

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE – CORPORATE
EXECUTIVE
COUNCIL

DATE OF MEETING: RESOURCES – 24 NOVEMBER 2016
EXECUTIVE – 6 DECEMBER 2016
COUNCIL – 13 DECEMBER 2016

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: TREASURY MANAGEMENT 2016-17 – 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 2016-17 financial year and the position regarding investments and borrowings at 30 September 2016. 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 2016-17 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 2016-17 financial year. Therefore, there are no financial or non financial resource implications.

5. Section 151 Officer comments:

The significant improvement against budget will support not only the General Fund position, but also give a small boost to the HRA. The Finance team will continue to identify opportunities for investing our surplus cash deposits.

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.

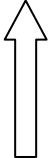

7. Monitoring Officer's comments:

The 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 2016		2.05
Mar 2017		2.05
Jun 2017		2.05
Sept 2017		2.05
Dec 2017		2.05
Mar 2018	0.25	2.05
June 2018		2.05
Sept 2018		2.05
Dec 2018		2.10
Mar 2019		2.15
Jun 2019		2.15

8.2 Economic Context

The economic trajectory for the UK has been immeasurably altered following the vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations (notwithstanding the Olympic and summer feel-good effects). The rapid installation of a new Prime Minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proactive in tackling the economic uncertainty.

Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

8.3 Treasury Management Strategy

The Council approved the 2016-17 treasury management strategy at its meeting on 23 February 2016. The main change to the strategy was the request for approval to allow investments (up to £5m) 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 is a long term commitment which means that there will be fluctuations in the return over the period of the investment.

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 or 2 year periods.

If required, the council may arrange forward starting loans during the year, where the interest rate is fixed in advance, but the cash is received in a later period. To date this borrowing option has not been utilised.

8.4 Net Interest Position

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

	Estimate	Sep-16	Estimated	Variation
	£	£	Outturn	£
			£	
Interest paid	400,000	48,870	97,730	(302,270)
Interest earned				
Temporary investment interest	(200,000)	(85,970)	(225,580)	(25,580)
Other interest earned	(700)	(330)	(420)	280
Science Park Loan	(25,850)	(12,925)	(25,850)	0
Less				
Interest to HRA	82,450	83,175	166,350	83,900
Interest to s106 agreements	40,000	51,235	102,470	62,470
Interest to Trust Funds	4,000	2,225	4,450	450
Lord Mayors Charity	100	25	50	(50)
GF interest (received) / paid out	(100,000)	37,435	21,470	121,470
Net Interest	300,000	86,305	119,200	(180,800)
Investment Loss – General Fund	0	30,800	30,800	30,800
Net Interest	300,000	117,105	150,000	(150,000)

8.5 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 five Money Market Funds. 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.

An investment of £3m was made in the CCLA's LAMIT Property Fund in April 2016. The investment in the fund is a long term commitment which will mean that there will be fluctuations in the return over the period of the investment. Details of the yield on this investment is included in 9.1.

9.1 The Council's current investments are:

UK Owned Banks

Amount	Investment	Interest rate
£1,000,000	Barclays	0.05%

Foreign Owned Banks

Amount	Investment	Interest rate
£1,000,000	Handelsbanken	0.15%

Money Market Funds

Amount	Investment	Interest rate*
£5,000,000	Blackrock	0.48%
£3,000,000	Amundi Asset Management	0.47%
£2,500,000	Federated Investors UK	0.47%
£1,000,000	Standard Life Investments	0.45%
£500,000	CCLA - Public Sector Deposit Fund	0.29%

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

Fixed Term Deposits

Amount	Investment	Interest rate
£2,000,000	Nationwide Building Society	0.42%
£3,000,000	Leeds Building Society	0.40%
£3,000,000	United Overseas Bank	0.28%

Property Funds

Amount	Investment	Dividend Yield
£3,000,000	CCLA – LAMIT Property Fund	4.89%

10. Investment Loss

The council recently took the opportunity to convert the small amount of money left in the Glitnir Escrow Account. The investment was converted via the Central Bank of Iceland, the conversion means that the council no longer has a financial interest in Iceland.

There was a small investment loss of £30,800 (see 8.4) on conversion. The total amount received in respect of the investment was £2,022,616.

11. Borrowings

The Council's short term borrowing is £10m, long term borrowing remains at £56.884m. Details of the loans are set out in 11.1. The future cash flow forecast included planned borrowing of £4 million as part of the 2016-17 capital programme, to date this borrowing has not been required.

The ongoing borrowing requirement will be monitored and a decision of whether to take the planned borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.

11.1	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

12. 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 0.40% and 0.50% for up to 1 year and the Council will continue to borrow for 1 or 2 year periods.

- 12.1 The Council's five Money Market Funds which are AAA rated, currently offer rates between 0.29% and 0.48%, the rates are liable to fluctuation in the year. The call accounts offer between 0.05% and 0.15% for the average annual balance.

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.

- 12.2 We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies and the Debt Management Office. However the rates received are between 0.28% and 0.40%, which are equally not significant and in some case below the amount received from our existing deposits.
- 12.3 Officers have regular meetings with the 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.
- 12.4 We continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the treasury management strategy which is presented to committee for approval in February 2017.

13. 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.

14. 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.

15. 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.

16. Are there any other options?

No.

David 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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