

South Northamptonshire Council

Audit Committee

21 November 2019

Treasury Management Report – Q2 – September 2019

Report of the Executive Director: Finance (S151 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 2019/20 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

To note the contents of the Q2 September 2019 Treasury Management Report.

2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 2.2 The Council's treasury management strategy for 2019/20 was approved at a meeting on 27 February 2019. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 2.3 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice; the local authority specific Guidance Notes for the Codes were published in July 2018. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.

- 2.4 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 27 February 2019.

3.0 Report Details

2019/20 Performance

- 3.1 As at the end of September 2019 the Council had £29.8m of funds invested.

Appendix 1 details the schedule of investments as at 30 September 2019.

Strategy

- 3.3 The Treasury Management Strategy for 2019/20 includes the Annual Investment Strategy which sets out the Council's investment priorities.

Security of capital has remained the Council's main investment objective, followed by liquidity of capital, and then by yield. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

- 3.4 Counterparty credit quality is assessed and monitored with reference to:
- Credit Ratings - the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's
 - Credit default swaps – a type of insurance to protect against default risk
 - GDP of the country in which the institution operates
 - The country's net debt as a percentage of GDP
 - Sovereign support mechanisms or potential support from a well-resourced parent institution
 - Share price
- 3.5 The Arlingclose ratings and advice encompass all of these and other factors and is our primary source of guidance in selecting investments. In addition to Arlingclose ratings and advice, the council keeps an internal counterparty 'Watch List' based on intelligence from a variety of other sources available to officers.
- 3.6 All treasury management activities undertaken during the second 3 months of 2019/20 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all indicators were met during, and at the end of, the reporting period.

Investment performance for 6 months ended 30 September 2019:

- 3.7 Investment rates available in the market have continued at low levels, with the Bank of England base rate remaining at 0.75% since August 2018.

Funds available for investment purposes are 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.

3.8 Table 1 shows the investment summary to 30 September 2019:

Year to Date:

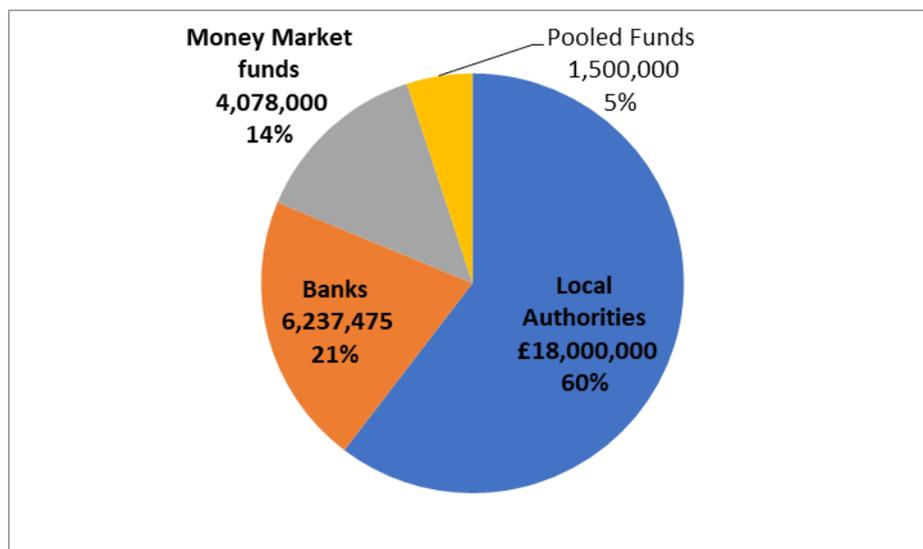
Average Investment balance	Interest Budget £	Interest Actual £	Variance £	Annualised rate of return
£32.1m	171,000	150,013	20,987	0.93%
Rate Benchmarking	1-month	3-month	6-month	12-month
Average LIBOR rate	0.72%	0.79%	0.86%	0.96%

The Council is currently £21k below target and is forecast to be approximately £52k below budget at the end of the year. Although cash balances are slightly higher than forecast, rates look set to remain unchanged until the political situation is resolved. There is, of course, still a high degree of uncertainty around this – see 3.10 below.

The average duration of investments held at 30/09/2019 is 11 months and the average interest rate is 0.93%. Our rates are slightly below LIBOR rates as our investment counterparty criteria (ratings, etc.) are more stringent than the market average, in order to maintain the security of our capital.

A full list of current investments is shown at Appendix 1 and summarised by type below:

Table 2 - Types of Investment as at 30/09/2019:



3.9 Non-treasury investment activity.

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially to generate a profit.

As at the report date, the Council holds £3m of investments in the form of a loan to Silverstone Heritage Ltd, at a rate of 5%.

This non-treasury investment generates a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.

3.10 Arlingclose have provided the following interest rate forecast:

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month money market rate													
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
1yr money market rate													
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	0.30	0.50	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.
- Arlingclose judges that the risks are significantly weighted to the downside.

3.11 Arlingclose will be providing a Treasury Management training session on the afternoon of 21 November 2019 immediately prior to the audit committee meeting. All Councillors have been invited to attend the session which will provide an update on the current economic climate given recent decisions taken by parliament in relation to Brexit and the agreement of a general election in December.

4.0 Conclusion and Reasons for Recommendations

This report details the Treasury Performance for the Council for the period ending 30 September 2019.

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:

Denise Taylor, Strategic Business Partner and Deputy S151 Officer
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Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

Andrew Hunkin, Executive Director: Resources
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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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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

Links to all areas of Corporate Plan

Lead Councillor

Councillor David Harries BEM (Chairman)

Document Information

Appendix No	Title
Appendix 1	Schedule of Investments – EXEMPT
Background Papers	
None	
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