



Finance Sub-Committee – 26 June 2017

Treasury Management Report to 31 May 2017

Purpose of report

The purpose of this report is to note the current position for Treasury Management for the period to 31 May 2017 in financial year 2017/18.

Attachment(s)

Appendix 1: Prudential Indicators – as at 31 May 2017/18

1. Introduction

- 1.1. The Treasury Management Strategy for 2017/18 was approved as part of the Medium Term Financial Strategy (MTFS) on 1 March 2017. 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:** There has been a sharp slowing of GDP growth in the first quarter, to 0.2%, which has been triggered by the services sector. The continued squeeze on consumers as a consequence of Brexit is still a concern as retail sales have declined by 1.8%. This level of uncertainty has also seen firms consolidate rather than grow market share.

Growth in the EU remains unchanged at 0.5% for this period. However, a more positive outlook for the EU is indicating annual growth could exceed 2.5%.

In the USA, GDP for the first quarter is forecast to dip slightly from the previous year's quarter 4 period. However, similarly to the EU, it is also projecting healthy GDP growth for the year.

The Chinese economy has seen a fairly solid start to the year with activity indicators remaining strong throughout the opening quarter.

2.2 **Inflation:** The Consumer Prices Index (CPI) has remained steady at 2.3% in March, with food, alcohol and tobacco the largest contributors. The upside was a softening of core inflation to 1.8%.

2.3 **Interest Rates:** The latest forecast for interest rates, based on information from the council's Treasury Management advisors, is shown below:

Official Bank									
Rate	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Capita	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.50

2.4 If interest rates are cut from September 2017 as indicated in the forecast above then the financial impact based on current cash levels will be a shortfall of around £15k-£20k against the current budget in addition to the £15k already estimated at paragraph 4.7.

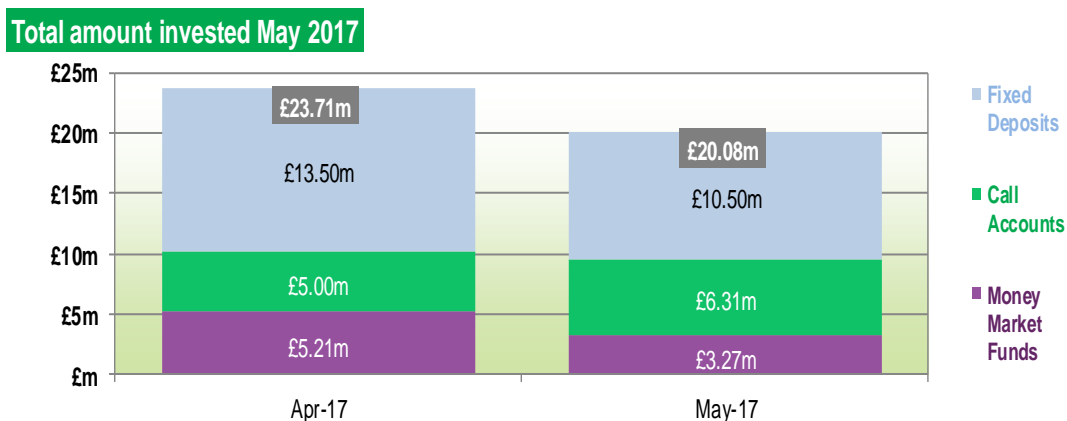
3. Treasury Management Activity

3.1 Investment opportunities with a yield great than 0.5% are increasingly difficult to achieve in light of the constraints in terms of duration and risk appetite from the money markets and external treasury advice. Therefore, non treasury opportunities such as the recent purchase of an investment property within Rushden town centre, will allow the Council to access higher returns on surplus cash balances than traditional investment vehicles alone.

3.2 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.

3.3 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.

3.4 The charts below demonstrate the change in investment by type up to 31 May 2017.



3.5 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.

3.6 The level of cash balances held by the council has decreased since April 2017 by £3.63m. 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 May 2017.

Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK (95 Day notice)	£1,500,000	0.65	
Santander UK (180 Day notice)	£1,500,000	0.90	
Goldman Sach's (180 Day notice)	£3,000,000	0.66	
Barclays Bank Current Account	£314,859	0.05	
Money Market Funds			
Federated Sterling Liquidity Fund	£2,995,824	0.25	
Deutsche Bank Sterling Fund	£270,322	0.15	
Fixed Term Deposits			
Northumbria Police and Crime Commissioner	£1,500,000	0.30	07/07/2017
Coventry Building Society	£3,000,000	0.38	11/07/2017
Lloyds Bank	£2,000,000	0.55	25/10/2017
Lloyds Bank	£1,000,000	0.45	19/06/2017
Nationwide Building Society	£3,000,000	0.42	04/07/2017
£20,081,005			

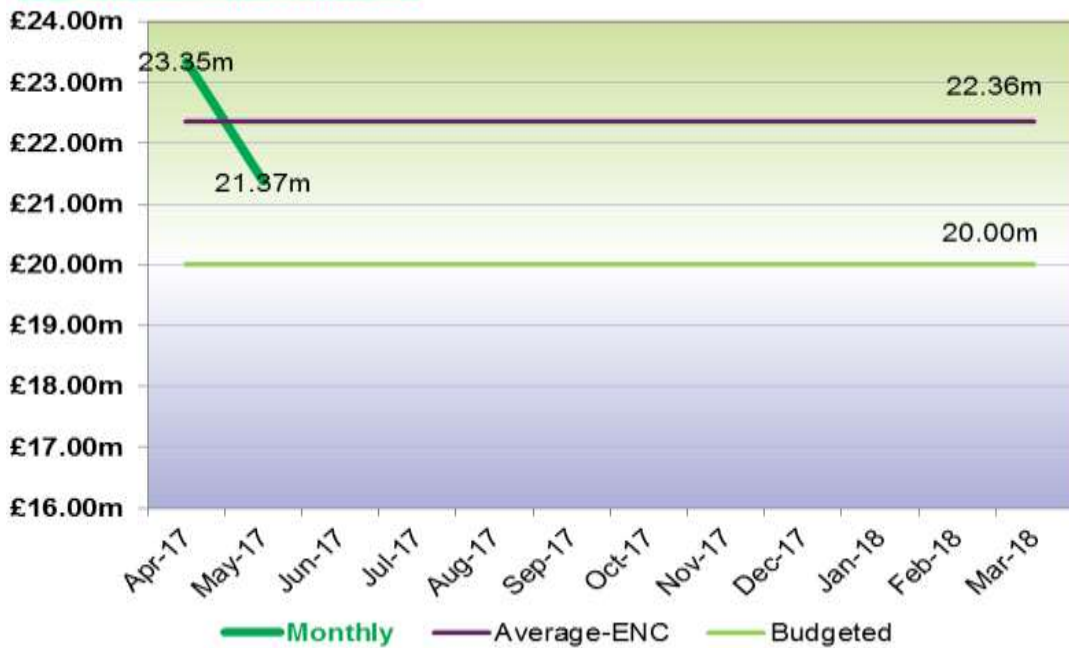
- 4.2 The average return on the council's portfolio to 31 May 2017 is 0.40%. This is 0.16% above the average 7-day London Interbank Bid Rate (LIBID) of 0.24%.

- 4.3 The council's current interest rate achievable on its investment portfolio is lower than anticipated when the budget was set in March 2017. This was based on the previous year's performance and forecast interest rates at that time. The expected rate was 0.5%. Performance against 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 March 2017, as demonstrated in the table below. The majority of the decrease in cash balances is due to the purchase of the investment property in Rushden town centre.

Average Cash Balances



- 4.5 During 2016/17 interest rates significantly reduced, the interest receivable is expected to be below budget by approximately £15k.
- 4.6 The council continues to make use of its surplus monies which means there has been no requirement to undertake any external borrowing. Consequently, no interest payable has been incurred during this period.
- 4.7 The overall Treasury Management outcome is set out below.

Treasury Management Budget vs. Estimated Outcome

	Budget £000	Estimated Outcome £000	Shortfall £000	
Investments	£100,000	£85,000	(£15,000)	Lower interest rates being achieved, partly offset by higher than expected cash balances
Total	£100,000	£85,000	(£15,000)	

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. The financial implications are set out in the report.

9. Corporate Outcomes

9.1 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

9.2 Effective Management

Treasury Management allows the council to manage its surplus cash balances to ensure the main principles (Security, Liquidity, and Yield) are maintained, contributing to effective management of the council

10. Recommendations

- 10.1 Finance Sub-Committee is recommended to note the Treasury Management performance for period 2 2017/18.

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

Legal	Power: Local Government Finance Act 2002				
	Other considerations:				
Background Papers:					
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Date: 15/06/2017					
CFO		MO		CX	