East Northamptonshire Council

Finance Sub-Committee
8 February 2016

Treasury Management Report to 31 December 2015

Purpose of report

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

Attachment(s)

Appendix 1: Prudential Indicators – as at 31 December 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:** National statistics are predicting that UK economic growth has fallen by 0.7% in quarter 3, the sharpest fall since 2013. This has come alongside new threats to the stability of the UK economy, driven from the slowing of global economic growth and a drop in oil prices.

The recent volatility in financial markets has emanated from increased turmoil in the global economy. China has recently announced its lowest growth rate for 25 years which has created a downside risk to global growth. This, in addition to the collapse in oil prices has resulted in inflation falling further and any increase is expected to be slightly more gradual in the near term.

2.2 **Inflation:** It is expected that inflation will increase to around 2% target, once the impact of lower energy and food prices had dissipated.

2.3 **Monetary Policy:** Even though the US has recently increased their interest rate in quarter 3, the Bank of England has recently elected not to follow suit. This is mainly to due the fragility of the UK economy and the fallout from the global economy as markets fell in response to the poor results from the Chinese economy.

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	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Capita	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75

3. Treasury Management Activity

3.1. During the first nine 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.

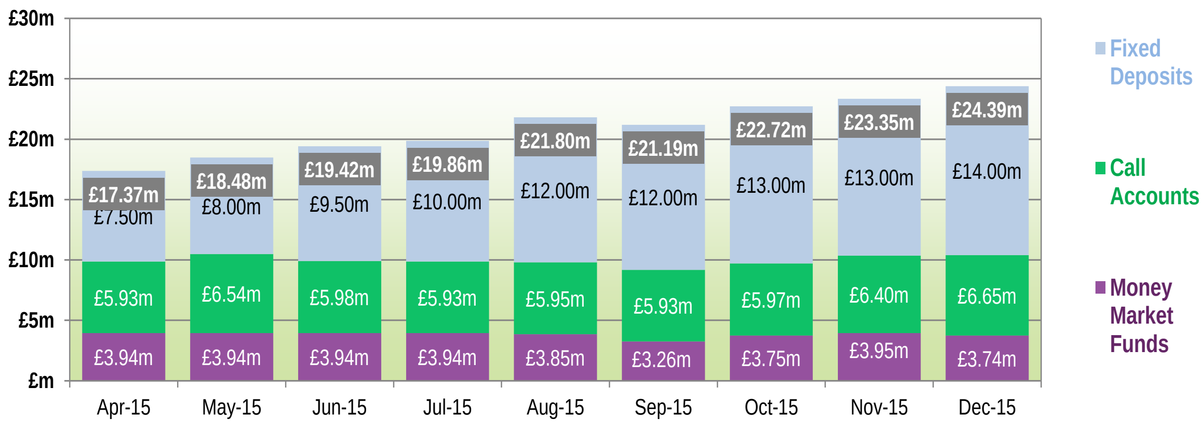
3.2. Investing for shorter durations reduces the counterparty risk the council is exposed to and the potential yield (interest rate) the council can achieve. To mitigate some of the impact of not being able to place funds beyond 6 months, the council is now looking at alternative options to fixed term deposits, by investing in a 30 day, 95 day and 180 day, which are currently yielding 1%, 0.9% and 1.15% respectively.

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.

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

Total amount invested December 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 £7.02m. An explanation is provided later in this report (see paragraph 4.4).

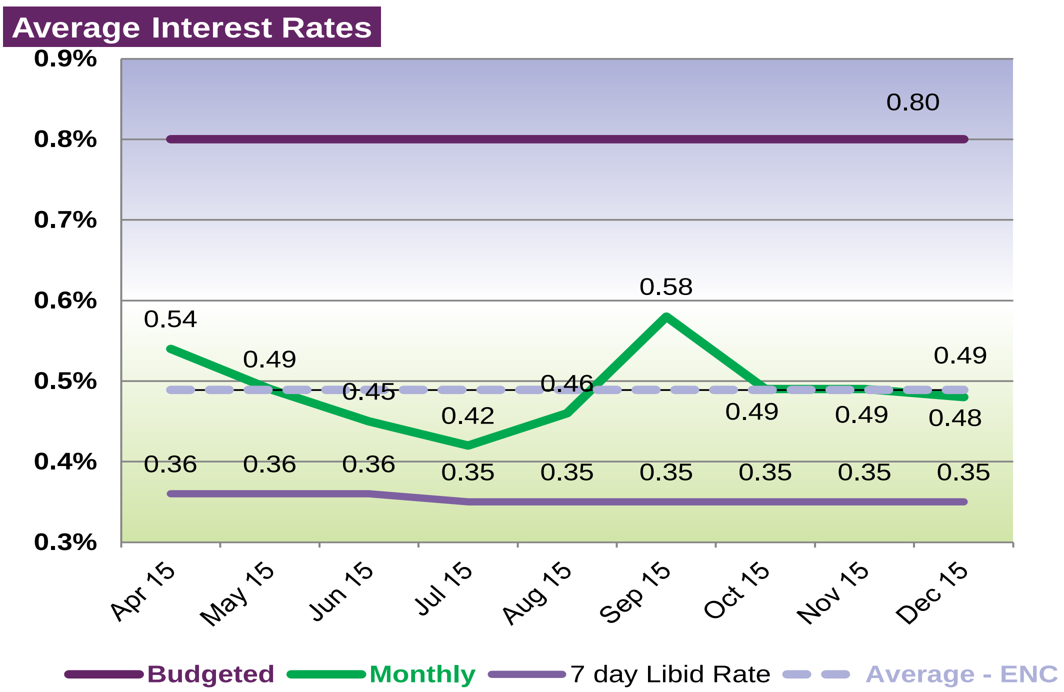
4. Treasury Management Position and Performance

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

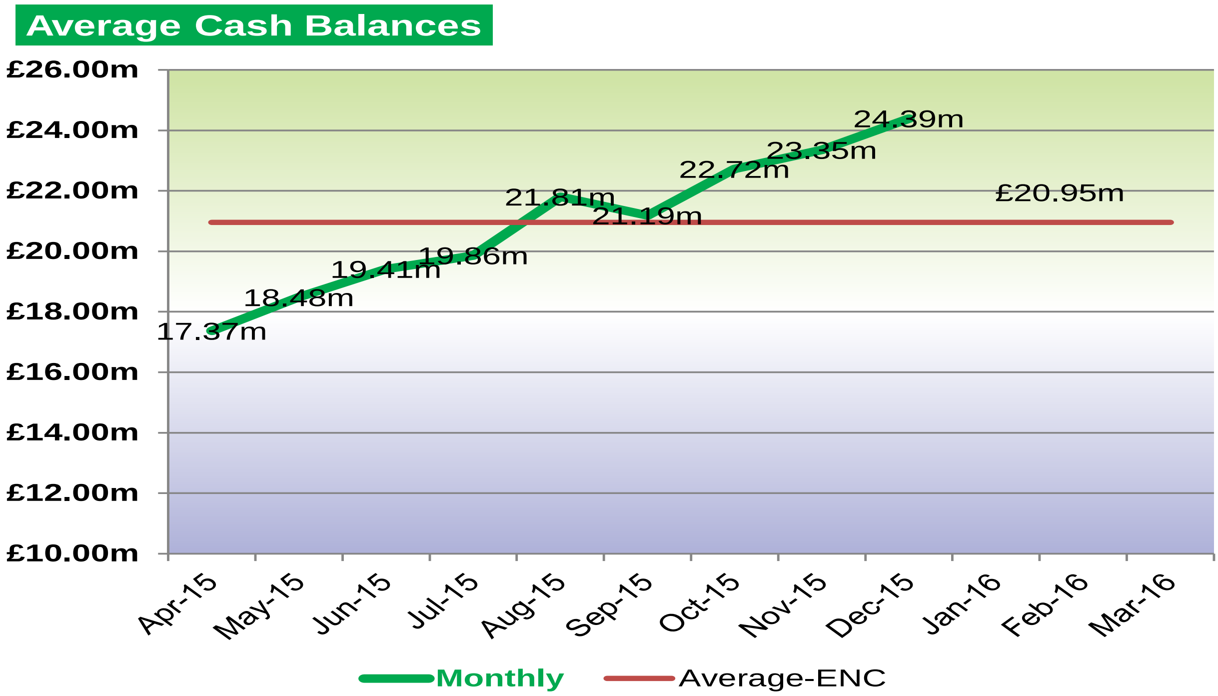
Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£1,943,237	0.40	
Barclays (Current Account)	£715,616		
Close Brothers (30 day notice)	£1,991,407	1.00	
Svenska Handelsbanken	£2,000,000	0.40	
Federated Sterling Liquidity Fund (Money Market Fund)	£1,950,408	0.50	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,793,581	0.39	
Fixed Term Deposits			
DMO	£2,000,000	0.25	05/01/2016
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	24/02/2016
Nationwide Building Society	£2,000,000	0.66	10/03/2016
	£24,394,249		

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

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



4.5. This has resulted in a higher amount of interest earned on the council's portfolio for the period to 31 December 2015. It is anticipated, based on the current cash balances, that the interest income for the financial year will be an improvement of approximately £11k on budget.

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	Surplus £000	
Investments	£78,000	£89,000	£11,000	Lower interest rates being achieved, offset by higher than expected cash balances
Total	**£78,000**	**£89,000**	**£11,000**	

5. Prudential Indicators

5.1. 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.**

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).

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. The 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 it.

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 the period to 31 December 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: 25 January 2016</td></tr>
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29.01.2016</td><td></td><td>DMO</td><td></td><td>CX</td><td></td></tr>
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