact of the capital investment in terms of the potential increase in the Council Tax funding requirement, i.e the opportunity costs (interest receivable) of not being able to investment these surplus funds. During 2014/15 the Council has increased its investment within the capital programme and therefore the impact on Council Tax has increased. However, the interest rate foregone is lower than budgeted at 0.55% compared to 0.7%. The reduction in interest rates has allowed the Council to ensure its capital expenditure remains affordable and sustainable.

	2014/15 Estimate	**20141/15 Actual**
Capital Expenditure	£822,000	£1,328,730
Increase in Band D Council Tax	0.20p	0.26p

6. Equality and Diversity Implications

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

7. Legal Implications

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

8. Risk Management

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

9. Financial Implications

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

10. 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

11. Recommendations

11.1. Finance Sub-Committee is recommended to note the Treasury Management performance for quarter 4 2014/15.
(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power: Local Government Finance Act 2002</td></tr>
<tr><td colspan="5">Other considerations:</td></tr>
<tr><td colspan="6">Background Papers:</td></tr>
<tr><td colspan="6">Person Originating Report: Michelle Drewery, Finance Manager, 01832 742267
mdrewery@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 05.06.15</td></tr>
<tr><td>CFO
10/6/15</td><td></td><td>MO</td><td></td><td>CX
10/6/15</td><td>D. Oliver</td></tr>
</table>

Appendix 1

Prudential Indicators – as at 31st March 2014/15

1. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set in the Prudential Code.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Estimate %	2014/15 Estimate %
General Fund	0.00	0.00
Total	**0.00**	**0.00**

As the Council has no external borrowing the indicator is zero, in line with what was estimated.

2. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	2014/15 Estimate £m	2014/15 Estimate £m
General Fund Capital Programme	0	0
Embedded Lease (Refuse Contract)	0	510
Total CFR	**0**	**510**

The Council's underlying need to borrow for the main capital expenditure activity is nil. The embedded lease element is due to the accounting treatment (required by the Code of Practice) of the underlying assets held by Kier in delivering the refuse contract on behalf of the Council.

3. Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax.

Incremental Impact of Capital Investment Decisions	2014-15 Estimate £	2014-15 Actual £
Increase in Band D Council Tax	0.20	0.26

This shows the impact of the capital investment in terms of potential increase in the Council Tax funding requirement, i.e. the opportunity costs (interest receivable) of not being able to investment these surplus funds.

4. Authorised Limit and Operational Boundary for External Debt

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities.

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements

Authorised Limit for External Debt	**2014/15 Approved £'000**
Borrowing	5,800
Other Long-term Liabilities	600
Total	**6,400**
Operational Boundary for External Debt	
Borrowing	4,000
Other Long-term Liabilities	550
Total	**4,550**

5. Summary

The Council is maintaining an affordable and sustainable capital programme in the medium term.

The Council does not currently have any external debt and has not breached either the operational or authorised limits as set out in the 2014/15 Treasury Strategy.