East Northamptonshire Council

Finance and Performance Sub Committee – 28 October 2019

Treasury Management Report to 31 August 2019

Purpose of report

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

Attachment(s)

Appendix 1: Prudential Indicators as at 31 August 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 This 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:** Output data indicated surprising strength in July, to dampen recession fears. Industrial production unexpectedly rebounded, with a small 0.1% pick up in July. Despite this, the monthly GDP figure was flat in the three months to July. The services sector remained subdued and output in both production and construction sectors declined, with a 1.1% fall in the manufacturing sector the main drag on the former. For July alone, GDP grew by a six month high 0.3%.

2.2 **Monetary Policy:** The August Monetary Policy Committee (MPC) meeting delivered the expected no change vote with a unanimous 9-0 vote, with the MPC suggesting that the UK economy is likely to have stagnated in Q2. They noted that the economy is operating against a backdrop of weaker global growth and ongoing trade tensions. As a consequence they downgraded growth expectations for 2019 and 2020, based on Brexit with a deal, warning that "no deal" withdrawal would have a greater dampening effect. There was a fairly sanguine message about the outlook for interest rates but the MPC believes that inflation will be above target in 2020 and 2021.

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	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link	0.75	0.75	0.75	0.75	0.75	1.00	1.00

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.

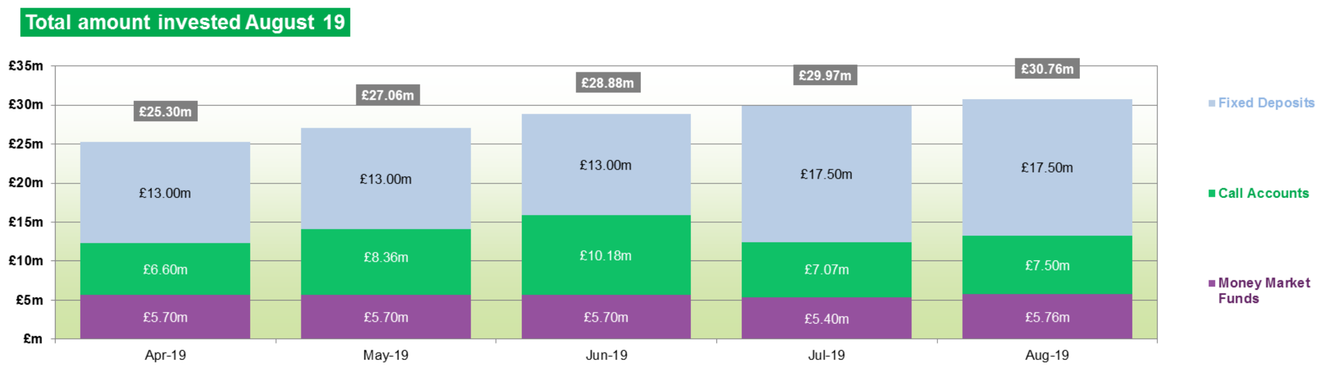
3.2 Investing over shorter durations reduces the counterparty risk (the risk associated with the other party to a financial contract not meeting its obligations) the council is exposed to and the potential yield (interest rate) the council can achieve. To mitigate some of the impact of reduced rates, 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 Financial Services Manager and Treasury Accountant (EnCor) and strategic finance at ENC 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 August 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.

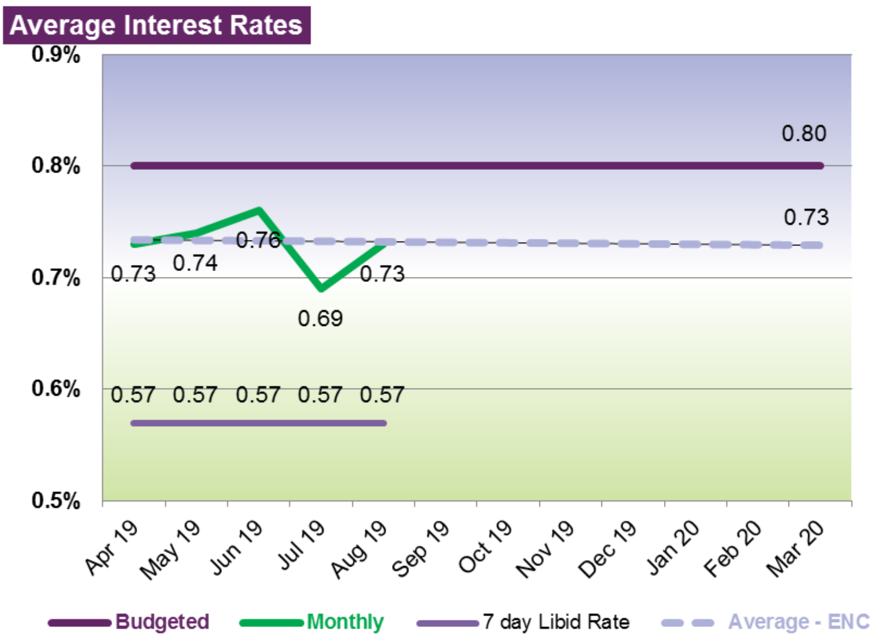


4. Treasury Management Position and Performance

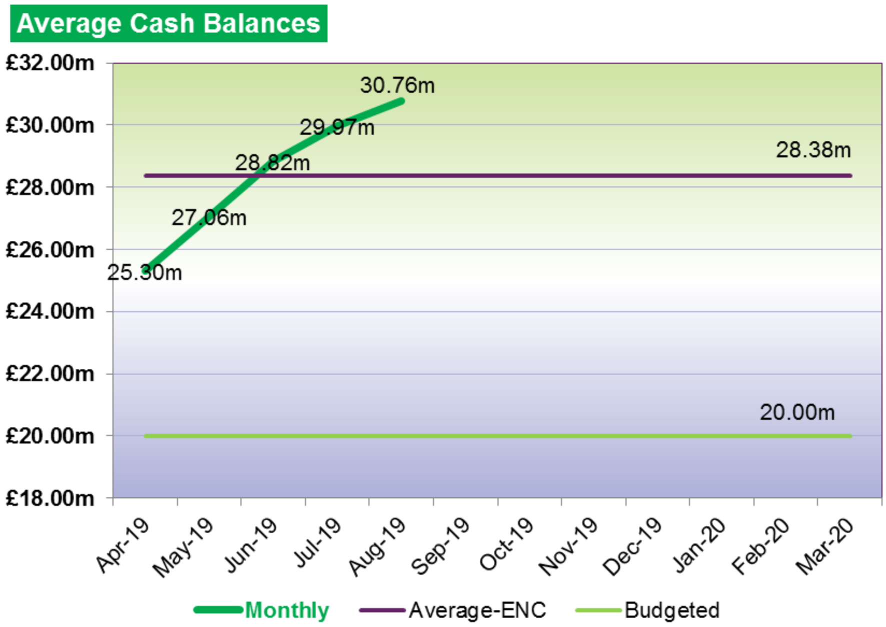
The table below summarises the council's current portfolio of investments as at 31 August 2019:

Investment	£000	Rate	Maturity Date (if applicable)
Santander UK - 95 day Notice	1,500	0.85	
Santander UK - 180 day Notice	1,500	0.95	
Goldman Sach's 180 day Notice	3,000	0.66	
Barclays Current Account	1,498	0.05	
Fixed Term Deposits			
Blaenau Gwent Borough Council	3,000	0.90	28/02/2020
Telford & Wrekin Council	2,000	0.72	28/10/2019
London Borough of Islington	3,000	0.70	19/11/2019
Suffolk County Council	2,000	0.95	06/05/2020
Lloyds	1,000	1.00	31/01/2020
Lloyds	2,000	1.00	03/01/2020
Leeds CC	2,000	0.80	20/11/2019
London Borough of Southwark	2,500	0.70	21/10/2019
Money Market Funds			
Deutsche Bank Sterling Liquidity Fund	2,806	0.65	
Prime Rate Sterling Liquidity Fund - Instant Access	2,959	0.74	
Grand Total	**30,762**		

4.1 The average return on the council's portfolio at 31 August 2019 is 0.73%. This is 0.16 percentage points above the average 7 day London Interbank Bid Rate (LIBID) of 0.57% but below the budgeted rate of 0.8%. The performance to date is shown below:



4.2 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 chart below. This is due to the timing profile of income and expenditure not being evenly spread across the year, for instance council tax income is collected over 10 months, not 12, therefore average cash balances will drop in the last two months of the year.



4.3 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 that the council does have a borrowing requirement, as approved by council in March 2019, to fund the cost of developing the Enterprise Centre. 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 It is also worth noting on 9th October the Public Works Loans Board (PWLB) wrote to all councils advising they would be adding an additional 100bps (1%) margin to all their loans with immediate effect. For example a 50 year loan would now incur interest at around 2.8%, rather than 1.8% previously. The impact of this is being considered on the councils borrowing requirements for the year.

4.8 The overall Treasury Management outturn is set out below.

Treasury Management Budget vs. Estimated Outturn

	Budget	Estimated Outturn	Surplus
	£	£	£
Investment income	£105,625	£153,000	£47,375

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
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 The risks arising from Treasury Management activity are recorded in the Corporate 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 to 31 August 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: 09/10/2019</td></tr>
<tr><td>CFO
17/10/19</td><td></td><td>MO
17/10/19</td><td></td><td>CX
16/10/19</td><td>D. Oliver</td></tr>
</table>

Appendix 1

Prudential Indicators – as at 31 August 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.