



Finance and Performance Sub Committee – 17th February 2020

Treasury Management Report to 31 December 2019

Purpose of report

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

Attachment(s)

Appendix 1: Prudential Indicators as at 31 December 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

- **Growth:** The latest available data relating to UK Gross Domestic Product (GDP) was published by the Office for National Statistics on 13th January 2020 in relation to November 2019 data. UK GDP grew by 0.1% in the three months to November 2019, although the rolling three-month GDP growth slowed for the second month in a row. The services and construction sectors contributed positively to Gross Domestic Product (GDP) growth in the three months to November 2019, growing by 0.1% and 1.1%, respectively. Meanwhile, the production sector fell by 0.6% in the same period, its second consecutive rolling three-month decline. Overall UK GDP growth slowed in 2019, reflecting weaker global growth and elevated Brexit uncertainties. Output is expected to have been flat in 2019 Q4.
- **Monetary Policy:** On 30th January 2020 the Monetary Policy Committee (MPC) voted by a majority of 7-2 to maintain Bank rate at 0.75%. The MPC also voted unanimously to maintain the stock of corporate bond purchases and UK Government bond purchases. CPI inflation fell to 1.3% in December, core CPI inflation declined to 1.4%, and core services inflation is below its target-consistent range. The unemployment rate has remained low and stable, and employment growth has picked up. In their report published on 30th January the MPC noted that the most

recent indicators suggest that global growth has stabilised, reflecting the partial easing of trade tensions and the significant loosening of monetary policy by many central banks over the past year. Global business confidence and other manufacturing indicators have generally improved. Domestically, near-term uncertainties facing businesses and households have receded. CPI inflation is projected to remain below the MPC's 2% target throughout this year and much of 2021. The MPC note that monetary policy will be set to ensure a sustainable return of inflation to the 2% target. Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak.

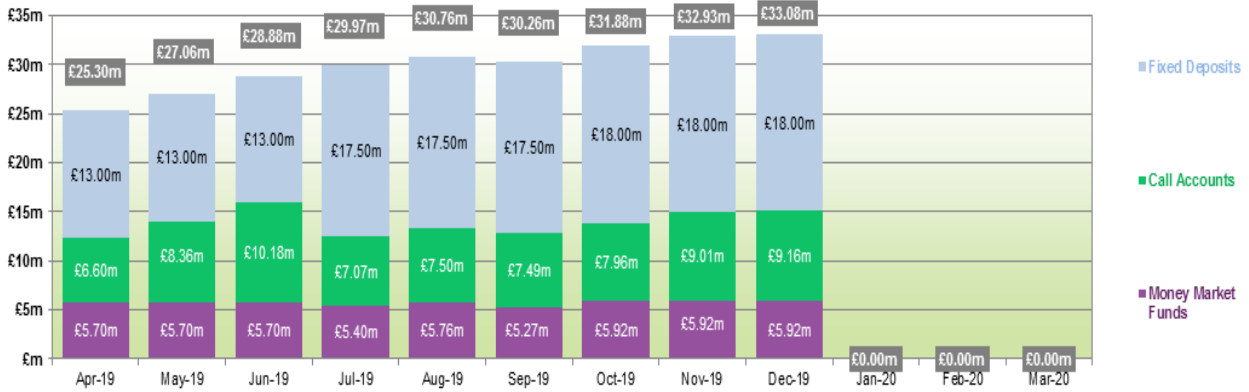
- 2.1 **Interest Rates:** The latest forecast for interest rates, based on information from the council's treasury management advisors, Link Asset Services, is shown below:

Official Bank Rate	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Link	0.75	0.75	0.75	0.75	0.75	1.00	1.00

3. Treasury Management Activity

- 3.1 Over the course of the 2019/20 financial year, the opportunity for the council to invest its surplus cash for periods beyond 6 months in duration has been limited, mainly due to uncertainties in the Brexit negotiations in the lead up to the UK leaving the EU.
- 3.2 Investing over shorter durations reduces both the counterparty risk the council is exposed to and the potential yield the council can achieve. To mitigate some of the impact of reduced rates, the council has opted for fixed term deposits, by investing in a 95 day notice account and two 180 day notice accounts, which (at present) are yielding between 0.66% to 0.95% average interest rate.
- 3.3 The current outlook for interest rates suggests that locking in longer term investment opportunities is now worth consideration to improve yield. 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 advice from the council's treasury management advisors.
- 3.5 The chart below demonstrates the change in investment by type up to 31 December 2019. 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.

Total amount invested Dec 19



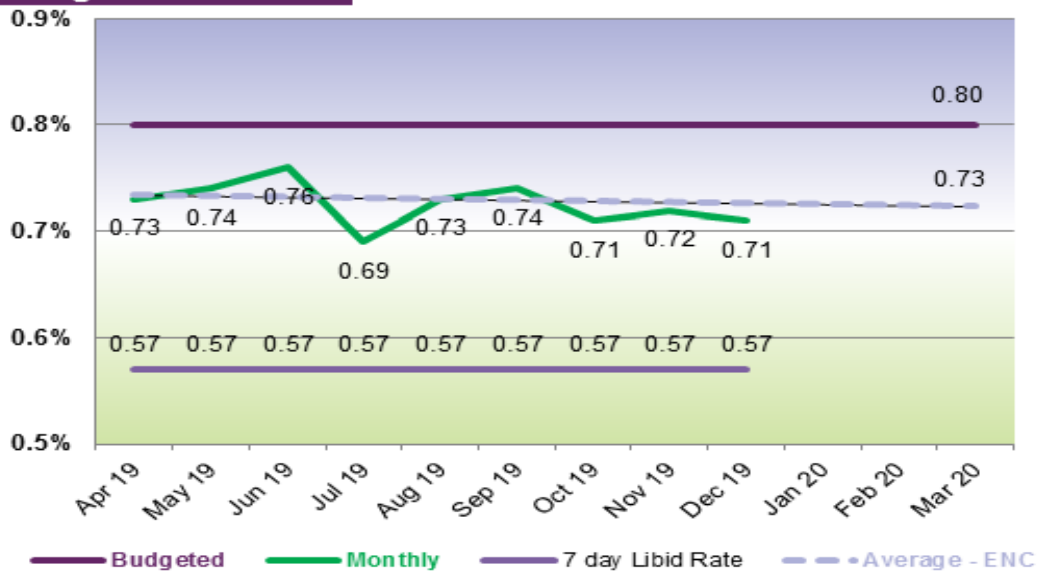
4. Treasury Management Position and Performance

The table below summarises the council's portfolio of investments as at 31 December 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	3,157	0.05	
Fixed Term Deposits			
Blaenau Gwent Borough Council	3,000	0.90	28/02/2020
Telford & Wrekin Council	2,000	0.73	28/01/2020
Nottingham City Council	3,000	0.70	19/02/2020
Suffolk County Council	2,000	0.95	06/05/2020
Lloyds	1,000	1.00	31/01/2020
Lloyds	2,000	0.75	03/01/2020
Stockport MBC	2,000	0.70	21/02/2020
London Borough of Southwark	3,000	0.80	24/04/2020
Money Market Funds			
Deutsche Bank Sterling Liquidity Fund	2,962	0.57	
Prime Rate Sterling Liquidity Fund - Instant Access	2,966	0.73	
Grand Total	33,084		

4.1 The average return on the council's portfolio for the period to 31 December 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:

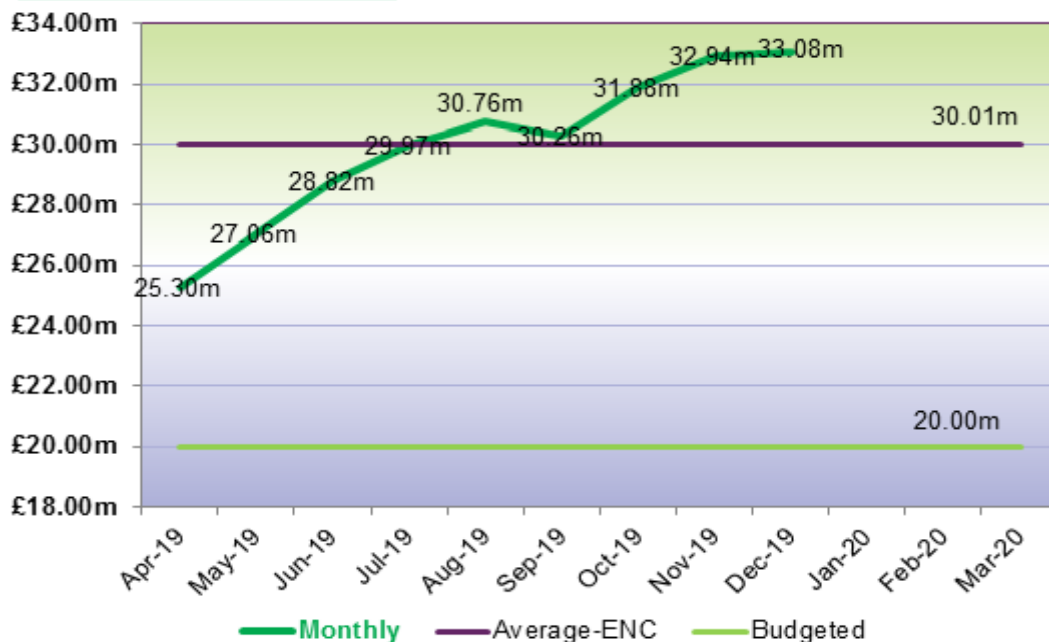
Average Interest Rates



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

Average Cash Balances



4.4 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.

4.4 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.

4.5 The overall forecast Treasury Management outturn is set out below.

Treasury Management Budget vs. Estimated Outturn

	Budget	Estimated Outturn	Surplus
	£	£	£
Investment income	£105,625	£198,000	£92,375

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 currently zero. Further detail on this indicator can be seen in Appendix 1 at 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	0.0080p

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. Health 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 The risks arising from Treasury Management activity are recorded in the Corporate 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.



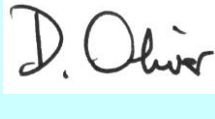
14. Corporate Outcomes

- **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 the period to 31 December 2019 in financial year 2019/20.

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

Legal	Power: Local Government Finance Act 2002				
	Other considerations: Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009.				
Background Papers:					
Person Originating Report: Katherine Hayward, Finance Manager, 01832 742090 khayward@east-northamptonshire.gov.uk					
Date: 31/01/2020					
CFO 07/01/20		MO 07/01/20 (Deputy)		CX 06/01/20	

Prudential Indicators – as at 31 December 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%	1.15%
Total	1.17%	1.15%

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	0.008

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.