Cherwell District Council

Accounts, Audit and Risk Committee

21 September 2016

Quarter 1 Treasury Management Report

Report of the Chief Finance Officer

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 2016/17 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 Treasury Management Report

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 3 months of 2016/17.

3.0 Report Details

2016/17 Performance

3.1 At the end of June 2016 the Council had £38.0m managed in-house (including Eco Town funds of £11.5m) 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 new Treasury Management Strategy for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 22nd February 2016 and 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 (this applies in particular to nationalised and semi nationalised UK banks).

3.4 **Capita Asset Services provide the following Economic Background report for the quarter ended 30th June 2016:**
UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8% so this shows that growth had slowed down, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back again to +0.4% (2.0% y/y) in quarter 1 of 2016.

During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum. However, since the peak in November 2015, sterling has fallen against the Euro by 14% which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016.

The Bank of England May Inflation Report included a forecast for growth for 2016 of 2.0% and 2.3% for 2017 on the assumption that the referendum result was a vote to remain. The Governor of the Bank of England, Mark Carney, warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. In his 30 June and 1 July speeches, Carney indicated that the Monetary Policy Committee (MPC), would be likely to cut Bank Rate and would consider doing further quantitative easing purchasing of gilts, in order to support growth. However, he did also warn that the Bank cannot do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation).

The May Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, the falls in the price of oil and food twelve months ago will be falling out of the calculation of CPI during 2016 and in addition, the recent 10% fall in the value of sterling is likely to result in a 3% increase in CPI over a time period of 3-4 years. There is therefore likely to be acceleration in the pace of increase in inflation which could make life interesting for an MPC which wants to help promote growth in the economy by keeping Bank Rate low.

The American economy had a patchy 2015 – quarter 1 0.6% (annualised), 3.9% in quarter 2, 2.0% in quarter 3 and 1.4% in quarter 4, leaving growth in 2015 as a whole at 2.4%. Quarter 1 of 2016 came in at +1.1% but forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, has caused a re-emergence of caution over the timing and pace of further increases. It is likely there will now be only one more increase in 2016.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) and is expected to continue growing but at only a modest pace. The ECB is also struggling to get inflation up from near zero towards its target of 2%.

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 2016 was £45.9m. 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, funding of Graven Hill and progress on the Capital Programme and ECO Bicester.

3.6 **Investment performance for quarter ended 30th June 2016 was:**

Fund	Funds invested at end-date	Budget Interest	Actual Interest	Variance	Rate of return*
In House	£38.0m	£43,750	£68,180	£24,410	0.59%
Total	**£38.0m**	**£43,750**	**£68,180**	**£24,410**	**0.59%**

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

3.7 Interest is forecast to be ahead of budgeted levels despite the reduction in rates following the EU Referendum. A major factor for this is the delayed payment of £12million to Graven Hill for the purchase of land from the MOD, which is not expected before September 2016.

3.8 The value of interest up to the end of June includes accrued interest on Gilts (only payable twice a year) and investments maturing after that date.

Icelandic Investments

3.9 As covered in previous reports, the remaining Icelandic funds have now been repaid in full, with associated interest (not included in the above figures).

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 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: George Hill, Corporate Finance Manager george.hill@cherwellandsouthnorthants.gov.uk

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 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: Ed Bailey, Corporate Performance Manager, 01295 221605 edward.bailey@cherwellandsouthnorthants.gov.uk

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 caroline.french@cherwellandsouthnorthants.gov.uk

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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