

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – RESOURCES
20 JUNE 2012

EXECUTIVE
3 JULY 2012

COUNCIL
17 JULY 2012

TREASURY MANAGEMENT – 2011/12

1. PURPOSE OF REPORT

- 1.1 To report the overall performance for the 2011/12 financial year and the position regarding investments and borrowings at 31 March 2012.

2. FINAL NET INTEREST POSITION

- 2.1 The General Fund shows an improvement against the estimate for net interest payable, the position is:

	Estimate		Actual	Variation
	£		£	£
Interest paid	120,000		67,793	(52,207)
Interest earned				
Interest from portfolio	(120,000)		0	120,000
Temporary investment interest	(40,000)		(34,239)	5,761
Other interest earned	(2,000)		(1,588)	412
Less				
Interest to HRA	117,780		46,467	(71,313)
Interest to s106 agreements	17,700		8,202	(9,498)
Interest to Trust Funds	6,520		3,161	(3,359)
Lord Mayors Charity	0		20	20
GF interest received	<u>(20,000)</u>		<u>22,023</u>	<u>42,023</u>
Net interest paid	<u>100,000</u>		<u>89,816</u>	<u>(10,184)</u>
Investment Loss	0		12,983	12,983

- 2.2 The other interest earned relates to car loan repayments. The investment loss of £12,983 relates to a loss on the foreign exchange rates, when the investments were repaid by the Icelandic banks. Additionally an investment gain has been recognised totalling £289,566 on the value of the Landsbanki investment. As the loss was capitalised last year this gain has been written off against the initial capital expenditure and will reduce our provisions for repaying debt in future years. (Please see section 3.4).

- 2.3 The HRA has earned £46,467 interest on its balances. This is calculated on the following:
- HRA working balance;
 - the balance of funds in the Major Repairs Reserve;
 - HRA negative Capital Financing Requirement.

However it has also had to pay interest on borrowing this year. As members will be aware, the Council has had to borrow £56,884,000 to buy itself out of the HRA subsidy scheme. The Government required the payment to be made on 28 March 2012, and therefore interest of £21,694 has been charged to the HRA. Additionally £8,486 has been charged on the borrowing used to fund the Council's Own Build properties.

- 2.4 Two principal factors have caused the small underspend against budget for net interest payable. Please see section 3 for a detailed explanation.

3. INVESTMENT INTEREST

- 3.1 The decision to withdraw our investments held with Investec in order to further reduce the reliance on borrowing was taken after the budget had been set for 2011/12. The Fund was closed in February 2011 and therefore no interest was earned against a projected budget of £120,000. Additionally, the credit rating agencies have downgraded a substantial number of financial institutions over the past year, which have reduced the number of counterparties that the Council can use. This has meant that much of our investment in the second half of the year has been with the Government's Debt Management Office, which is rated AAA, but offers only 0.25% interest. The Council has again been able to reduce the amount of short-term borrowing required over the year, as a result of recovering over half of the money invested in the Icelandic banks (please see below).

- 3.2 There has been much progress in respect of recovering the £5m invested in two Icelandic banks back in late 2007. The Supreme Court in Iceland upheld the ruling that Local Authorities were priority creditors and the two banks have commenced payments. Further details are set out below.

3.3 Glitnir

Following the Supreme Court ruling, Glitnir have repaid the full amount due to the Council. However the funds were repaid in a basket of currencies. Of the funds repaid approximately £383,128 (at current exchange rates) was in Icelandic Krona, which due to currency restrictions in Iceland cannot be taken out of the Country. This amount has therefore been placed in an escrow account earning 3.4% interest. The Council has actually received back £1,680,752 in currencies that have been converted into sterling.

3.4 Landsbanki

Following the Supreme Court ruling, Landsbanki have made the first repayment to the Council. Again the funds were repaid in a basket of currencies. Of the funds repaid approximately £21,000 (at current exchange rates) was in Icelandic Krona, which due to currency restrictions in Iceland cannot be taken out of the Country. This amount has therefore been placed in an escrow account earning 3.35% interest. The Council has actually received back £929,620 in currencies that have been converted into sterling. As Landsbanki is more complex, further payments will be received over the next few years as the Winding Up Board realise the value of further assets. It is now expected that the Council will receive 100% of its claim, which has resulted in an investment gain being recognised. An additional payment of £390,197 was received on 30 May 2012.

4. BORROWINGS

- 4.1 The Council has had to borrow temporarily for cashflow purposes throughout the year and incurred interest of £76,279 during the year. Of this £8,486 has been allocated against the Council Own Build scheme. Interest rates have remained very low throughout the year. At 31 March 2012, the Council had £8m of short term borrowing a reduction of £7m over last year.
- 4.2 The Council has borrowed £56,884,000 long-term to cover the payment required by the Government in respect of the HRA self-financing scheme. The money has been borrowed from the Public Works Loans Board (PWLB) over 50 years and is repayable on maturity in March 2062. The interest rate is 3.48% and annual interest payments will be £1,979,563.

5. FUTURE POSITION

- 5.1 As interest rates remain very low, the Council will continue to use short term borrowing to manage its cashflow. Current rates for borrowing are approximately 0.85% for up to 1 year. Borrowing over 25 years through the Public Works Loans Board costs around 4.20%.
- 5.2 The internal investment strategy has been tightly restricted to UK only banking operations meaning that it is difficult to invest at the moment. There is very little desire from HSBC and Barclays to take money for a couple of weeks and the credit ratings agencies have downgraded the Bank of Scotland and Nat West where we have call accounts. The Council is planning to open a Money Market Fund which is AAA rated and offers around 0.70%, and will lend to other Local Authorities and the Debt Management Office. However the rates received are between 0.25% and 0.3%, which will continue to have an adverse impact of the interest earned by both the General Fund and the HRA.
- 5.3 During the year it is likely that further repayments will be made by Landsbanki, and the LGA and their legal advisers continue to seek a resolution to the funds held in Icelandic Krona.

6. RECOMMENDATION

- 6.1 That Scrutiny and Executive support and Executive recommend to Council the Treasury Management report for the 2011/12 financial year.

ASSISTANT DIRECTOR FINANCE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling the report:

None