Agenda Item 6

East Northamptonshire Council

Finance Sub-Committee
30 November 2015

Treasury Management Report to 31 October 2015

Purpose of report

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

Attachment(s)

Appendix 1: Prudential Indicators – as at 31 October 2015

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:** During the first quarter, growth had slowed to 0.4% and, although there was a rebound in the second quarter to 0.7%, it is anticipated that this will weaken during the next period to around 0.5%. The economy faces turbulent times due to weak growth in the EU, China and emerging markets, plus the dampening effects of the Government's continuing austerity measures. Despite these issues, the Bank of England continues to predict growth of 2.4% to 2.8% over the next three years.

The Euro zone is showing signs of an economic slowdown, together with quantitative easing measures put in place by the ECB earlier this year. There are still fears that the Euro zone will fall back into recession with the Greece issue still unresolved.

The US economy has made a strong comeback after weak growth in the first quarter (0.6%) and is expected to grow by no less than 3.9% in the second quarter. It was expected that the Federal Reserve would increase interest rates at its next meeting in September. However, due to the recent concerns within the Chinese, Japanese and emerging markets, interest rates have remained the same for now.

2.2 **Inflation:** Inflation is not expected to reach the original target of 2% over the next 2-3 years due to the reduction in commodity prices that has resulted from the downturn in the Chinese economy. It is therefore expected that inflation will remain low for the next several months.

2.3 **Monetary Policy:** As there are considerable risks around whether inflation will rise in the near future, it will make it increasingly difficult for the central banks in the UK and US to raise interest rates soon as had previously been expected.

2.4 **Interest Rates:** The latest forecast for interest rates, based on information from the council's Treasury Management Advisors (Capita Treasury Management Services), is shown below:

Official Bank Rate	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Mar-17	Jun-17	Sep-17
Capita	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**

Treasury Management Activity

2.1. During the first seven months of the 2015/16 financial year, the opportunity for the council to invest its surplus cash for periods beyond 6 months in duration has been limited. This has mainly been due to the impact of the change in legislation around the bailout risk for the banking sector, combined with the general uncertainty within the financial markets and the volatility in the equity and bond markets.

2.2. 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 6 months, the council has looked at alternative options to fixed term deposits, by investing in a 30 day notice account, which is currently yielding 1%.

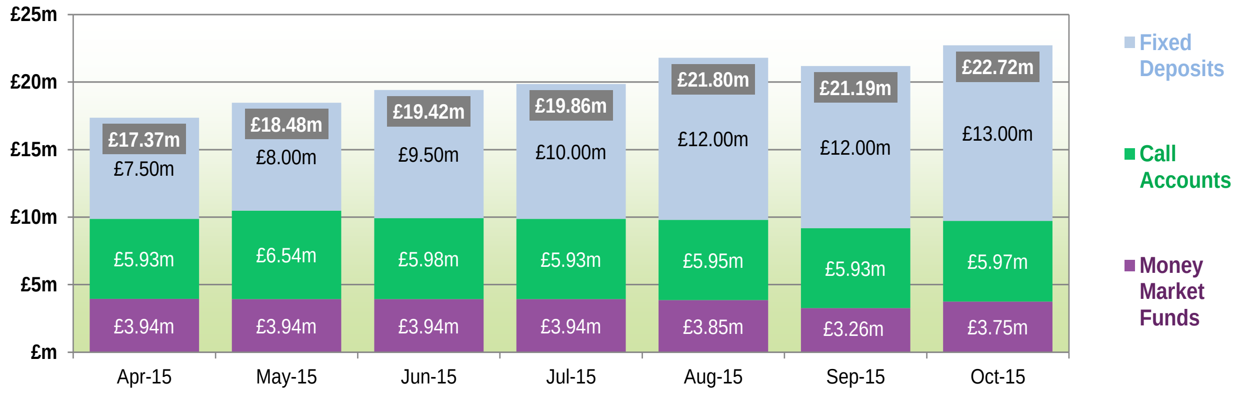
2.3. The council's contract for Treasury Management Advisors expired in July 2015 and following a procurement process, Capita Treasury Management Services were appointed on 1 August 2015. Following a review of the council's portfolio of investments, Capita recommended alternative investment opportunities where interest rates were more favourable which resulted in an immediate increase in the average interest rate earned on the council's investments. Further detail can be seen at section 3.3.

2.4. 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.

2.5. 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.

2.6. The charts below demonstrate the change in investment by type up to 31 October 2015.

Total amount invested October 2015



2.7. 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.

2.8. The level of cash balances held by the council has increased since April 2015 by £5.35m. An explanation is provided later in this report (see paragraph 4.4).

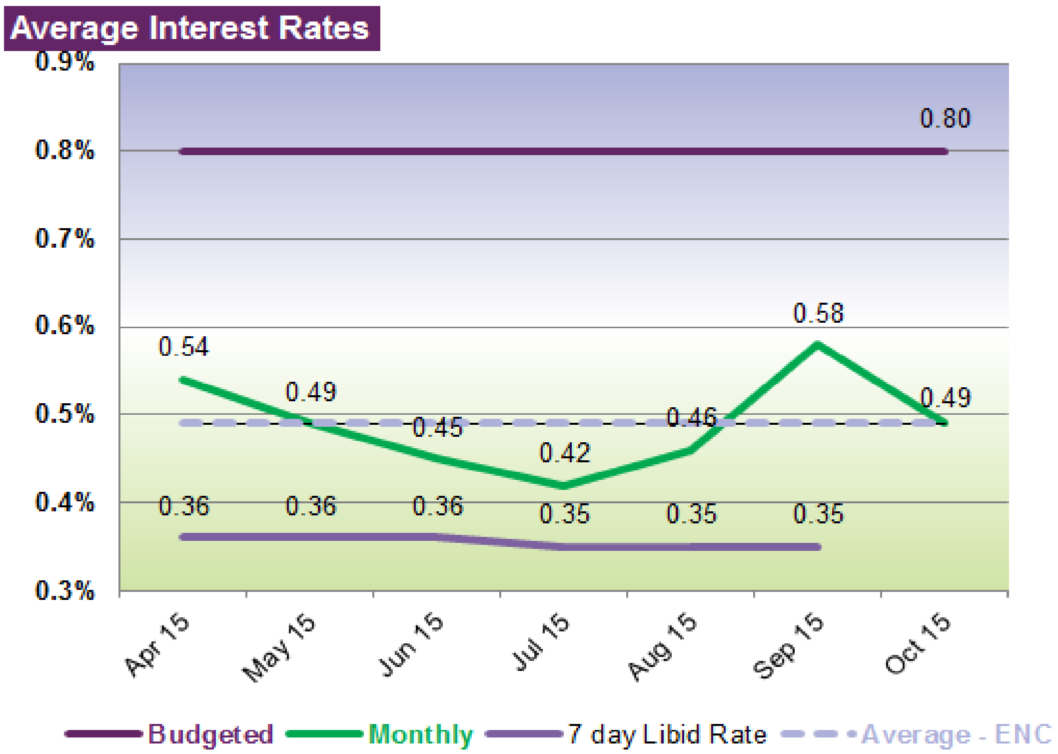
3. Treasury Management Position and Performance

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

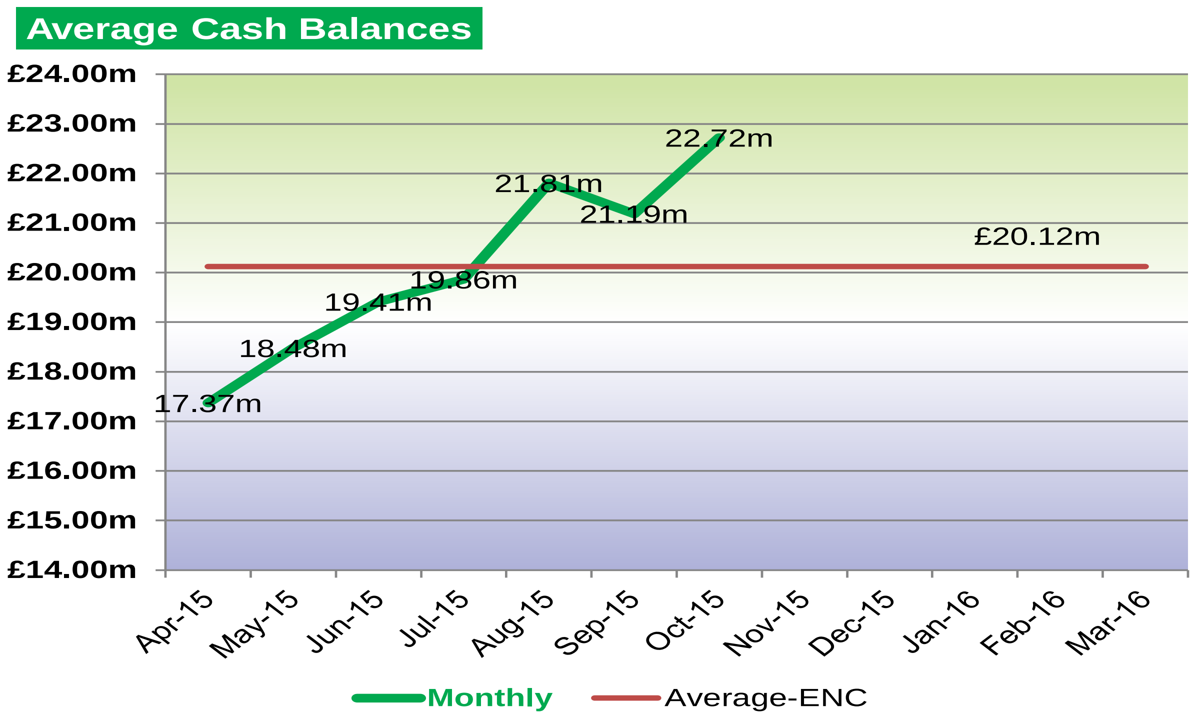
Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,935,495	0.40	
Barclays (Current Account)	£43,354		
Close Brothers (30 day notice)	£1,991,407	1.00	
Svenska Handelsbanken	£2,000,000	0.40	
Federated Sterling Liquidity Fund (Money Market Fund)	£1,948,811	0.50	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,802,240	0.40	
Fixed Term Deposits			
DMO	£1,000,000	0.25	09/11/2015
Coventry Building Society	£2,000,000	0.45	11/01/2016
Salford City Council	£3,000,000	0.40	18/03/2016
Eastleigh Borough Council	£2,000,000	0.40	04/04/2016
Fife Council	£1,000,000	0.40	21/03/2016
Lloyds Bank	£2,000,000	0.57	24/11/2015
Nationwide Building Society	£2,000,000	0.66	10/03/2016
	£22,721,307		

3.2. The average return on the council's portfolio to 31st October 2015 is 0.49%. This is 0.14% above the average 7-day London Interbank Bid Rate (LIBID) of 0.35%.

3.3. 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:



3.4. 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, together with temporary increased cash collection for Council Tax and Business Rates, which will reduce in February and March.



3.5. This has resulted in a higher amount of interest earned on the council's portfolio for the period to 31 October 2015. It is anticipated, based on the current cash balances, that the interest income for the financial year will be an improvement of approximately £7k on budget.

3.6. 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.

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

Treasury Management Budget vs. Estimated Outturn				
	Budget £000	Estimated Outturn £000	Surplus £000	
Investments	£78,000	£85,000	£7,000	Lower interest rates being achieved, offset by higher than expected cash balances
Total	**£78,000**	**£85,000**	**£7,000**	

4. Prudential Indicators

4.1. Prudential Indicators look at the council's 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.**

4.2. 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).

4.3. 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 0.49% compared to 0.80%. 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 Forecast
Capital Expenditure	£1,467,283	£1,639,943
Increase in Band D Council Tax	0.24p	0.27p

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. The 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; there are no financial implications arising from it.

9. 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

10. Recommendations

11.1 Finance Sub-Committee is recommended to note the Treasury Management performance for the period to 31 October 2015.

(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: 12/11/15</td></tr>
<tr><td>CFO</td><td></td><td>MO
20/11/15</td><td>S Matthews</td><td>CX</td><td></td></tr>
</table>

Appendix 1

Prudential Indicators – as at 31 October 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	395
Total CFR	**361**	**395**

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	0.24	0.27

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.