APPENDIX C

TREASURY OPERATIONS MID YEAR REVIEW

Committee: Corporate Governance & Finance Committee

Date: 3rd December 2015

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[Q137]

1.0 ISSUE

1.1 To provide Members with an update on the Council's current 2015/16 Treasury position.

2.0 RECOMMENDATIONS

2.1 That the Members be requested to note the mid year review of the Council's treasury management for 2015/16, as set out in Appendices 1 and 2 (to 30th September 2015).

2.2 That the Committee recommends to full Council an amendment to the current Treasury Management Strategy to reflect that for the FY 2015/16, investments can be made for up to 1 year with Nationwide Building Society - See 4.12.

3.0 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (C.I.P.F.A.) Revised Code of Practice on Treasury Management requires this Council to adopt the revised Code and fully comply with its requirements.

3.2 This report complies with the requirement for a mid year review.

3.3 The Council's 2015/16 Treasury Management Strategy is based on expected return on investments of £100,000

3.4 Bank rate has remained at 0.50% and is not anticipated to change until 2016.

3.5 The interest receipts generated on the investments to the end of September 2014 is £64,051 against an original budget of £50,000 producing an average return on investments of 0.65%. This is above the benchmark 6 month LIBID (London Inter-Bank Bid Rate) of 0.60%. The expected returns on investments for the year continues to be £100,000.

3.6 There is no long-term borrowing planned for 2015/16. But this might change in the next financial year, as the council is considering a business case which could require funding the new LATC, via loan, with commercial interest rate been charged by the council, it is anticipated that this loan will be drawn down in 2016/17, for it to be cost effective, borrowing will be undertaken as and when required.

3.7 As with many major projects the financial implication is important to treasury management at each stage and overall. Adequate provision will be undertaken to ensure prudent borrowing, adherence to the council's borrowing strategy and management of internal funds to the benefit of the council.

4.0 CONCLUSIONS

4.1 The size of the Council's investment portfolio is relatively small meaning that investment decisions have to be made primarily to accommodate cash flow requirements as opposed to optimising investment returns. Despite these pressures, opportunities for proactive investment decisions are taken where appropriate.

4.2 During 2015/16 the Council has operated within its approved treasury limits and Prudential Indicators, no changes have been made to the counterparty values of the Annual Treasury Management Strategy.

4.3 As at 30th September 2015, the Council had investments of £21.13m, details of these investments are included in Appendix 2

4.4 The current investment rates on offer to the Council are:

- ✓ Fixed term deposits – 0.64% to 1.00%
- ✓ Money market deposits – 0.45%
- ✓ Notice/Deposit accounts – 0.10% to 0.35%

4.5 While the economic outlook for the UK and US improved through much of 2014, the first quarter of 2015 was something of a letdown for the two economies. Q2 figures proved this to be a blip, but more recently, the sustainability of the economic recoveries has been called into question.

4.6 Add in unsettled global financial markets and it could see both central banks hold back from policy changes until 2016.

4.7 Officers have met with Capita, the Council's treasury advisers, to review the Council's treasury position, forecasts and medium term cash flow needs. This discussion highlighted that the Council holds in excess of £13 million in cash deposits. This cash reflects capital receipts and reserves held by the Council.

Investments have in recent years been made for short time periods, so that cash is readily available should approval be given to progress the new Leisure Centre.

4.8 The decision to proceed with the Leisure Centre will be made in April 2016. The timeline for the build shows that cash will be required in Q1 – Q4 of 2016 and Q1- Q2 of 2017 (April 2016 to August 2017). The Funding Strategy for the Leisure Centre shows that it should be fully funded from internal cash balances, with a combination of savings and the operator profit repaying the loan to the Council.

4.9 The decision to proceed with a Local Authority Trading Company (LATC) will be made in January 2016. The timeline for the building projects shows a potential maximum loan requirement of £5 million. The peak in borrowing is projected to be in Q1 of April 2017. The LATC will be required to pay a commercial interest rate and also repay the loan the Council makes available to it.

4.10 Assuming both of these projects proceeds, then the Council would enter into new, short term borrowing. This is anticipated to take place early in FY 2017/18; for around £5 million. Both the Leisure Centre and the LATC will repay the loans, and both projects will pay the Council interest rates which exceed the interest rates on any borrowing.

4.11 The Medium Term Financial Strategy requires some use of reserves to provide balanced budgets in FY 2016/17 and FY 2017/18. Even with this use of the Surplus Savings Reserve, the Council will continue to have sufficient cash balances to invest through FY 2016/17.

4.12 As the Council now has clear timelines for the two large capital projects, it can now consider how it wishes to invest its cash balances over the next twelve months. It provides the opportunity to invest for periods of one year, and this will offer better returns to the Council. The current strategy provides for investments of up to 1 year; however it is proposed to amend the counterparty list so that Nationwide Building Society can be used for deposit of up to 1 year

4.13 For FY 2016/17, investments will be made so that there is accessible cash to finance the requirements for the Leisure Centre and LATC. This is accepting that whilst the LATC may well have been approved by full Council (January 2016) before the new Strategy is approved (February 2016); the Leisure Centre project will be considered by full Council in April 2016 (after the Strategy has been agreed)

4.14 For 2017/18, the Council will move into a short term borrowing requirement; with borrowing costs funded by the two projects.

4.15 As with any investment, suitable checks are put in place to adhere to council's strategy, and allowable within the confines of the council's investment strategy.

5.0 **FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT**

5.1 The cost of managing the treasury activity and the estimated income generated have not changed from the Annual Treasury Management Strategy.

5.2 An Equality Impact Assessment is not required.

6.0 APPENDICES

6.1 Appendix 1: Mid Year Review
Appendix 2: Current Investments

BACKGROUND DOCUMENTS	**LOCATION**	**CONTACT OFFICER**
Corporate Governance & Finance Committee 29th January 2015 Capita Asset Services Revised Interest Rate Forecast Treasury Register	Room 204 The Grange Ely	Emmanuel Orekogbe (01353) 616270 E-mail: emmanuel.orekogbe@eastcambs.gov.uk