

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE – RESOURCES, EXECUTIVE & COUNCIL

DATE OF MEETING: RESOURCES – 1 JULY 2015
EXECUTIVE – 14 JULY 2015
COUNCIL – 28 JULY 2015

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: TREASURY MANAGEMENT 2014-15

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To report on the current Treasury Management performance for the 2014-15 financial year and the position regarding investments and borrowings at 31 March 2015. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

That Scrutiny and Executive support, and Executive recommend to the Council the Treasury Management report for the 2014-15 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 2014-15 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 2014-15. All investments and borrowing have been undertaken within the parameters set by Council.

6. What are the legal aspects?

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. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

7. Monitoring Officer's comments:

This report raises no issues for the Monitoring Officer.

8. Report Details:

8.1 Treasury Management Strategy

The Council approved the 2014-15 treasury management strategy at its meeting on 25 February 2014. The Council's stated investment strategy was to continue to hold only small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits (up to 3 months) which would be placed with Local Authorities.

The change from the 2013-14 strategy was the increase in the amount held in a money market fund and that is lent to an Upper Tier Local Authority from £3 million to £5 million. This reflected the fact that in a Money Market Fund, the funds are spread across a range of institutions and therefore risk is spread. It also allowed the Council to access a higher interest rate on the investments. In respect of Upper Tier Local Authorities, the risk of default is considered to be very low.

The Council's stated borrowing strategy was to maintain short-term borrowing as long as rates remained low. The Council is currently borrowing over 1 year periods.

8.3 Net Interest Position

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

	Estimate	Actual	Variation
	£	£	£
Interest paid	140,000	73,390	(66,610)
Interest earned			
Temporary investment interest	(36,000)	(69,980)	(33,980)
Other interest earned	(1,750)	(950)	800
Science Park Loan	0	(2,590)	(2,590)
Less			
Interest to HRA	51,750	74,005	22,255
Interest to s106 agreements	8,250	36,180	27,930
Interest to Trust Funds	2,250	2,530	280
Lord Mayors Charity	500	60	(440)
GF interest (received) / paid out	25,000	39,255	14,255
Net Interest	165,000	112,645	(52,355)
Investment Loss – General Fund	0	34,987	34,987
	165,000	147,632	(17,368)

8.4 The other interest earned relates to car loan repayments.

8.5 The HRA earned £74,005 interest on its balances. This is calculated on the following:

- HRA working balance;
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts.

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 £5,691 has been charged on the borrowing used to fund the Council's Own Build properties.

9. Investment Interest

The Council utilises the Government's Debt Management Office account and call accounts with Handelsbanken and Barclays. Appendix A sets out the institutions that the Council can use for deposits – this is known as our Counterparty list.

A number of Money Market Funds have been set up by the Council, which also allows immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

9.1 The Council's investments as at 31 March are:

UK Owned Banks

Amount	Investment	Interest rate
£3,000,000	Barclays	0.45%

Foreign Owned Banks

Amount	Investment	Interest rate
£1,000,000	Handelsbanken	0.35%

Money Market Funds

Amount	Investment	Interest rate
£5,000,000	Ignis Asset Management	0.42%
£1,000,000	Blackrock	0.42%
£2,000,000	Federated Investors UK	0.40%
£0	CCLA – Public Sector Deposit Fund	0.40%

10. Borrowings

As at 31 March 2015 the Council has short term borrowing of £10m, long term borrowing remains at £56.884m. Details of the loans are set out in 10.1.

Interest rates remain at record low levels and indications are that they will remain at this level for the foreseeable future. The borrowing rates from other Local Authorities for one year money are around 0.60% – 0.70%.

10.1

Amount	Lender	Interest rate	Date of repayment
£5,000,000	London Borough of Islington	0.65%	05/10/2015
£5,000,000	Police & Crime Comm. For West Midlands	0.65%	25/02/2016
£56,884,000	PWLB	3.48%	28/03/2062

11. Future Position

As interest rates remain very low, the Council will continue to utilise short term borrowing to manage its cashflow. Current rates for borrowing are between 0.60% and 0.70% for up to 1 year and the Council will continue to borrow for a 364 day period.

11.1 The Council's four Money Market Funds which are AAA rated, currently offer rates between 0.40% and 0.42%, the rates are liable to fluctuation in the year. The call accounts offer between 0.35% and 0.45% for the average annual balance.

- 11.2 The short term investments that are made through the call accounts and money market funds ensure cash can be accessed immediately. This has an ongoing impact on returns but increases the security of our cash.
- 11.3 We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks and the Debt Management Office. However the rates received are between 0.25% and 0.40%, which will have an adverse impact of the interest earned.
- 11.4 Since 1 April 2014 the Council has opened additional Money Market Fund accounts with Blackrock and Federated Investors which provide a return in the region of 0.40%. A new Money market Fund will be opened with Amundi Asset Management; the return is estimated to be in the region of 0.40% to 0.45%.
- 11.5 The interest rate on the call account with Handelsbanken has reduced from the opening rate of 0.50% to 0.35% and rate payable on the Barclays call account will reduce to 0.30% from 0.45% with effect from June 2015. The council is exploring alternative investment options in order to maximise investment income.
- 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.

Paul Matravers, Principal Accountant
David Hodgson, Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)
Background papers used in compiling this report:
None

Contact for enquiries:
Democratic Services (Committees)
Room 2.3
(01392) 265275