Agenda Item 6

East Northamptonshire Council

Finance Sub-Committee – 7 September 2015

Treasury Management Report to 31 July 2015

Purpose of report

The purpose of this report is to note the current position for Treasury Management for the period to 31 July 2015 in financial year 2015/16.

Attachment(s)

Appendix 1: Prudential Indicators – as at 31 July 2015/16

1. Introduction

1.1. The Treasury Management Strategy for 2015/16 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2015. 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:** The economy has remained resilient over the first quarter of 2015/16, although growth has slowed to 0.4% in this period. Gross Domestic Product (GDP) values have increased for the ninth consecutive quarter, breaking the pattern of slow and erratic growth experienced from 2009.

The European economy has been dominated by the issues surrounding the Greece bail out deals and if or when they will exit the euro. If this happens then the fall-out will have a detrimental impact on other economies including the UK, with a risk of contagion into other Eurozone countries such as Portugal, Ireland and Spain. Although a deal has been agreed between Greece and its creditors within the Eurozone, it remains an extremely volatile situation due to serious doubts about Greece's ability to meet the requirements of the new deal and its continued membership of the euro.

The US economy has slowed in the first quarter for a number of reasons including spending cuts by the energy firms and the effects of a strong dollar. However, in the latter stages of the first quarter there we signs of re-emergence of growth from the retails and housing sectors. The US Federal Reserve is showing signs that an increase in interest rates will be a matter of when rather than if and is currently anticipated by the end of 2015.

2.2 **Inflation:** Consumer Price Index (CPI) inflation briefly turned negative during the month of April, but has turned positive during May. It is anticipated that CPI will hover around zero in the near-term to reflect falls in energy and goods prices.

2.3 **Monetary Policy:** The Monetary Policy Committee (MPC) made no change to the Bank Rate of 0.5%; the MPC has stood by the assumption that a short-term negative CPI would not have any damaging consequences for the UK economy.

The outcome of the UK general election has seen some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

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 2015/16 financial year, the opportunity for the council to invest its surplus cash for periods beyond 3 months in duration has been limited. This has mainly been down to the impact of the change in legislation to bail out risk for the banking sector, combined with the general uncertainty within the Eurozone.

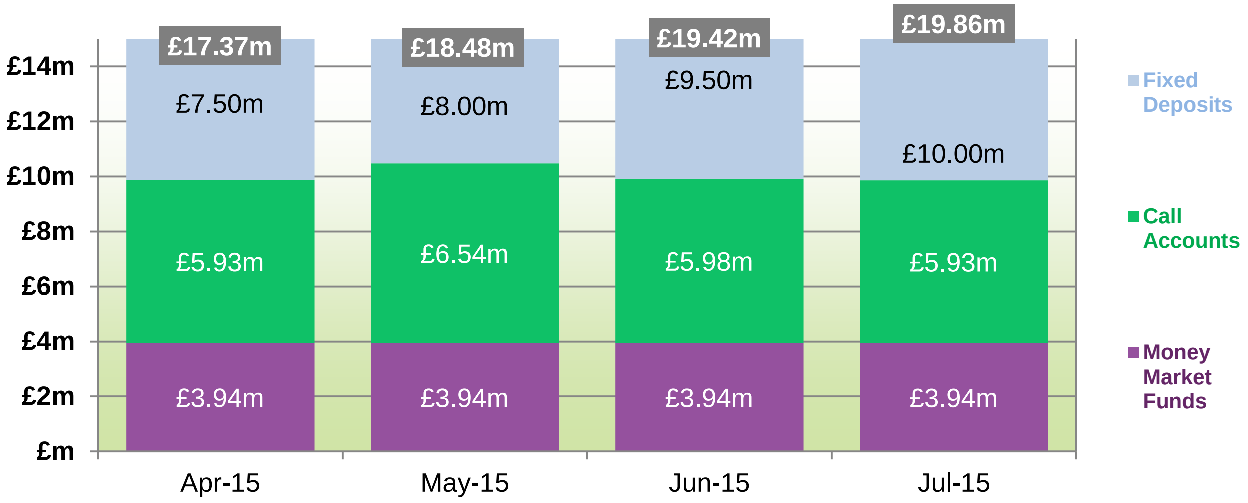
3.2. Investing for shorter durations reduces the counterparty risk the council is exposed to and the potential yield (interest rate) the council can achieve. To mitigate some of the impact of not being able to place funds beyond 3 months, the council has looked at alternative options to fixed term deposits, 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. As from 1st August 2015 the council's Treasury Management Advisors will be Capita, who are the largest provider of Treasury Management Services to the Public Sector.

3.5. The charts below demonstrate the change in investment by type up to 31 July 2015.

Total amount invested July 2015



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.

3.7. The level of cash balances held by the council has increased since April 2015 by £2.49m. An explanation is provided later in this report (see paragraph 4.4).

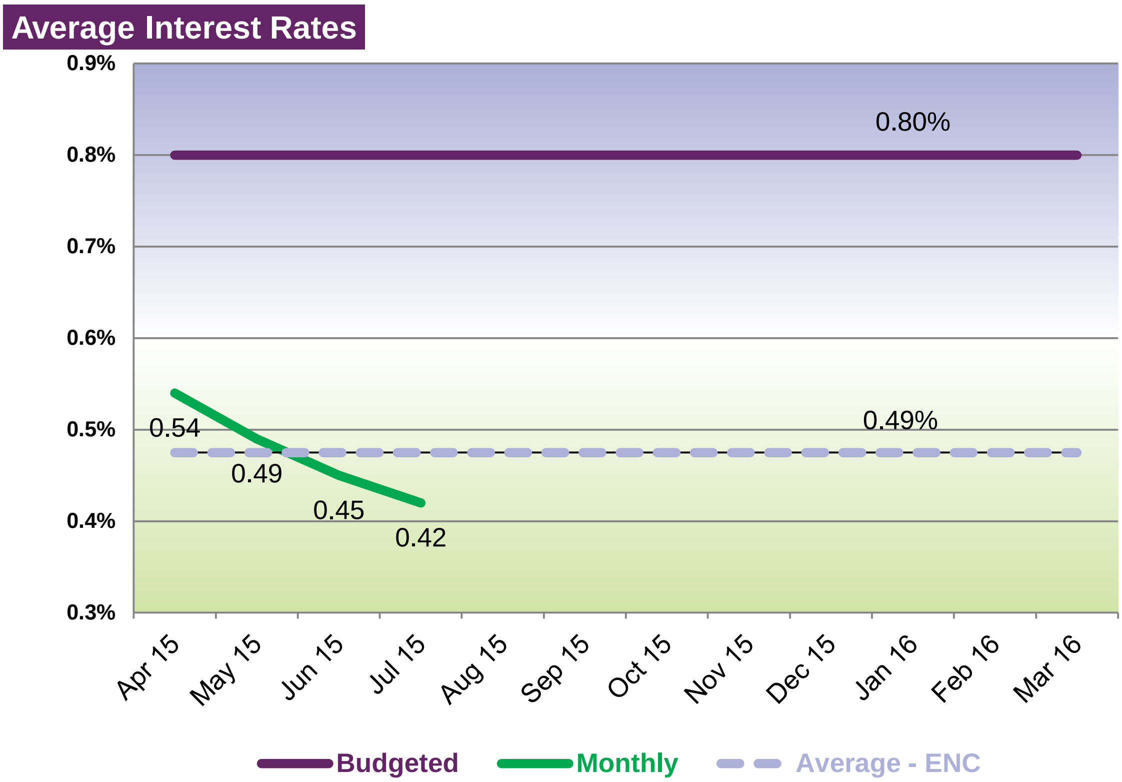
4. Treasury Management Position and Performance

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

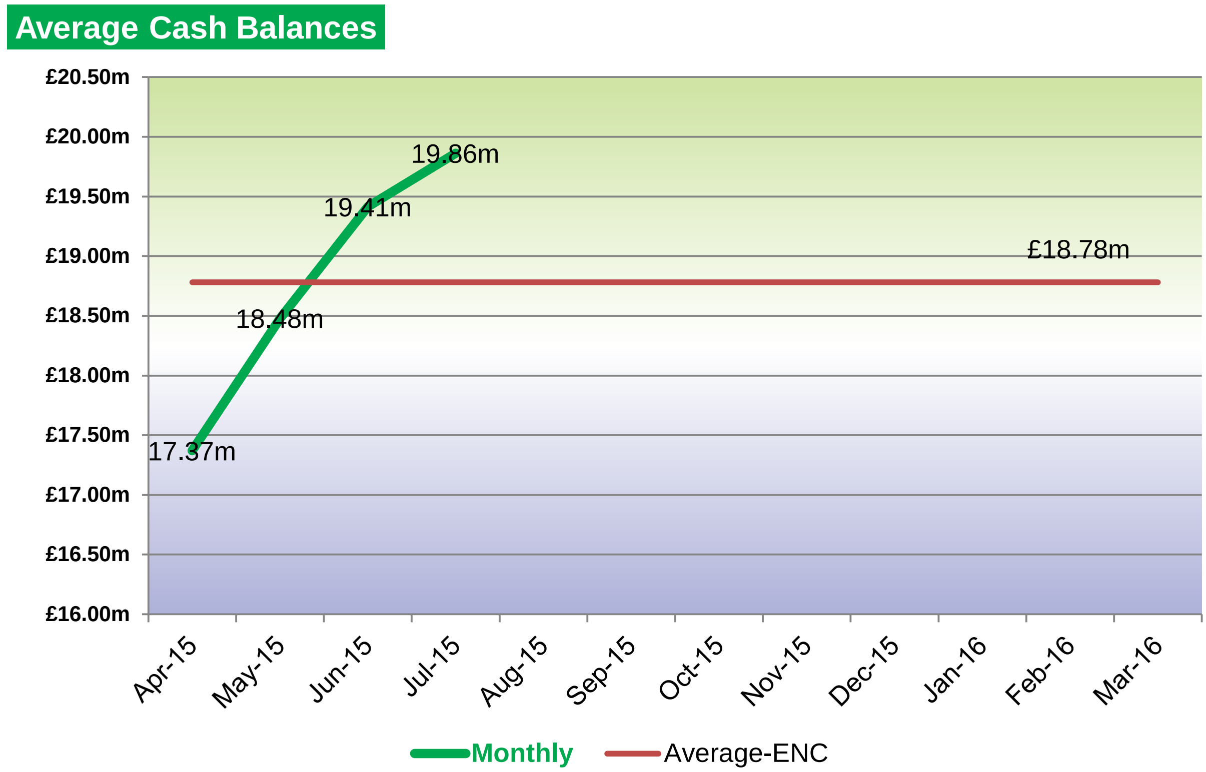
Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,935,495	0.40	
Close Brothers (30 day notice)	£1,991,407	1.00	
Svenska Handelsbanken	£2,000,000	0.40	
Money Market Funds			
Federated Sterling Liquidity Fund (Money Market Fund)	£1,946,514	0.45	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,989,732	0.37	
Fixed Term Deposits			
Debt Management Office (Treasury)	£3,000,000	0.25	10/08/2015
Convetry Building Society	£2,000,000	0.46	09/10/2015
Lloyds Bank	£2,000,000	0.95	22/05/2015
Fife Council	£1,000,000	0.40	21/09/2015
Nationwide Building Society	£2,000,000	0.50	02/06/2015
	£19,863,148		

4.2. The average return on the council's portfolio to 31st July 2015 is 0.49%. This is 0.04% above the average 7-day London Interbank Bid Rate (LIBID) of 0.45%.

4.3. The council's current interest rate achievable on its investment portfolio is lower than anticipated when the budget was set in February 2015. At that time, the expected rate was 0.80%. 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 2015 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 31 July 2015. It is anticipated that the interest income for the financial year will be as budgeted.

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. Estimated Outturn				
	Budget £000	**Estimated Outturn £000**	**Variance £000**	
Investments	(£78,000)	(£78,000)	£0	Lower interest rates being achieved, offset by higher than expected cash balances
Total	**(£78,000)**	**(£78,000)**	**£0**	

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 Ratio of Financing Costs to Net Revenue Stream. As the council has no external borrowing, the indicator for affordability is zero which is line with what was estimated. Further detail on this indicator can be seen in appendix 1 (paragraph 1).

5.3. Another key indicator for the council is the Incremental Impact of Capital Investment Decisions on cash surpluses. 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 invest these surplus funds elsewhere. During 2015/16 the council has decreased its investment within the capital programme and therefore the impact on Council Tax has decreased.

Additionally, the interest rate foregone is lower than budgeted at 0.55% compared to 0.70%. The reduction in interest rates has allowed the council to ensure its capital expenditure remains affordable and sustainable. Further detail can be found in appendix 1 at paragraph 3.

	2015/16 Estimate	2015/16 Actual
Capital Expenditure	£1,684,000	£1,467,283
Increase in Band D Council Tax	0.43p	0.24p

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 period 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:</td></tr>
<tr><td>CFO
26/8/15</td><td></td><td>MO</td><td></td><td>CX</td><td></td></tr>
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Appendix 1

Prudential Indicators – as at 31 July 2015

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	2015/16 Estimate %	2015/16 Estimate (Revised) %
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	2015/16 Estimate £m	2015/16 Estimate (Revised) £m
General Fund Capital Programme	0	0
Embedded Lease (Refuse Contract)	361	361
Total CFR	**361**	**361**

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	2015-16 Estimate £	2015-16 Estimate (Revised) £
Increase in Band D Council Tax	0.43	0.24

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	2015/16 Approved £'000
Borrowing	2,000
Other Long-term Liabilities	550
Total	**2,550**
Operational Boundary for External Debt	
Borrowing	0
Other Long-term Liabilities	550
Total	**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 2015/16 Treasury Strategy.