Cherwell District Council

Accounts, Audit and Risk Committee

30 June 2016

Q4 Treasury Management Report

Report of Chief Finance Officer

This report is public
Appendix 1 and 2 are 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 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

1.1 To note the contents of the final Quarter Treasury Management Report.

1.2 To note the contents of the Icelandic redemption (exempt Appendix 2).

2.0 Introduction

2.1 As part of the Council's investment strategy and governance arrangements this committee considers the investment performance to date and 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 22nd 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 12 months of 2015/16.

3.0 Report Details

2015/16 Performance

3.1 At the end of March the Council had £37.6m managed in-house, including Eco Town funds of £11.5m but excluding the outstanding Icelandic deposit, this 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 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 31 March, Capita Asset Services highlighted:**
The UK recovery appears to be showing some signs of losing momentum, with the Q4 real GDP growth estimate of 0.5% slipping below the long run average. Consumers remain the key driver of recovery, along with the services sector, as net trade continues to weigh on growth.

Business investment fell by 2.1%, for which there may have been a couple of reasons; the impact of falling oil price in the energy sector and unease among businesses with the impending EU referendum.

Though households are underpinning recovery, real spending growth actually eased in Q4. Nevertheless, consumer confidence, which has come off its recent high, remains elevated in historic terms and was strong enough to help retail sales volumes to pick up in January.

. Mortgage approvals have increased by 20% year on year in January, but this was helped by investors rushing to beat the April Stamp Duty increase on buy-to-let properties.

The labour market remains healthy with 205,000 jobs created in Q4, though the unemployment rate was unchanged at 5.1%. Despite the tight labour market, wage growth has remained fairly becalmed, indeed headline wage growth eased to 1.9% in December, but analysts expect that to change in the not too distant future.

The threat of deflation appears to have been avoided, but CPI remains modest at just 0.3% in January, with rises widespread. Overall, there does not appear to be a marked pick up in domestically driven inflation, and there should be a fairly gentle build up to the Bank of England's 2% target.

Some of the more extreme market interest rate expectations have pushed the first increase out to late 2019 on the fears driven by potential Brexit. Indeed, the markets have increased the possibility of the Bank of England cutting rates this 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 March 2016 was £58.9m 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 31st March 2016 was:**

Fund	Funds invested	Estimated Interest	Actual Interest	Variance	Rate of return*
In House	£37,600,000	£332,620	£354,027	£21,587	0.61%
Total	**£37,600,000**	**£332,620**	**£354,027**	**£21,587**	**0.61%**

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

3.7 Interest has continued to be ahead of anticipated levels. The value of interest up to the end of March includes accrued interest on Gilts (only payable twice a year) and investments maturing after date.

Icelandic Investments

3.8 As at 31 March 2016 there was 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 and have exercised our option to redeem the investment in full at the June auction, details of which will be available after 22 June 2016 in Appendix 2 (to follow).

4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the Council for the Twelve months ended 31 March 2016

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:
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Risk Management Implications

7.3 It is essential that this report is considered by the Audit Committee 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:
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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
Appendix 2	Icelandic redemption (to follow) EXEMPT
Background Papers	
None	
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