# Finance and Performance Sub-Committee – 10 September 2018

## Treasury Management Report to 31 July 2018

**Purpose of report**

The purpose of this report is to note the current position for Treasury Management for the period to 31 July 2018 in financial year 2018/19.

**Attachment(s)**

Appendix 1: Prudential Indicators – as at 31 July 2018

## 1. Introduction

1.1 The Treasury Management Strategy for 2018/19 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2018. It was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017.

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:** Global GDP growth is estimated to remain stable during Q2 2018, having dipped slightly in Q1. Growth is expected to recover to 0.4% in Q2, which is driven by a pick up in consumption growth; consumer credit and property transactions, which were weak in Q1.

Quarterly euro-zone GDP growth remained at 0.4% in Q2. This was mainly due to adverse weather conditions and the slow down of the global economy resulting in weak export growth in Q1, affecting required productivity in Q2 to meet demand. The underlying growth with the euro zone remains strong and stable.

Quarterly US GDP growth has recovered from the dip in growth seen in Q1, with growth of 1% in Q2. US GDP growth will be supported by the personal and corporate tax cuts announced in December 2017, as well as the Bipartisan Budget Act of 2018, which lifted discretionary spending caps by around US$300 billion over 2018 and 2019. Together these measures are expected to contribute towards a rise in the US budget deficit. The Congressional Budget Office projects the deficit to rise from 3.5% of GDP in fiscal year 2017 to 4.6% in 2019.

2.2 **Inflation:** UK CPI inflation has fallen back more rapidly than expected three months ago and is currently 2.4%. It now seems likely that pass-through of the past depreciation of sterling to import prices is somewhat smaller than previously thought. Regular pay growth has picked up, broadly as expected three months ago. There are continuing signs that domestic inflationary pressures are building gradually.

Financial conditions are similar to those reported to the committee on 25 June 2018. The MPC's projections are conditioned on a path for Bank Rate that reaches 1.2% by early 2021.

2.3 **Monetary Policy:** The Monetary Policy Committee (MPC) in August voted unanimously to increase the bank rate to 0.75% (an increase of 0.25%). It also voted unanimously to maintain the stock of UK government bond purchases (Quantitative Easing programme) at £435bn.

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 | Q2 18 | Q3 18 | Q4 18 | Q1 19 | Q2 19 | Q3 19 | Q4 20 | Q1 20 |
|---|---|---|---|---|---|---|---|---|
| Link | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.25 |

## 3.0 Treasury Management Activity

3.1 In the 2018/19 financial year, the opportunity for the council to invest its surplus cash for periods beyond 6 months in duration still remains limited. This is mainly due to the continued uncertainty in the Brexit negotiations in the lead up to the UK leaving the EU in March 2019.

3.2 Investing over 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 reduced rates, the council opted for fixed term deposits, by investing in a 95 day notice account and a 180 day notice account, which (at present) are yielding between 0.6% to 0.7% average interest rate.

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 chart below demonstrates the change in investment by type up to 31 July 2018.


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 2018 by £6.49m.

## 4. Treasury Management Position and Performance

4.1 The table below summarises the council's current portfolio of investments as at 31 July 2018:

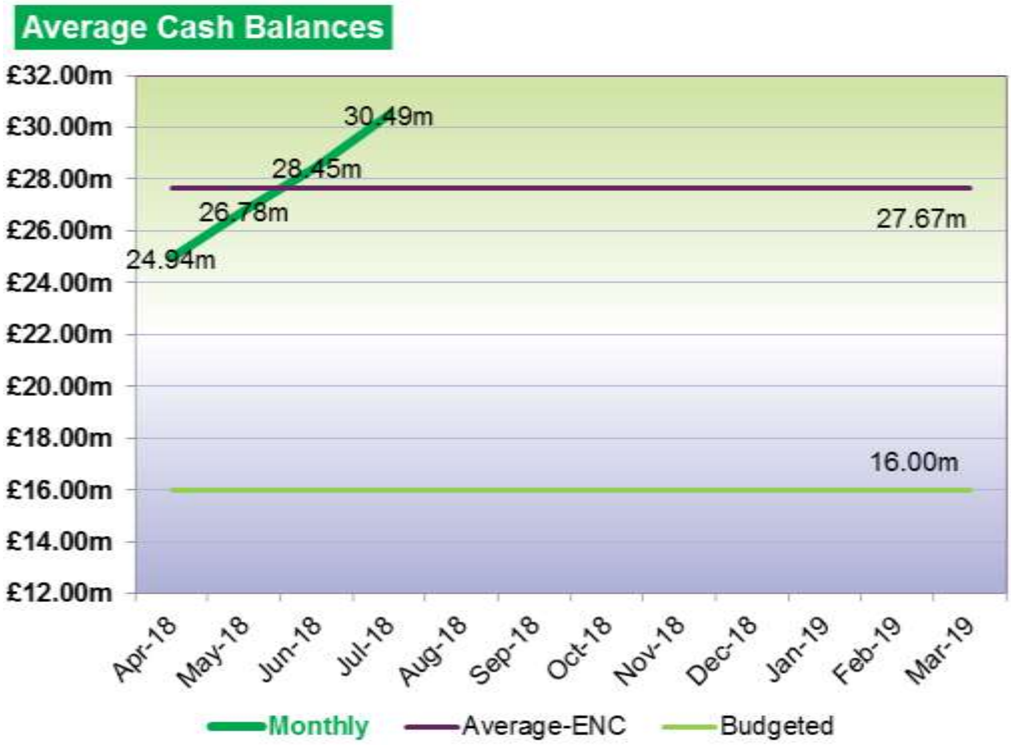
| | | | |
|---|---|---|---|
| **Call Accounts** | | | |
| Santander UK (95 Day notice) | £1,500,000 | 0.60 | |
| Santander UK (180 Day notice) | £1,500,000 | 0.70 | |
| Goldman Sach's (180 Day notice) | £3,000,000 | 0.65 | |
| Barclays Bank Current Account | £1,601,597 | 0.05 | |
| **Money Market Funds** | | | |
| Federated Sterling Liquidity Fund | £2,905,041 | 0.42 | |
| Deutsche Bank Sterling Fund | £2,985,353 | 0.42 | |
| **Fixed Term Deposits** | | | |
| Thurrock Borough Council | £1,500,000 | 0.50 | 27/09/2018 |
| Eastbourne Borough Council | £2,000,000 | 0.90 | 14/05/2019 |
| Lloyds Bank | £1,000,000 | 0.75 | 31/01/2019 |
| Lloyds Bank | £2,000,000 | 0.75 | 03/01/2019 |
| Leeds City Council | £3,000,000 | 0.80 | 08/04/2019 |
| Conwy County Borough Council | £2,500,000 | 0.65 | 28/01/2019 |
| Blaenau Gwent C.B.C | £2,500,000 | 0.60 | 18/12/2018 |
| | **£30,491,992** | | |

4.2 The average return on the council's portfolio at 31 July 2018 is 0.51%. This is 0.15% 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 2018 due to the expected rise interest rates being postponed until December 2018. At that time, the expected average rate was 0.56%. The performance to date is shown in the table below:

4.4 For 2018/19, the interest receivable is expected to be higher by the end of year due to the impact of the recent interest rate rise of 0.25%. This will be closely monitored during the course of the financial year.


4.5 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 2018, as demonstrated in the table below.




4.6 The council continues to make use of its surplus monies, meaning there has been no requirement to undertake any external borrowing. Consequently, no interest payable has been incurred during this period.

4.7 The council is currently considering how it can optimise its treasury management activities between security, liquidity and yield. A core part of this review is the level of cash backed reserves the council has for treasury management purposes in the short and longer term. This depends upon how the council intends to use its reserves. As the council is currently preparing a set of investment principles as part of its

Commercialisation Strategy, which will be considered by the relevant committee in due course, this may lead to the council utilising some of its reserves by investing them in tangible assets. The treasury management approach has been to invest monies as set out in Section 2 of this report. Following the outcome of these investment principles, the strategy for investing surplus monies will be reconsidered depending upon whether the level of surplus monies will be maintained or reduced.

4.8 Officers are currently carrying out a mid year review of the Treasury Management Strategy to incorporate the financial implications of the Enterprise Centre development. It is anticipated that this will be brought to the next meeting of the FPSC for review.

4.9 The overall Treasury Management outturn is set out below.

| Treasury Management Budget vs. Estimated Outturn | | | |
|---|---|---|---|
| | **Budget** | **Estimated Outturn** | **Surplus** |
| | **£** | **£** | **£** |
| Investments | £89,600 | £107,000 | £17,400 |
| **Total** | **£89,600** | **£107,000** | **£17,400** |

## 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).

5.3 Another key indicator for the council is the Incremental Impact of Capital Investment Decisions on cash surpluses, which is prescribed by the Prudential Code. 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. Additionally, the interest rate foregone is lower than budgeted at 0.52% compared to 0.56%. 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.

| | 2018/19 Estimate | 2018/19 Forecast |
|---|---|---|
| Capital Expenditure | £3,055,350 | £3,055,350 |
| Increase in Band D Council Tax | 0.72p | 0.72p |

## 6. Prudential and Investment Code 2018/19

6.1 Within the 2018/19 Treasury Management Strategy, amendments to the Treasury Management and Prudential code were factored in, based on the interpretation available at the time of writing the strategy. Further guidance and best practice is still emerging from CIPFA and our treasury advisors, Link Asset Management. This will enable us to consider the implications to the Council and incorporate any changes into our strategies or working practices.

## 7. Equality and Diversity Implications

7.1 This report is for information. There are no equality and diversity implications arising from the content.

**8. Privacy Implications**

8.1 This report is for information. There are no privacy implications arising from the content.

**9. Legal Implications**

9.1 This report is for information. There are no legal implications arising from the content.

**10. Risk Management**

10.1 This risks arising from Treasury Management activity are recorded in the Risk Register. The risks are subject to regular review and update.

**11. Resource and Financial Implications**

11.1 This report is for information. There are no financial implications arising from this report.

**12. Constitutional Implications**

12.1 This report does not require any amendment to the Council's Constitution.

**13. Implications for our Customers**

13.1 There are no implications for our customers arising directly from this report.

**14. 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, and Yield) are maintained, contributing to effective management of the council*

**15. Recommendations**

15.1 Finance and Performance Sub-Committee is recommended to note the Treasury Management performance for period up to 31 July 2018 in financial year 2018/19.

*(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: Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009.</td></tr>
<tr><td colspan="6">Background Papers:</td></tr>
<tr><td colspan="6">Person Originating Report: Michelle Drewery, Head of Resources, 01832 742267<br>mdrewery@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 16/08/2018</td></tr>
<tr><td>CFO<br>30/8/18</td><td></td><td>MO<br>30/8/18</td><td>S Matthews</td><td>CX<br>30/8/18</td><td>D. Oliver</td></tr>
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**Appendix 1**

**Prudential Indicators – as at 31 Jul 2018**

## 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 | 2018/19 Estimate % | 2018/19 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 | 2018/19 Estimate £m | 2018/19 Estimate (Revised) £m |
|---|---|---|
| General Fund Capital Programme | 0 | 0 |
| Embedded Lease (Refuse Contract) | 0 | 0 |
| **Total CFR** | **0** | **0** |

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 | 2018-19 Estimate £ | 2018-19 Estimate (Revised) £ |
|---|---|---|
| Increase in Band D Council Tax | 0.72 | 0.72 |

This represents 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 | 2018/19 Approved £'000 |
|---|---|
| Borrowing | 2,000 |
| Other Long-term Liabilities | 0 |
| **Total** | **2,000** |
| **Operational Boundary for External Debt** | |
| Borrowing | 0 |
| Other Long-term Liabilities | 0 |
| **Total** | **0** |

## 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 2018/19 Treasury Strategy.