

REPORT TO: SCRUTINY COMMITTEE – RESOURCES, EXECUTIVE AND COUNCIL
Date of Meeting: Scrutiny Committee Resources - 2 July 2014
Executive - 15 July 2014
Council - 29 July 2014
Report of: Assistant Director Finance
Title: Treasury Management 2013-14

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To report the overall performance for the 2013-14 financial year and the position regarding investments and borrowings at 31 March 2014.

2. Recommendations:

That Scrutiny and Executive support, and Executive recommend to Council the Treasury Management report for the 2013-14 financial year.

3. Reasons for the recommendation:

It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non financial resources

The report is an update on the overall performance in respect of treasury management for the 2013-14 financial year. Therefore, there are no financial or non financial resource implications.

5. Section 151 Officer comments:

Officers have complied in full with the Treasury Management Strategy for 2013-14. All investments and borrowing have been undertaken within the parameters set by Council.

6. What are the legal aspects?

It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

In February 2012 the Council adopted the updated *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to report on its performance at the end of each financial year.

7. Monitoring officer Comments

This report raises no issues for the Monitoring officer.

8. Report Details:

8.1 Final Net Interest Position

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

	Estimate		Actual	Variation
	£		£	£
Interest paid	125,000		78,410	(46,590)
Interest earned				
Temporary investment interest	(36,000)		(59,693)	(23,693)
Other interest earned	(1,750)		(1,134)	616
Less				
Interest to HRA	46,020		46,642	622
Interest to s106 agreements	8,250		12,470	4,220
Interest to Trust Funds	2,250		3,175	925
Lord Mayors Charity	500		0	(500)
GF interest received	19,270		1,460	(17,810)
GF Net interest paid	<u>144,270</u>		<u>79,870</u>	<u>(64,400)</u>
Investment Gain – General Fund	0		(93,291)	(93,291)

8.2 The other interest earned relates to car loan repayments. An investment gain of £93,291 has been made in respect of the sale of the outstanding monies held in Landsbanki. This gain has been used to pay off the amount of debt outstanding when the original loss was capitalised.

8.3 The HRA earned £46,642 interest on its balances. This is calculated on the following:

- HRA working balance;
- The balance of funds in the Major Repairs Reserve.

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. Interest of £1,979,563 has been charged to the HRA to cover the interest payment. Additionally £5,292 has been charged on the borrowing used to fund the Council's Own Build properties.

9 Investment Interest

Interest rates remain at record low levels and indications are that they will remain at this level for the foreseeable future. This has caused borrowing rates from other Local Authorities to remain around 0.5% – 0.6% for one year money. This has reduced the cost of borrowing to the Council significantly. Additionally, the investment that remains held in Iceland has benefitted from a relatively high rate of interest (over 4%) and a favourable foreign exchange rate. This has meant significantly higher than budgeted investment income for the year.

9.1 Landsbanki

The Council has successfully completed the sale, at auction, of its outstanding monies in Landsbanki.

9.2 **Glitnir**

Glitnir repaid in full the funds invested during 2011-12. However the proportion that was repaid in Icelandic Krona remains invested in Iceland owing to currency controls that restrict the movement of Krona out of Iceland. The money is currently invested at 4.2% and during the year has earned £18,038 interest and gained £2,091 in Foreign Exchange movements taking the total value of the investment to £447,516.

10 **Borrowings**

The Council has had to borrow temporarily for cashflow purposes throughout the year and incurred interest of £83,703 during the year. Of this £5,292 has been allocated against the Council Own Build scheme (HRA). Interest rates have remained very low throughout the year. At 31 March 2014, the Council had £18m of short term borrowing, an increase of £3m over last year.

- 10.1 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 are £1,979,563.

11 **Future Position**

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 0.5% for up to 1 year. Borrowing over 25 years through the Public Works Loans Board costs around 4.16% for a loan repayable on maturity, or 3.38% for a loan with equal repayments of the loan principal throughout the term of the loan. The Council has applied for the Government's new certainty interest rate, which is 0.2% lower than the normal PWLB rates; this is offered in return for us setting out our borrowing plans for the forthcoming year.

- 11.1 The internal investment strategy had been tightly restricted to UK only banking operations meaning that it was difficult to invest. The Council has placed short term investments (1 month) with foreign owned banks which meet the credit ratings included in the Council's treasury management strategy.
- 11.2 The Council opened two Money Market Funds which are AAA rated and offer around 0.35% - 0.40%, and has a number of call accounts which offer between 0.40% and 0.50% for the average annual balance.
- 11.3 We will also lend to other Local Authorities and the Debt Management Office. However the rates received are between 0.25% and 0.35%, which will continue to have an adverse impact of the interest earned by both the General Fund and the HRA. Appendix 1 details investments and borrowings as at 31 March 2014.
- 11.4 Since 1 April 2014 the Council has opened an additional Money Market Fund account with Blackrock which provides a return in the region of 0.40% and opened a call account with Handelsbanken which offers a return of 0.50%.

12 **How does the decision contribute to the Council's Corporate Plan?**

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

13 **What risks are there and how can they be reduced?**

The council uses treasury management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's treasury management strategy.

14 What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, Economy safety and the environment?

No impact.

15 Are there any other options?

No.

David Hodgson, Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

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