Agenda Item 6.

East Northamptonshire Council

Finance and Performance Sub-Committee – 7 May 2019

Treasury Management Report to 31 March 2019

Purpose of report

The purpose of this report is to note the position for Treasury Management for the year to 31 March 2019.

Attachment(s)

Appendix 1: Prudential Indicators – as at 31 March 2019

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 Treasury Management Strategy for 2018/19 was updated during the year to reflect the possibility that the Council may undertake borrowing for the first time in 2019/20. This was approved by Full Council in March 19.

1.3 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.

1.4 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

1.5 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 slowed to 0.4% in the fourth quarter of 2018. This is partly due to weaker market data and changes in sentiment within the financial markets around global growth.

Quarterly euro-zone GDP growth has weakened to 0.2% in Q4. This was mainly due to temporary factors, such as reduction in production in the auto sector due to the introduction of new legislation on emissions. Projected growth within the euro-zone is expected to remain sluggish in the new financial year.

2.2 **Inflation:** UK CPI inflation has fallen back more rapidly than expected and stood at just below 2%.

Financial conditions have not significantly changed during Q4 and the projections for interest rates are on a path for a gradual Bank Rate increase that reaches 1.1% by early 2021.

2.3 **Monetary Policy:** The Monetary Policy Committee (MPC) are not due to vote on the bank rate until May 2019. However, it is unlikely that the Bank Rate of 0.75% will be recommended to be increased.

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	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Link	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00

3.0 Treasury Management Activity

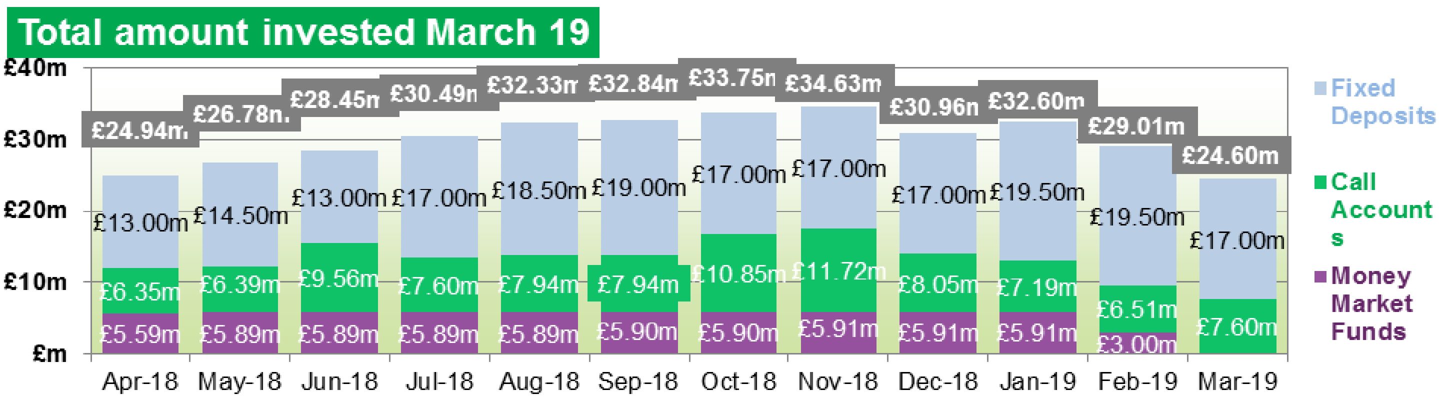
3.1 In the 2018/19 financial year, the opportunity for the council to invest its surplus cash for periods beyond 6 months in duration remained limited. This was mainly due to the continued uncertainty in the Brexit negotiations in the lead up to the UK leaving the EU.

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 March 2019.



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 During 2018/19 CIPFA released a new accounting standard in relation to Financial Instruments, (i.e. providing disclosures on what types of investments an authority holds) concerning the technical treatment of different types of investment vehicles. Based on information provided by CIPFA within The Code and workshops with EY (the Council's external auditors), Money Market Funds were identified as a potential investment vehicle which, on a technical basis only, may have had a negative impact on the General Fund. Therefore, for final account purposes a strategic decision was taken to divest any MMFs held on behalf of the Council.

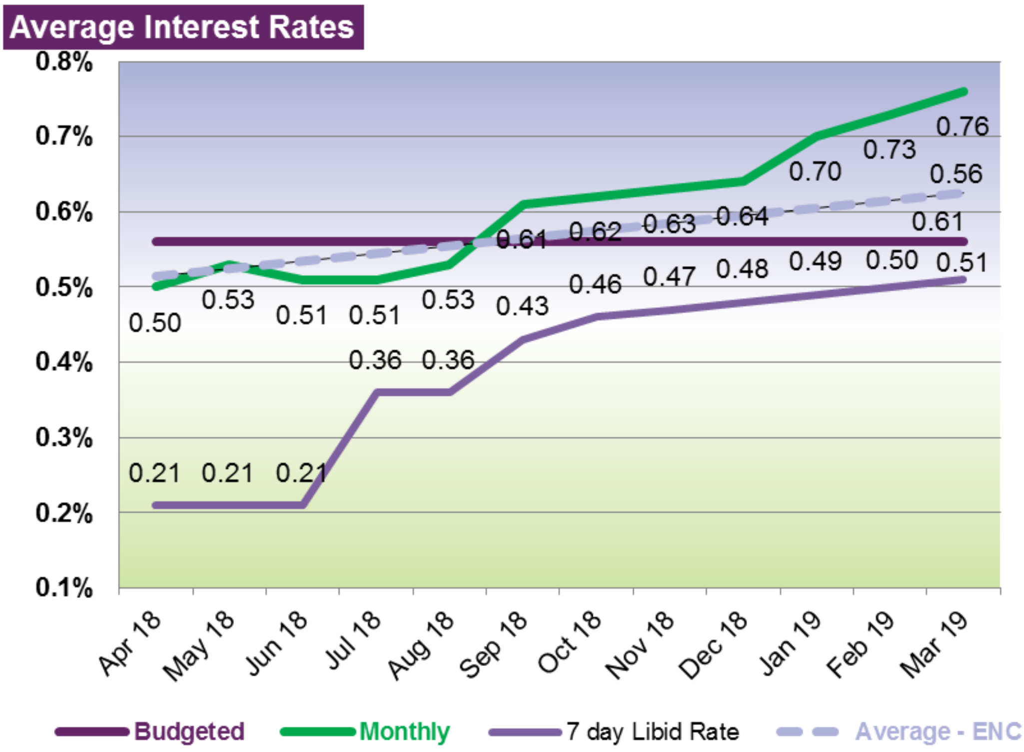
4. Treasury Management Position and Performance

4.1 The table below summarises the council's current portfolio of investments as at 31 March 2019:

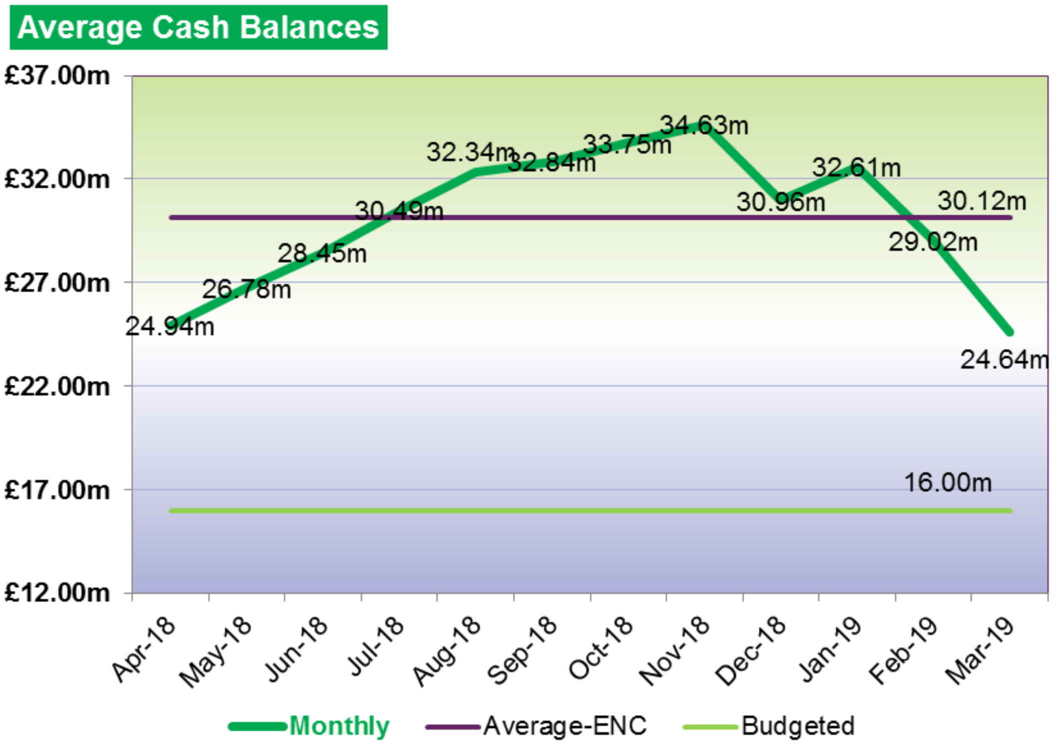
Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK (95 Day notice)	£1,500,000	0.60	
Santander UK (180 Day notice)	£1,500,000	0.70	
Goldman Sach's (180 Day notice)	£3,000,000	0.65	
Barclays Bank Current Account	£1,634,323	0.05	
Fixed Term Deposits			
DMO - DMADF	£4,000,000	0.52	
Eastbourne Borough Council	£2,000,000	0.90	14/05/2019
Eastleigh Borough Council	£3,000,000	0.87	28/05/2019
Lloyds Bank	£1,000,000	1.00	31/07/2019
Lloyds Bank	£2,000,000	1.00	03/07/2019
Leeds City Council	£3,000,000	0.80	08/04/2019
North East Lincolnshire	£2,000,000	0.80	08/05//2019
	£24,634,323		

4.2 The average return on the council's portfolio at 31 March 2019 is 0.61%. This is 0.10% above the average 7-day London Interbank Bid Rate (LIBID) of 0.51%.

4.3 The council's average interest rate achieved on its investment portfolio is slightly higher than anticipated when the budget was set in February 2018. At that time, the expected average rate was 0.56%. The performance to date is shown in the table below.



4.4 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. However, over time the cash balances reduced by the end of March 2019, due to council tax and business rates only being collected over 10 months to January. The Council has also undertaken significant capital purchases in relation to refuse vehicles and land for the enterprise centre towards the end of the financial year, totalling approx £3.5m.



4.5 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.

4.6 The overall Treasury Management outturn is set out below, as at 31st March 2019.

Treasury Management Budget vs. Estimated Outturn			
	Budget	**Outturn**	**Surplus**
	£	**£**	**£**
Investments	£90,000	£197,500	£107,500
Total	**£90,000**	**£197,500**	**£107,500**

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.

	2018/19 Estimate	**2018/19 Actual**
Capital Expenditure	£3,055,350	£4,777,082
Increase in Band D Council Tax	0.72p	0.77p

6. Equality and Diversity Implications

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

7. Privacy Implications

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

8. Legal Implications

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

9. Risk Management

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

10. Resource and Financial Implications

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

11. Constitutional Implications

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

12. Implications for our Customers

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

13. 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

14. Recommendations

14.1 Finance and Performance Sub-Committee is recommended to note the Treasury Management performance for the period up to 31 March 2019 in financial year 2018/19.

(Reason – to provide an update for Members on Treasury Management activities in accordance with CIPFA guidance and best practice)

<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: Amy Eyles, Finance Manager 01832 742087
aeyles@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 24/04/2019</td></tr>
<tr><td>CFO

26/4/19</td><td></td><td>MO

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26/4/19</td><td></td></tr>
</table>

Appendix 1

Prudential Indicators – as at 31 January 2019

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 Actual £
Increase in Band D Council Tax	0.72	0.77

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.