Cherwell District Council

Accounts, Audit and Risk Committee

17 September 2014

Q1 Treasury Management Report

Report of Director of Resources

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2014-15 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 24 February 2014 and updated on 7 July 2014. 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 2014-15.

3.0 Report Details

2014-15 Performance

3.1 As at the end of June the Council had £66.8m managed in-house (including Eco Town funds of £12m 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 2014-15, which includes the Annual Investment Strategy, was approved by the Council on 24 February 2014 and updated on 7 July 2014. 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: -

- After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, and 0.8% in Q1 2014, it appears very likely that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster through the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, now broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. Accordingly, markets are expecting a first increase around the end of 2014.

- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%.

- The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the

Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed in this quarter.

- In June, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from $85bn to $35bn and are expected to stop by Q3 201, providing strong economic growth continues this year. First quarter GDP figures were depressed by exceptionally bad winter weather, but growth rates since then look as if they are recovering well.

- The Eurozone is facing an increasing threat from deflation. In May, the inflation rate fell further, to reach 0.5%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June to loosen monetary policy in order to promote growth.

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 2014 was £66.2m. These 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 It is worth noting that the revenue budget for 2014-15 has been prepared utilising only £49,190 of investment income; however, total Investment income within 2014-15 is budgeted as £320,000. The balance above the £49,190 budget will be used to replenish reserves after transferring interest received in respect of Eco Town funds to the Eco Town reserve.

Investment performance for quarter ended 30 June 2014 was:

Fund	Funds invested as at 30 June 2014	Interest Budget as at 30 June 2014	Actual Interest at 30 June 2014	Variance	Rate of return %*
In House	£67,564,669	£80,000	£86,981	£6,981	0.62%
Total	**£67,564,669**	**£80,000**	**£ 86,981**	**£ 6,981**	

**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.

3.8 Last year there was an ongoing concern by both members and officers that the performance of the funds previously managed by Investec was not satisfactory. Therefore a decision was made to recall the funds managed by Investec and bring all funds in house.

3.9 The UK Gilt holding of approx. £1.7m has a maturity date of 2018. To sell it now would realise a loss for the council due to the current market valuation. We have therefore transferred custodianship of these gilts to King and Shaxson (Specialist Investment Firm) where they will remain until either maturity or market conditions improve.

3.10 The added advantage of bringing these funds back in house is that the council will make savings in Fund Management Fees of approximately £18k / annum and this has been built into the 2014-15 base budget.

Icelandic Investments

3.11 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.

3.12 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 2014

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:
Nicola Jackson, Corporate Finance Manager, 01295 221731
Nicola.Jackson@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 AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:
Nicola Jackson, Corporate Finance Manager, 01295 221731
Nicola.Jackson@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	
Report Author	Martin Henry, Director of Resources Kamal Mehta, Interim Technical and Project Accountant
Contact Information	Kamal.Mehta@Cherwellandsouthnorthants.gov.uk 0300 003 0106