

**EXETER CITY COUNCIL**

**REPORT TO:**

**SCRUTINY COMMITTEE – CORPORATE, EXECUTIVE & COUNCIL**

**DATE OF MEETING:**

**CORPORATE – 29 JUNE 2016  
EXECUTIVE – 12 JULY 2016  
COUNCIL – 26 JULY 2016**

**REPORT OF:**

**ASSISTANT DIRECTOR FINANCE**

**TITLE:**

**TREASURY MANAGEMENT 2015-16**

**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 31 March 2016. 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 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 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:**

The Monitoring Officer notes that whilst CCLA Investment Management Ltd does not offer any form of rating or any financial support criteria. The Council's advisers Arlingclose Ltd are recommending investment in the CCLA Investment Fund, and given that, the Monitoring Officer has no issues with the report.

## 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
June 2016	0.50	3.10
Sept 2016	0.50	3.15
Dec 2016	0.50	3.20
Mar 2017	0.50	3.25
June 2017	0.50	3.30
Sept 2017	0.50	3.35
Dec 2017	0.50	3.40
Mar 2018	0.50	3.45
June 2018	0.75	3.48
Sept 2018	0.75	3.50
Dec 2018	0.75	3.53
Mar 2019	0.75	3.55
June 2019	0.75	3.55

### 8.2 Treasury Management Strategy

The Council approved the 2016-17 Treasury Management Strategy at its meeting on 23 February 2016. 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 2016-17 strategy requested approval to allow investments to be made in property funds. Such funds are pooled investment products and are accessed on a traded share basis rather than a fixed cash deposit sum. The investment in the property fund would be a long term commitment which will mean that there will be fluctuations in the return over the period of the investment.

The council envisaged placing investments of up to £5m with the Local Authorities Property Fund, (managed by the CCLA). An initial investment of £3m was made at the end of April. A further investment will be considered if cashflow allows. As at 1 May the total fund size was approximately £634 million with 159 investors using the fund. The dividend yield as at the end of April was 4.76%

The CCLA provide a range of pooled money market funds, some of which are created specifically for the public sector and cover asset classes such as Equities, Bond, Property or Cash. The property related asset class of the CCLA property fund has achieved a rate of return of approximately 7-8% over recent years.

Members will be assured that although the CCLA does not have any form of rating or financial support criteria awarded to it, something which is currently required for all other investments, the organisation was established in 1958 and has a strong approach to stewardship and ethics.

The council's treasury advisers, Arlingclose Ltd are entirely comfortable with, and recommend, the CCLA property fund and currently have numerous other clients who invest with the organisation.

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 or 2 year periods.

### 8.3 Net Interest Position

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

	<b>Estimate</b>	<b>Actual</b>	<b>Variation</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Interest paid</b>	106,000	56,494	(49,506)
<b>Interest earned</b>			
Temporary investment interest	(70,000)	(135,474)	(65,474)
Other interest earned	(1,000)	(820)	180
Science Park Loan	(2,600)	(25,850)	(23,250)
<b>Less</b>			
Interest to HRA	75,000	103,790	28,790
Interest to s106 agreements	40,000	71,102	31,102
Interest to Trust Funds	2,500	3,103	603
Lord Mayors Charity	100	32	(68)
GF interest (received) / paid out	44,000	15,883	(28,117)
<b>Net Interest</b>	<b>150,000</b>	<b>72,377</b>	<b>(77,623)</b>
<b>Investment Gain – General Fund</b>	<b>0</b>	<b>(62,893)</b>	<b>(62,893)</b>
<b>Net Interest</b>	<b>150,000</b>	<b>9,484</b>	<b>(140,516)</b>

8.4 The other interest earned relates to car loan repayments.

8.5 The HRA earned £103,790 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 £6,789 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 2016 are:

**Money Market Funds**

Amount	Investment	Interest rate
£2,000,000	Amundi Investors	0.47%
£4,000,000	Federated Investors UK	0.47%

**Fixed Term Deposits**

Amount	Investment	Interest rate	Maturity Date
£3,000,000	Thurrock Borough Council	0.38%	05/04/2016

**Foreign Owned Banks**

Amount	Investment	Interest rate	Maturity Date
£3,000,000	United Overseas Bank	0.49%	08/04/2016

This investment was reinvested with United Overseas Bank for a period of 2 months at a rate of 0.45% on 8 April 2016 and it was reinvested with the same bank for a further 3 months on 8 June 2016 at a rate of 0.50%.

**Building Society**

Amount	Investment	Interest rate	Maturity Date
£2,000,000	Nationwide Building Society	0.50%	08/04/2016

This investment was reinvested with Nationwide Building Society for a period of 3 months at a rate of 0.50%.

**10. Borrowings**

As at 31 March 2016 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%.

Amount	Lender	Interest rate	Date of repayment
£10,000,000	Oxfordshire County Council	0.98%	01/02/2018
£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 1 or 2 year periods.

11.1 The Council's five Money Market Funds which are AAA rated, currently offer rates between 0.45% and 0.48%, 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 will have an adverse impact on the interest earned.
- 11.4 Since 1 April 2015 the Council has opened an additional Money Market Fund account with Amundi Investors which is providing a return in the region of 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 0.25% from 0.30% with effect from June 2016. 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.

**Dave 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