

# **Cherwell District Council**

## **Accounts, Audit and Risk Committee**

**23 March 2016**

### **Q3 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 3 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 3 (Q3) Treasury Management Report

#### **2.0 Introduction**

- 2.1 As part of the 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 new annual strategy for Cherwell District Council was approved at full Council on 22 February 2016. 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 9 months of 2015/16.

## 3.0 Report Details

### 2015/16 Performance

- 3.1 As at the end of December the Council had £54.92m 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 by category and banking group.

### Update on Cherwell's Treasury Performance

- 3.2 The new Treasury Management Strategy for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 22nd February 2016 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. 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 31st December, Capita Asset Services highlighted:** The first update on Q3 confirmed quarterly growth of 0.5%, but the breakdown showed that household spending has continued to provide the main support for growth.

Business investment posted a solid quarterly pick up to push annual growth to 6.6% and surveys indicate that this growth should continue.

Household spending proved resilient, having risen 0.8% for the third successive quarter. Retail sales volumes were equally healthy.

The housing market is gathering pace, with mortgage approvals increasing by an annualised 0.9% in October, and with excess demand, prices are likely to be pushed higher.

Strong employment gains in Q3 pulled the unemployment rate down to 5.3%, the lowest for 9 years. With the slowing of the annual earnings rate growth from 3.2% to 2.0% in September the output per worker has eased in Q3.

Inflation should pick up as the sharp decline in petrol prices drop out of the calculations. More stable oil prices should limit further falls in petrol prices. Overall analysts do not see inflation breaching the BoE target levels in 2016.

Interest rate expectations have been pushed back further with markets looking as far ahead as Q2 of 2017 for the first bank rate rise.

- 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 December 2015 was £65.9m 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 31<sup>st</sup> December 2015 was:**

<b>Fund</b>	<b>Funds invested</b>	<b>Interest Budget as</b>	<b>Actual Interest</b>	<b>Variance</b>	<b>Rate of return*</b>
In House	£54,916,000	£249,466	£270450	£20984	0.61%
<b>Total</b>	<b>£54,916,000</b>	<b>£249,466</b>	<b>£270450</b>	<b>£20984</b>	<b>0.61%</b>

*\*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 December 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 Nine months ended 31 December 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:

George Hill, Corporate Finance Manager

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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:

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### Equality and Diversity

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

Comments checked by:

Caroline French, Corporate Policy Officer, 01295 221586

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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. - EXEMPT
Background Papers	
None	
Report Author	Paul Sutton, Head of Finance and Procurement
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