

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE – RESOURCES
EXECUTIVE
COUNCIL

DATE OF MEETING: RESOURCES – 18 NOVEMBER 2015
EXECUTIVE – 1 DECEMBER 2015
COUNCIL – 15 DECEMBER 2015

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: TREASURY MANAGEMENT 2015-16 – HALF YEAR UPDATE

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 2015-16 financial year and the position regarding investments and borrowings at 30 September 2015. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

That Scrutiny and Executive note the Treasury Management report in respect of the first six months of the 2015-16 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 first six months of the 2015-16 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 2015-16. 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 Interest Rate Prospects

Interest rate forecasts, provided by our Advisors, are set out below.

Period	Bank Rate	20-year PWLB rate
Dec 2015	0.50	3.25
Mar 2016	0.50	3.30
Jun 2016	0.75	3.35
Sept 2016	0.75	3.35
Dec 2016	1.00	3.40
Mar 2017	1.00	3.45
June 2017	1.25	3.50
Sept 2017	1.25	3.55
Dec 2017	1.50	3.60
Mar 2018	1.50	3.65
Jun 2018	1.75	3.70

8.2 Treasury Management Strategy

The Council approved the 2015-16 treasury management strategy at its meeting on 24 February 2015. There changes to the limits on the value of investments to be held by any one institution. The changes are:

- The amount that the Council can lend to UK owned banks or building societies increased from £3 million to £4 million.
- The amount that the Council can lend to Foreign owned banks that deal in sterling increased from £2 million to £3 million.
- The changes should allow the Council to access higher interest rates on investments, which is generally the case with larger value investments.

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 Council's stated borrowing strategy was to maintain, and if possible reduce, short-term borrowing as long as rates remained low. With short-term interest rates currently much lower than long-term rates, it continues to be more cost effective in the short term to not borrow and reduce the level of investments held instead. 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	Sep-15	Estimated	Variation
	£	£	Outturn	£
			£	
Interest paid	106,000	47,370	74,350	(31,650)
Interest earned				
Temporary investment interest	(70,000)	(57,770)	(85,000)	(15,000)
Other interest earned	(1,000)	(440)	(880)	120
Science Park Loan	(2,600)		(2,600)	0
Less				
Interest to HRA	75,000	37,500	76,850	1,850
Interest to s106 agreements	40,000	20,000	40,000	0
Interest to Trust Funds	2,500	1,250	2,500	0
Lord Mayors Charity	100	50	100	0
GF interest (received) / paid out	44,000	590	30,970	(13,030)
Net Interest	150,000	47,960	105,320	(44,680)

8.4 The other interest earned relates to car loan repayments.

9. Investment Interest

The Council is utilising 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.

The Council has increased the number of Money Market Funds it has to five. The money market funds allow 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 current investments are:

UK Owned Banks

Amount	Investment	Interest rate
£3,000,000	Barclays	0.30%

Foreign Owned Banks

Amount	Investment	Interest rate
£2,000,000	Handelsbanken	0.35%

Amount	Investment	Interest rate*
£1,000,000	CCLA - Public Sector Deposit Fund	0.32%
£2,000,000	Standard Life Investments	0.42%
£5,000,000	Blackrock	0.44%
£0	Amundi Asset Management	0.45%
£3,000,000	Federated Investors UK	0.41%

* Interest rate is variable (therefore this is based on past performance)

Fixed Term Deposits

Amount	Investment	Interest rate
£2,000,000	Commonwealth Bank of Australia	0.50%
£3,000,000	United Overseas Bank	0.48%

10. Borrowings

The Council has reduced its short term borrowing to £10m, long term borrowing remains at £56.884m. Details of the loans are set out in 10.1. The loan requiring repayment in mid October will not be replaced; however the Council may need to borrow additional funds during the final three months of the financial year.

Amount	Lender	Interest rate	Date of repayment
£5,000,000	London Borough of Islington	0.65%	12/10/2015
£5,000,000	Police & Crime Commissioner 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 five Money Market Funds which are AAA rated, currently offer rates between 0.32% and 0.45%, the rates are liable to fluctuation in the year. The call accounts offer between 0.30% and 0.40% 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 0.50%, which are equally not significant and in some case below the amount received from our existing deposits.

- 11.4 Since 1 April 2015 the Council has opened a Money Market Fund account with Amundi Asset Management which provides a return in the region of 0.45%. The Council are in regular contact with their treasury management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.
- 11.5 Officers are meeting with advisors at the end of November to explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, a revised treasury management strategy will be presented to committee for approval in February 2016.
- 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.

Dave Hodgson, Assistant Director Finance

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

Background papers used in compiling this report:

None

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