

Cherwell District Council

Accounts, Audit and Risk Committee

2 December 2015

Q2 Treasury Management Report

Report of the Head of Finance and Procurement

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 2 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 2 (Q2) 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 the Council's Treasury management Strategy with regard to 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.
- 2.3 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 23rd February 2015 and. The Council re-appointed Capita Asset Services (formerly Sector) as its Treasury Management advisor in January 2013.
- 2.4 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 6 months of 2015/16.

3.0 Report Details

2015/16 Performance

- 3.1 As at the end of September the Council had £53.84m 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 23rd 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 September, Capita Asset Services highlighted:**

The latest revision of Q2 GDP growth estimates indicate that the recovery is strong and, increasingly, broad-based, though the headline growth figure, itself, was unchanged. Investment and exports grew strongly, with both making positive contributions to growth.

Household spending remained strong and appears to be at a sustainable level, having risen 0.7% in real terms in Q2. Retail sales volumes rose at a similar rate, but off-high street spending growth accelerated more strongly in nominal terms. Q3 has not started well, with retail sales only marginally stronger in July, leaving them relatively flat over the latest three months period. With consumer confidence moving to a fifteen year high in August, this should see sales improve.

The housing market is gathering pace, with mortgage approvals increasing. There has been some softening in prices recently, but with a scarcity of properties for sale and a rush among buyers to take advantage of low mortgage interest rate offers, prices should start picking up again after the summer holiday period.

The labour market has seen a slight decline in employment levels, though not enough to push the rate of unemployment higher and annual growth of average weekly earnings has slipped. It should be noted that monthly claimant count unemployment fell which should, in time, pull the ILO measure of unemployment lower.

Inflation did edge higher in July but was probably a consequence of an earlier ending to summer sales causing clothing to drive the prices pick up. Inflation may turn negative in August, and may remain so for a few months, with petrol and diesel prices having downside potential on the back of falling oil prices. The cut in British Gas prices will come into effect in August and impact September's CPI, and this move could force other utility providers to take similar action.

The Bank of England's Monetary Policy Committee has not given firm indications that it is likely to raise interest rates in the near term, but there does seem to be a slightly more hawkish tone to comments. The Governor, Mark Carney, has fed some lines of encouragement when saying that he feels that the picture will become clearer by the year end, but only one member saw fit to vote for a rate hike at the August meeting. The turmoil in the markets and the likely delay in a US rate rise should ensure that a move in rates is unlikely until Q2 next year at the earliest.

- 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 September 2015 was £59.8m 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 September 2015 was:**

Fund	Funds invested	Interest Budget as	Actual Interest	Variance	Rate of return*
In House	£53,840,000	£166,311	£176,304	£9,993	0.60%
Total	£53,840,000	£166,311	£176,304	£9,993	0.60%

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

- 3.7 At this point in the year we are currently projecting to be just ahead of budget. We have calculated the value of interest up to the end of September to include accrued interest on Gilts (only payable twice a year) and investments maturing after date.

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 Six months ended 30 September 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:
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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
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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:
Jo Pitman, Head of Transformation
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Equality and Diversity

7.4 There are no equality and diversity implications from this report.

Comments checked by:

Jo Pitman, Head of Transformation

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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	Schedule of In-house investments per category and banking group.
Background Papers	
None	
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