Agenda Item 8.

East Northamptonshire Council

Finance Sub-Committee
13 June 2016

Treasury Management Report to 31 March 2016

Purpose of report

The purpose of this report is to note the current position for Treasury Management for the period to 31 March 2016 in financial year 2015/16.

Attachment(s)

Appendix 1: Prudential Indicators – as at 31 March 2016

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 Bank of England has revised down its growth and inflation expectations over the last quarter, indicating that UK interest rates will not be changed ahead of the fast-approaching EU referendum. Speculation continues to grow as to the impact of a potential Brexit on the UK economy, predictions warning of a 20% loss in the value of sterling, together with increased inflationary pressures and slower economic growth.

In the Euro Zone, growth in the last quarter has been volatile, falling by 1.3% in March but growing overall by 1.8%, adding concerns about the economic impact of global weakness.

Meanwhile, the US has seen a fairly strong first quarter, with the expectation that the economy will improve; it is likely that the US Federal Bank will look to increase interest rates as early as June.

2.2 **Inflation:** Inflation fell from 0.5% in March to 0.3% in April; this decline was driven mainly by the reduction in costs of airfares and clothing. It is anticipated that inflation will remain below the Bank of England's target of 2% until 2018; this is mainly due to the effect of weak oil prices and fragile wage growth. However, any predictions regarding inflation will hinge on the result of the EU referendum.

2.3 **Monetary Policy:** The Bank of England's Monetary Policy Committee is not intending to increase the bank rate of 0.5% in the short term. The MPC does not want too rapid an acceleration in domestic costs that could lead to undesirable volatility in output and employment, and risk being unsustainable.

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

3. Treasury Management Activity

3.1. During 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 for the banking sector, combined with the general uncertainty within the financial markets and the volatility in the equity and bond markets.

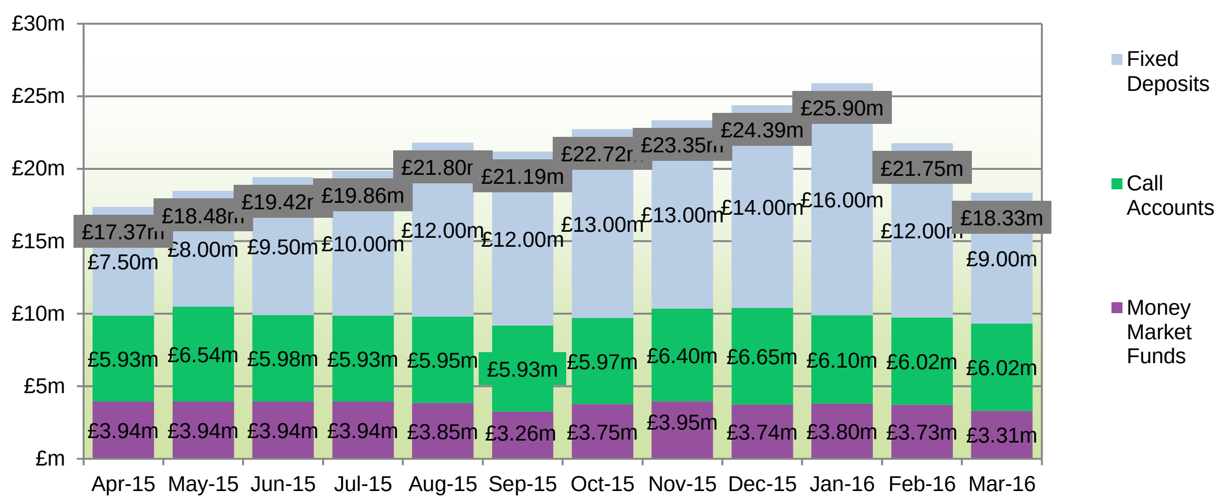
3.2. Investing for shorter durations reduces the counterparty risk the council is exposed to and the potential yield (interest rate) the council can achieve. To mitigate some of the impact of not being able to place funds beyond 6 months, the council is now looking at alternative options to fixed term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

Total amount invested March 2016



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 £0.96m. An explanation is provided later in this report (see paragraph 4.4).

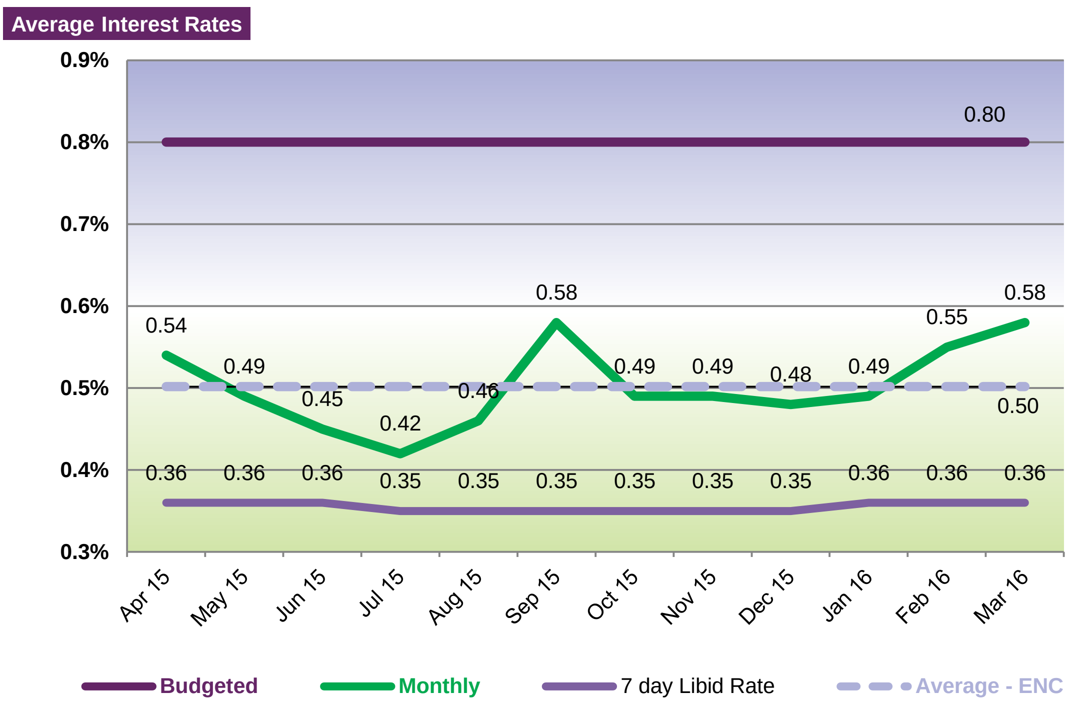
4. Treasury Management Position and Performance

4.1. The table below summarises the council's current portfolio of investments as at 31 March 2016.

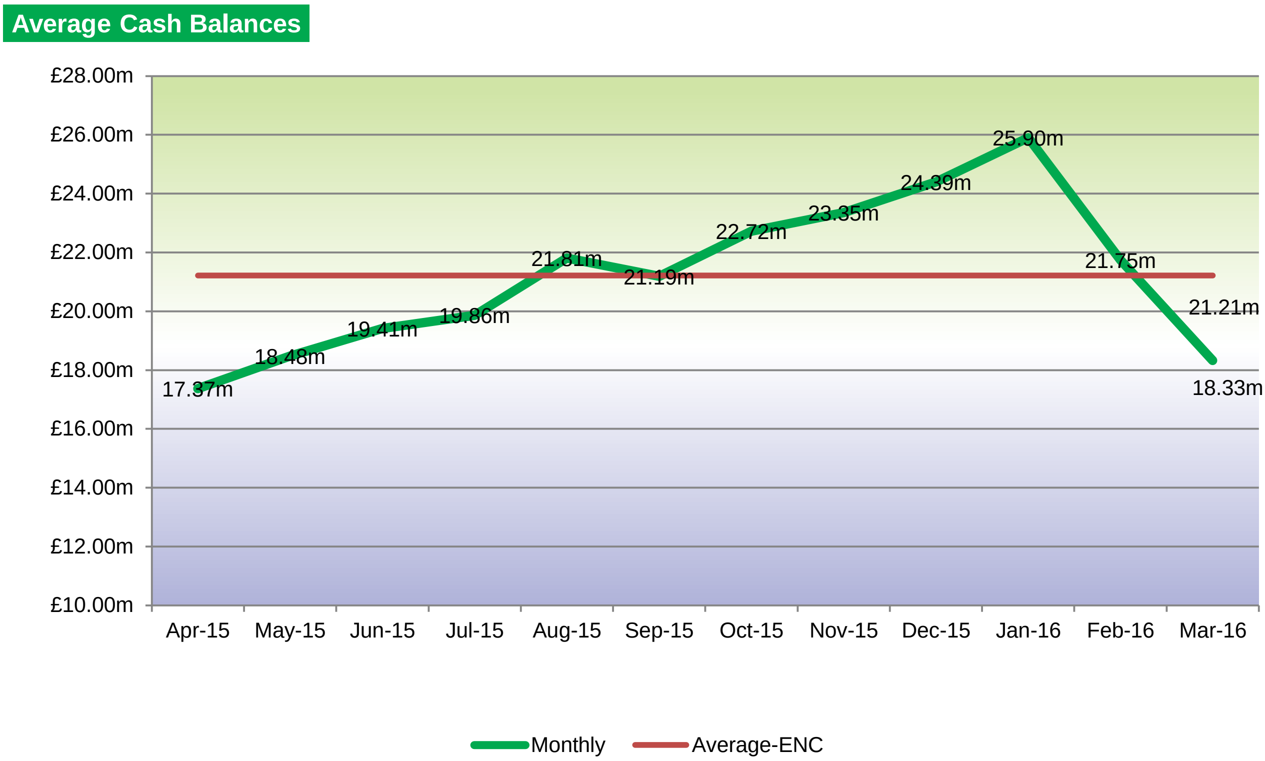
Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK (95 day notice)	£1,000,000	0.90	30/06/2016
Santander Uk (180 day notice)	£1,000,000	1.15	27/08/2016
Barclays (Current Account)	£26,511		
Close Brothers (30 day notice)	£1,991,407	1.00	
Svenska Handelsbanken	£2,000,000	0.40	
Federated Sterling Liquidity Fund (Money Market Fund)	£1,952,873	0.50	
Deutsche Bank Sterling Fund (Money Market Fund)	£1,355,599	0.39	
Fixed Term Deposits			
Coventry Building Society	£2,000,000	0.60	11/07/2016
Leeds City Council	£3,000,000	0.40	18/03/2016
Eastleigh Borough Council	£2,000,000	0.40	04/04/2016
Lloyds Bank	£2,000,000	0.43	25/04/2016
	£18,326,390		

4.2. The average return on the council's portfolio to 31 March 2016 is 0.50%. This is 0.14% above the average 7-day London Interbank Bid Rate (LIBID) of 0.36%.

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 average 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 March 2016. It is anticipated, based on the current cash balances, that the interest income for the financial year will be an improvement of approximately £30k 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	£108,000	£30,000	Lower interest rates being achieved, offset by higher than expected cash balances
Total	**£78,000**	**£108,000**	**£30,000**	

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 March 2016.

(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)

Legal	Power: Local Government Finance Act 2002 Other considerations:				
Background Papers:					
Person Originating Report:	Michelle Drewery, Finance Manager, ☎ 01832 742267 ✉ mdrewery@east-northamptonshire.gov.uk				
Date: 26.05.2016					
CFO		**MO**		**CX**	

Appendix 1

Prudential Indicators – as at 31 March 2016

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	723*
Total CFR	**361**	**723**

*This has been amended to reflect the adjustments as per the Statement of Accounts 2014/15.

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	0.28

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**

In the unlikely event that the council would be required to borrow within the Authorised Limit and Operational Boundary, it could only be for short term rather than a long term capital investment plan.

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.