East Northamptonshire Council

Finance and Performance Sub-Committee – 8 July 2019

Treasury Management Report to 31 May 2019

Purpose of report

The purpose of this report is to note the current position for Treasury Management for the period to 31 May 2019 in financial year 2019/20.

Attachment(s)

Appendix 1: Prudential Indicators as at 31 May 2019

1. Introduction

1.1 The Treasury Management Strategy for 2019/20 was approved as part of the Medium Term Financial Strategy (MTFS) in March 2019. It is 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 (sources: European Economic Forecast Spring 2019, May 2019, European Commission; Link Asset Services Daily Bulletin Executive Summary 13th June 2019)
- 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:** After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of 2018, reflecting a confluence of factors affecting major economies. Global growth is now projected to slow from 3.6% in 2018 to 3.3% in 2019, before returning to 3.8% in 2020.

Economic activity in the EU slowed further in the second half of 2018 as growth in the global economy and trade weakened amid tightened global financing conditions, unresolved trade tensions, high uncertainty, and as a result of exceptional weakness in the manufacturing sector that extended into the start of 2019. The slowdown was even more pronounced in the Euro area as the region is not only highly dependent on external demand, but has also been hit by a number of sector- and country-specific factors. These include disruptions in the car manufacturing sector, social tensions, policy uncertainty, as well as uncertainty related to Brexit. From 1.9% in 2018, Euro area GDP growth is forecast to moderate to 1.2% in 2019.

2.2 **Inflation:** The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.0% in April 2019, up from 1.8% in March 2019.

The Consumer Prices Index (CPI) 12-month rate was 2.1% in April 2019, up from 1.9% in March 2019.

CPI is projected to fall a little below 2% temporarily over much of 2019, largely reflecting the impact of lower oil prices, then to rise back above 2% as that impact unwinds.

2.3 **Monetary Policy:** The Bank of England's Monetary Policy Committee (MPC) sets monetary policy. At its meeting on 2nd May 2019, the MPC voted unanimously to maintain the Bank Rate at 0.75%.

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 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Link	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25

3.0 Treasury Management Activity

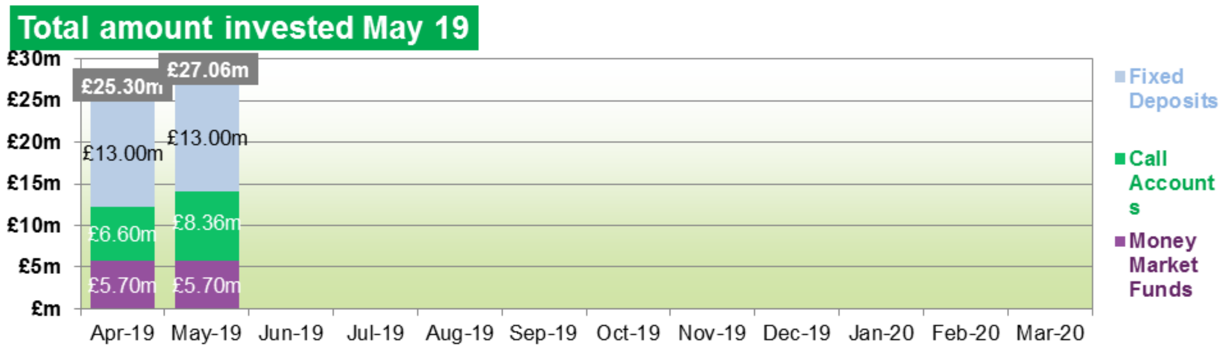
3.1 In the 2019/20 financial year, the opportunity for the council to invest its surplus cash for periods beyond 6 months in duration still remains limited. This is mainly due to the continued uncertainty in the Brexit negotiations in the lead up to the UK leaving the EU.

3.2 Investing over shorter durations reduces the counterparty risk (the risk associated with the other party to a financial contract not meeting its obligations) 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 May 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. Withdrawals from short term notice accounts attract a penalty if the required period of notice is not given and the council avoids withdrawing funds from these accounts without giving sufficient notice. Fixed term 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.

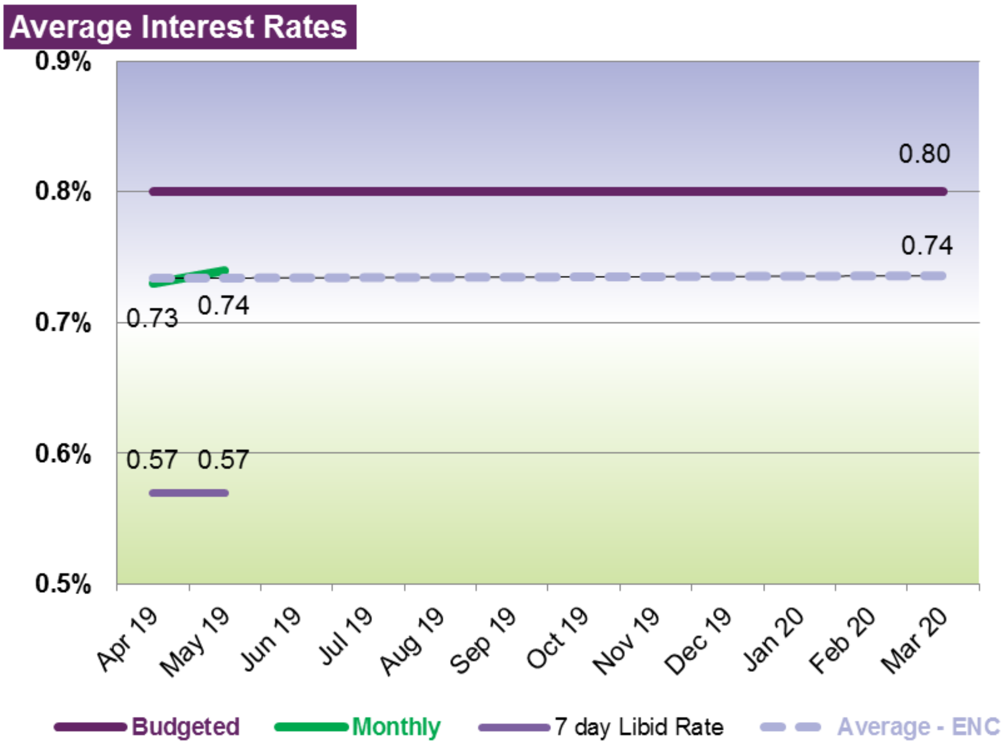
4. Treasury Management Position and Performance

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

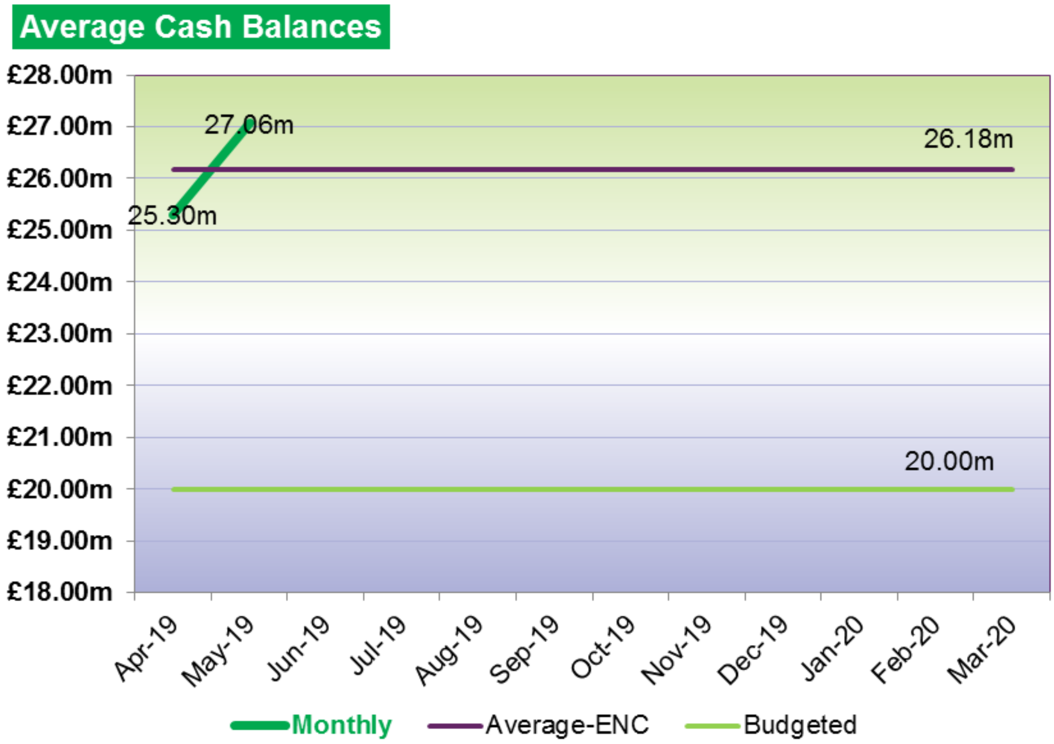
Santander UK (95 day notice)	1,500,000	0.850	
Santander UK (180 day notice)	1,500,000	0.900	
Goldman Sach's (180 Day Notice)	3,000,000	0.650	
Barclays Current Account	2,361,940	0.050	
Fixed Term Deposits			
Blaenau Gwent CBC	3,000,000	0.900	28/02/2020
Lloyds Bank	1,000,000	1.000	31/07/2019
Lloyds Bank	2,000,000	1.000	03/07/2019
Suffolk County Council	2,000,000	0.950	06/05/2020
Leeds City Council	3,000,000	0.780	08/07/2019
Leeds City Council	2,000,000	0.800	20/11/2019
Money Market Funds			
Deutsche Bank Sterling Liquidity Fund	2,800,000	0.670	
Federated Prime Rate Liquidity Fund	2,901,501	0.780	
	27,063,441		

4.2 The average return on the council's portfolio at 31 May 2019 is 0.74%. This is 0.17 percentage points above the average 7 day London Interbank Bid Rate (LIBID) of 0.57%.

4.3 The council is currently achieving a rate of interest of 0.74%; however, as interest rates are expected to increase we are forecasting a full year average interest rate on the investment portfolio to be 0.8%, the same as when the budget was set in March 2019. The performance to date is shown below:



4.4 Whilst the council's investments are achieving lower than budgeted rates of return, the level of cash balances held by the council is higher than anticipated when the budget was set in March 2019, as demonstrated in the table below.



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 However, it should be noted the council does have a borrowing requirement, as approved by council in March 2019, to fund the cost of developing the Enterprise Centre. As noted in paragraph 4.5 the need to borrow is kept under constant review and whilst there is no need to borrow at present the council may need to borrow later in the financial year.

4.7 The overall Treasury Management outturn is set out below.

Treasury Management Budget vs. Estimated Outturn			
	Budget	**Estimated Outturn**	**Surplus**
	£	**£**	**£**
Investments	£105,625	£105,625	£0
Total	**£105,625**	**£105,625**	**£0**

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 at present, 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. Further detail can be found in Appendix 1 at paragraph 3.

	2019/20 Estimate	2019/20 Forecast
Capital Expenditure	£7,840,000	£8,710,723
Increase in Band D Council Tax	0.0110p	0.0110p

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 Corporate Risk Register.

9.2 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

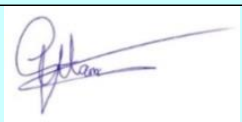
- ***Good Value for Money***
  This report demonstrates that the council is ensuring it effectively manages its surplus cash to achieve good value for money for the council
- ***Effective Management***
  Treasury Management allows the council to manage its surplus cash balances to ensure the main principles (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 to 31 May 2019 in financial year 2019/20.

(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: Amy Eyles, Finance Manager, 01832 742087
aeyles@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 20/06/2019</td></tr>
<tr><td>CFO

27/06/19</td><td></td><td>MO
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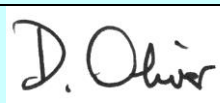
27/06/19</td><td></td></tr>
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Appendix 1

Prudential Indicators – as at 31 May 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	2019/20 Estimate %	2019/20 Estimate (Revised) %
General Fund	1.17%	1.17%
Total	**1.17%**	**1.17%**

2. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	2019/20 Estimate £m	2019/20 Estimate (Revised) £m
General Fund Capital Programme	2,785	2,785
Total CFR	**2,785**	**2,785**

The council's underlying need to borrow for the main capital expenditure activity is currently £2,785m.

Following the council's successful Local Growth Fund bid for £1.7m in May 2019, the funding options for the Enterprise Centre East Northants and requirement for external borrowing will be under review during the course of 2019/20.

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	2019/20 Estimate £	2019/20 Estimate (Revised) £
Increase in Band D Council Tax	0.011	0.011

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 invest 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	2019/20 Approved £'000
Borrowing	5,000
Other Long-term Liabilities	0
Total	**5,000**
Operational Boundary for External Debt	
Borrowing	3,000
Other Long-term Liabilities	0
Total	**3,000**

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 2019/20 Treasury Strategy.

However, as identified in section 2 above, during the course of 2019/20 the council will review the funding options for the Enterprise Centre East Northants and assess the requirement for external borrowing.