Cherwell District Council

Accounts, Audit and Risk Committee

23 September 2015

Q1 Treasury Management Report

Report of the Director of Resources

This report is public
Appendix 1 is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2015/16 for Quarter 1 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

1.1 To note the contents of the Quarter 1 (Q1) Treasury Report

2.0 Introduction

2.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.

2.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The annual strategy for Cherwell District Council was approved at full Council on 23 February 2015 and. The Council re-appointed Capita Asset Services (formerly Sector) as its Treasury Management advisor in January 2013.

2.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 3 months of 2015/16.

3.0 Report Details

2015/16 Performance

3.1 As at the end of June the Council had £55.2m managed in-house (including Eco Town funds of £11.5m but excluding the outstanding Icelandic deposit) which fluctuates during the year. The Council regularly reviews each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme and the need to contribute to efficiency savings.
Appendix 1 details the split of in-house funds per category and banking group.

Update on Cherwell's Treasury Performance

3.2 The Treasury Management Strategy for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 23 February 2015 and It sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

3.3 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs. However, the Council also seeks out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions. The Council uses Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector (this applies in particular to nationalised and semi nationalised UK banks).

3.4 During the quarter ended 30th June, Capita Asset Services highlighted: -
Poor Q1 GDP growth has yet to be revised higher, but later revisions could prove slightly stronger. On a positive note, the economy still seems to have outperformed the US. Net trade certainly held back growth, cutting 0.9% off the overall position, but this was largely a reversal of the strong performance in Q4. Business investment growth, however, improved and consumer spending grew 0.5% q/q, though this was probably slower than the pace in real income growth. Surveys are supportive of the view that Q2 will see a pick up in economic growth, despite the services PMI easing a touch in May. The sector remains strong and will be backed up by rises in both manufacturing and construction. The May composite PMI indicates Q2 growth accelerating to around 0.6%.

Household spending has likely improved from the 0.5% real growth seen in Q1 as retail sales expanded by 1.2% m/m in April and the CBI reported sales balance for May saw a significant surge. Consumer confidence has dipped a touch with the rise in petrol prices a possible reason, but continues to run at high levels and is indicative of further household spending growth acceleration. The housing market is also gathering momentum with mortgage approvals sharply higher in April. With low mortgage rates and recent stamp duty reforms, there are reasons for confidence that the market has further gains ahead.

Rebalancing towards exports remains problematic as overseas demand remains weak, with sterling strength an issue. Net trade knocked 0.9% off Q1 GDP with the overall March trade deficit leaving that for Q1 larger than in Q4. Weaker exports to the EU drove the widening, despite the EZ showing recent economic growth, but there was also an increase in imports. The potential for exports to improve seems limited in the near-term and export orders indices of surveys are consistent with stagnation. Furthermore, recent gains in sterling strength will only serve to dent the competitiveness of UK goods.

The labour market indicators are supportive of the strength of household spending being sustainable. Employment increased by 202,000 in Q1, though growth in the labour force has resulted in a slowing in falls in the unemployment rate. Increases in jobs were still sufficient to pull the rate of unemployment down to 5.5% and surveys and rises in vacancies are pointing to further falls in the rate. As labour market slack diminishes, wages are being boosted and March gains of 2.7% y/y (excluding bonuses) was the strongest in more than six years. It was markedly higher than inflation, but real pay levels will take a considerable time to recover pre-crisis levels and sustained growth depends on a recovery of productivity levels.

Consumer price inflation slipped into deflation in April, prices falling 0.1% m/m, but declines were not broad based and driven by the transport sector, largely a consequence of the timing of Easter. Analysts do not expect deflation to worsen or indeed be prolonged as petrol prices gained more than 2% m/m in May alone. As a result, the downside pressure that is has previously contributed to CPI should weaken fairly quickly. On top of this food price inflation is expected to increase. Weakness in inflation has been goods-centric as services inflation has remained robust and is set to build on the pick up in nominal earnings' growth

The Bank of England MPC continues to vote unanimously to hold policy at current levels, but two members indicated that the choice was marginal. However, the lack of price pressures, allied to weaker than expected Q1 growth and a subsequent weaker start to Q2 than hoped, has seen market rate expectations of a rate hike put no earlier than Q2 next year.

3.5 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes up to June 2015 was £60.110m funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and ECO Bicester.

3.6 **Investment performance for quarter ended 30th June 2015 was:**

Fund	Funds invested as at 30 June 2015	Interest Budget as at 30 June 2015	Actual Interest at 30 June 2015	Variance	Rate of return %*
In House	£55,173,669	£83155	£74905	-£8250	0.68%
Total	**£55,173,669**	**£83155**	**£74905**	**-£8250**	**0.68%**

**Rate of Return is calculated on an annualised basis*

3.7 At this point in the year we are currently projecting to be on target. The variance shown above for in-house investments has arisen through the timing of interest received. For Instance the interest value on Gilts is registered only twice per year.

Icelandic Investments

3.8 There is currently no further update in respect of funds remaining within Iceland. As reported previously, out of the £6.5m original capital investment £5.7m has been returned to the Council. The remaining capital balance of £729,000 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.

We continue to work with the LGA and Bevan Brittan on the potential for transfer to the UK.

4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the Council for the three months ended 30 June 2015

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by: Denise Taylor, Corporate Accountant
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Legal Implications

7.2 Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by: Kevin Lane, Head of Law & Governance 0300 0030107 Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 It is essential that this report is considered by AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by: Denise Taylor, Corporate Accountant
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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

Links to all elements of Corporate Plan

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1 - Exempt	Schedule of In-house investments per category and banking group.
Background Papers	
None	
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