

**EXETER CITY COUNCIL**

**REPORT TO:**

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

**DATE OF MEETING:**

**CORPORATE – 22 JUNE 2017**

**EXECUTIVE – 11 JULY 2017**

**COUNCIL – 25 JULY 2017**

**REPORT OF:**

**CHIEF FINANCE OFFICER**

**TITLE:**

**TREASURY MANAGEMENT 2016-17**

**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 31 March 2017. The report is a statutory requirement and is for information only with no key decisions required.

**2. Recommendations:**

That Scrutiny, the Executive and Council note the content of this report.

**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 2016-17 financial year. Therefore, there are no financial or non-financial resource implications.

**5. Section 151 Officer comments:**

Officers have fully complied with the Treasury Management Strategy for 2016-17. All investments and borrowings have been undertaken in accordance with the Council's approved Treasury Management Practices.

**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 of concern to 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*
June 2017		2.35
Sept 2017		2.30
Dec 2017		2.30
Mar 2018		2.30
June 2018		2.30
Sept 2018		2.30
Dec 2018	0.25	2.35
Mar 2019		2.40
June 2019		2.45
Sept 2019		2.50
Dec 2019		2.55
Mar 2020		2.60
June 2020		2.65

\* The Council can currently borrow from the PWLB at 0.80% above gilt yields

### 8.2 Treasury Management Strategy

The Council approved the 2017-18 Treasury Management Strategy at its meeting on 21 February 2017. 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 which would be placed with Local Authorities. No other significant changes were made to the strategy for 2017-18.

Approval to invest in Property Funds was part of the 2016-17 Treasury Management Strategy, the council has invested £5m in the Local Authorities Property Fund, (managed by the CCLA). As at 1 May the fund size was approximately £746.5 million with 179 investors using the fund. The dividend yield as at the end of April was 4.58%. The investment in the property 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 current value of the investment are provided later in the report.

With returns on traditional investment vehicles being very low, officers are seeking new investment opportunities that will potentially return higher yields than currently being received. Officers recently met with the council's treasury advisors in order to explore alternative investment opportunities. A number of options were presented and officers are currently reviewing these options.

If a decision is taken to explore the options further and an amendment to the 2017-18 strategy is required. A report requesting a change to the strategy will be presented to committee when required.

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>	400,000	88,987	(311,013)
<b>Interest earned</b>			
Temporary investment interest	(200,000)	(292,204)	(92,204)
Other interest earned	(700)	(424)	276
Science Park Loan	(25,850)	(25,779)	71
<b>Less</b>			
Interest to HRA	82,450	194,336	111,886
Interest to s106 agreements	40,000	97,500	57,500
Interest to Trust Funds	4,000	4,544	544
Lord Mayors Charity	100	108	8
GF interest (received) / paid out	(100,000)	(21,919)	78,081
<b>Net Interest</b>	<b>300,000</b>	<b>67,068</b>	<b>(232,932)</b>
<b>Investment Loss – General Fund</b>	<b>0</b>	<b>30,800</b>	<b>30,800</b>
<b>Net Interest</b>	<b>300,000</b>	<b>97,868</b>	<b>(202,132)</b>

8.4 The other interest earned relates to car loan repayments.

8.5 The HRA earned £194,336 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 £9,784 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.

An investment has been made in the CCLA Property Fund. The investment in the property fund is a long term commitment which means that are fluctuations on the return from the investment, and this will continue to be the case.

The Council's investments as at 31 March 2017 are:

**Money Market Funds**

Amount	Investment	Interest rate
£5,000,000	Standard Life	0.29%
£2,000,000	Blackrock	0.26%

**Fixed Term Deposits**

Amount	Investment	Interest rate	Maturity Date
£3,000,000	City of Kingston Upon Hull	0.38%	13/06/2017
£3,000,000	Stockport MBC	0.35%	01/06/2017
£3,000,000	Woking Borough Council	0.35%	22/05/2017
£3,000,000	Blaenau Gwent County Borough Council	0.35%	04/08/2017
£3,000,000	Leeds City Council	0.30%	28/04/2017

**Property Fund**

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.57%

The value of the investment as at 31 March 2017 was £4,654,618.01. At the end of the financial year the value of the investment in the Property Fund is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

**10. Borrowings**

As at 31 March 2017 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 currently around 0.50% and 0.75% for two years.

10.1	<b>Amount</b>	<b>Lender</b>	<b>Interest rate</b>	<b>Date of repayment</b>
	£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 detailed above, 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 which vary from 0.13% to 0.32%, the rates are liable to fluctuation in the year. The call accounts offer rates between 0.05% and 0.15% 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. The rates received for Local Authority deposits are currently between 0.30% and 0.38%.
- 11.4 The interest rate on the call account with Handelsbanken has reduced from the opening rate of 0.50% to 0.15% and rate payable on the Barclays call account has reduced to 0.05%.

## **12. New Investment Opportunities**

- 12.1 As mentioned earlier in the report, officers met with the council's treasury advisors in order to explore alternative investment opportunities.
- 12.2 A number of options were presented, including investing in cash plus and short dated bond funds and longer dated funds, which currently return a higher yield on investments. Investing in such funds will require a commitment to invest for longer periods which is a change from the current strategy.
- 12.3 Officers will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.
- 12.4 If an amendment to the current treasury management strategy is required, a report will be present to committee requesting the necessary amendments.

## **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.

**Dave Hodgson**  
**Chief Finance Officer**

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

**Background papers used in compiling this report: None**

Contact for enquiries:

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