

## EXETER CITY COUNCIL

**REPORT TO:** SCRUTINY COMMITTEE – CORPORATE  
EXECUTIVE  
COUNCIL

**DATE OF MEETING:** CORPORATE – 23 NOVEMBER 2017  
EXECUTIVE – 12 DECEMBER 2017  
COUNCIL – 19 DECEMBER 2017

**REPORT OF:** CHIEF FINANCE OFFICER  
**TITLE:** TREASURY MANAGEMENT 2017-18 – 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 2017-18 financial year and the position regarding investments and borrowings at 30 September 2017. 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 2017-18 financial year.

That Executive approve the revised Treasury Management Strategy which includes a request to increase the limit for investment in Property Funds from £5m to £10m.

**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 2017-18 financial year. Therefore, there are no financial or non financial resource implications.

**5. Section 151 Officer comments:**

The request to increase the maximum to be invested in the Property Fund will allow the Council to increase investment returns. It must be noted that it will only be used if the Government reinstate the statutory override that the CCLA Property Fund currently has. If this is not reinstated then the Council will not invest any further, although there are no plans to remove the existing investment.

The net interest position is based on the Council not borrowing further. This position is being regularly reviewed.

**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 Economic Context and Interest Rate Prospects**

In November, the Bank of England's Monetary Policy Committee (MPC) met widely-held market expectations and voted 7-2 in favour of raising Bank Rate to 0.50% (from 0.25%). Policymakers dampened expectations of further near-term rises, indicating that the Bank of England expects the CPI inflation rate to return to the 2% target based on the market expectation of two further Bank Rate hikes over the next three years.

The likelihood of any additional monetary tightening depends partly of the progress of the outcome of the EU Brexit negotiations and how household and business confidence react to the on-going process.

The Authority's treasury management advisors are not convinced the UK's economic outlook justifies further monetary tightening and are therefore projecting Bank Rate to remain at 0.50% for the foreseeable future.

**8.2 Treasury Management Strategy**

The Council approved the 2017-18 treasury management strategy at its meeting on 21 February 2017. There were no significant changes to strategy, the 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.

The strategy for In-house investments included approval to invest in Property Funds. The council has made 2 investments in the CCLA – LAMIT property fund (April and November 2016). This report is requesting an increase in the limit for investment in Property Funds from £5m to £10m. The yield from the Property Fund has been in the region of 4.5% to 4.6% in this financial year, which is significantly higher than the returns on other investment options available (Appendix B – 4.3).

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. The Council has arranged a forward starting loan, details are included in section 10.2 below.

### 8.3 Net Interest Position

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

	Estimate £	Sep-17 £	Estimated Outturn £	Variation £
<b>Interest paid</b>	170,000	85,000	140,760	(29,240)
<b>Interest earned</b>				
Temporary investment interest	(273,070)	(136,535)	(165,230)	107,840
Other interest earned	(420)	(210)	(180)	240
Science Park Loan	(25,780)	(12,890)	(25,780)	0
CVS Loan			(19,530)	(19,530)
<b>Less</b>				
Interest to HRA	178,740	89,370	178,470	(270)
Interest to s106 agreements	95,930	47,965	89,540	(6,390)
Interest to Trust Funds	4,500	2,250	4,170	(330)
Lord Mayors Charity	100	50	100	0
GF interest (received) / paid out	(20,000)	(10,000)	61,560	121,470
<b>Net Interest</b>	<b>150,000</b>	<b>75,000</b>	<b>202,320</b>	<b>52,320</b>
CCLA – LAPF Dividend			(250,000)	(250,000)
Investment Loss – General Fund	0	0	0	0
<b>Net Interest</b>	<b>150,000</b>	<b>75,000</b>	<b>(47,680)</b>	<b>(197,680)</b>

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 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.

The Council made an investment in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment. Details of the yield on this investment is included in 9.1.

The Council's current investments are:

**Money Market Funds**

Amount	Investment	Interest rate*
£1,000,000	Amundi Asset Management	0.24%
£500,000	Federated Investors UK	0.20%

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

**Fixed Term Deposits - Current**

Amount	Investment	Interest rate	Date Invested	No of Days
£5,000,000	Lancashire County Council	0.50%	19/04/17	275
£5,000,000	Guildford Borough Council	0.38%	28/04/17	214
£3,000,000	Fife Council	0.30%	01/06/17	183
£3,000,000	Rugby Borough Council	0.27%	13/06/17	183
£2,000,000	North Wales Fire Authority	0.30%	22/06/17	183
£5,000,000	Lincolnshire County Council	0.28%	02/08/17	239
£3,000,000	Stirling Council	0.25%	04/08/17	185
£3,000,000	Southend On Sea Council	0.27%	17/08/17	153
£3,000,000	Surrey Heath Borough Council	0.23%	07/09/17	91
£4,000,000	Suffolk County Council	0.32%	20/09/17	219

**Fixed Term Deposits – Forward Deals**

Amount	Investment	Interest rate	Date Invested	No of Days
£5,000,000	Guildford Borough Council	0.55%	28/11/17	364
£5,000,000	Leeds City Council	0.40%	01/12/17	182

**Property Funds**

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.60%

**10. Borrowings**

The Council's short term borrowing is £10m, long term borrowing remains at £56.884m. Details of current loans are set out in 10.1. The future cash flow forecast included planned borrowing of £4 million as part of the 2017-18 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.

## 10.1 Current Borrowing

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

- 10.2 The Council has agreed a forward starting loan to replace the £10m maturity which is due to be repaid on 1 February 2018, details of the loan are:

Amount	Lender	Interest rate	Date of repayment
£10,000,000	London Borough of Wandsworth	0.90%	05/12/2019

## 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 0.40% and 0.50% 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 0.18% and 0.24%, 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.

- 11.2 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 0.23% and 0.50%.
- 11.3 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.
- 11.4 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 2018.

## 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.

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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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