

Report To CORPORATE SERVICES SCRUTINY COMMITTEE,
EXECUTIVE AND COUNCIL
Date of Meeting: Corporate Services Scrutiny Committee – 28 June 2018
Executive – 10 July 2018
Council – 24 July 2018
Report of: Chief Finance Officer
Title: Treasury Management 2017-18

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 31 March 2018. 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 2017-18 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

The interest position is positive and principally relates to the investment in the CCLA Property Fund. The Council's investment strategy for 2018-19 will continue with the same approach. However certain projects that may be approved during the year will be backed by longer term borrowing in order to protect the Council's position.

6. What are the legal aspects?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

Adoption of the Treasury Management Code is an integral part of the Prudential Code, whereby local authorities are required by Regulation to comply with the Prudential Code when carrying out duties under Part 1 of the Local Government Act 2003. Section 15 (1) requires a local authority to have regard to such guidance as the Secretary of State may issue and local authorities are required to have regard to the Prudential Code for Capital Finance in Local Authorities by regulation 2 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 3146).

7. Monitoring Officer's comments:

The purpose of this report is to provide an update on the Council's Treasury Management performance and provides information in accordance with statutory requirements. This report raises no concerns for the Monitoring Officer.

8. Report Details:

8.1 Interest Rate Forecast

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

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB rate	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB rate	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

8.2 Treasury Management Strategy

The Council approved the 2018-19 Treasury Management Strategy at its meeting on 20 February 2018. 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, Banks or Building Societies which are on the Council's counterparty list. The 2018-19 strategy requested an amendment to the time limits for UK owned banks or building societies and foreign owned banks that deal in sterling in the 2018-19 strategy.

The first proposal was to increase the time limit of investment for Foreign owned banks that deal in sterling and holding short-term credit ratings no lower than F1+ and P-1 from **6 months** to **9 months**. The second proposal was to change the time limit of investment in respect of UK owned banks or building societies that deal in sterling and hold a short-term credit rating no lower than F1 and P-1 from **3 months** to **6 months**.

The proposed increase in time limits will increase the risk factor on the investments made, but credit ratings are continually reviewed and updated by our Treasury Management advisors. The Council's Treasury Management advisors have been consulted on the proposals and are comfortable with the proposed increase in time limits.

Approval to invest in Property Funds was part of the 2017-18 Treasury Management Strategy, the council has invested £5m in the Local Authorities Property Fund, (managed by the CCLA). The Treasury Management 2017-18 half year update which was approved at Council on 19 December 2017 requested an increase in the limit for investment in Property Funds from £5m to £10m.

The request to increase the maximum to be invested in the Property Fund allowed the Council to increase potential investment returns. It must be noted that further investments in the property fund will only be made 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.

As at 31 March the fund size was approximately £976 million, the dividend yield as at the end of March was 4.54%. 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.

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:

	Estimate	Actual	Variation
	£	£	£
Interest paid	170,000	117,617	(52,383)
Interest earned			
Temporary investment interest	(273,070)	(168,515)	104,555
Other interest earned	(420)	(77)	343
Science Park Loan	(25,780)	(25,780)	0
CVS Loan		(3,906)	(3,906)
Less			
Interest to HRA	178,740	238,137	59,397
Interest to S106 agreements & CIL	95,930	161,243	65,313
Interest to St James Park Redevelopment		9,615	9,615
Interest to Trust Funds	4,500	4,426	(74)
Lord Mayors Charity	100	186	86
GF interest (received) / paid out	(20,000)	215,329	235,329
Net Interest	150,000	332,946	182,946
CCLA – LAPF Dividend	0	(250,915)	(250,915)
Investment Loss – General Fund	0	0	0
Net Interest	150,000	82,031	(67,969)

8.4 The other interest earned relates to car loan repayments.

8.5 The HRA earned £238,137 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 £8,986 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.

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 2018 are:

Money Market Funds

Amount	Investment	Interest rate
£5,000,000	Amundi Asset Management	0.59%

Fixed Term Deposits

Amount	Investment	Interest rate	Maturity Date
£4,000,000	Suffolk County Council	0.32%	27/04/2018
£3,000,000	Eastleigh Borough Council	0.55%	14/11/2018
£5,000,000	Guildford Borough Council	0.55%	27/11/2018
£5,000,000	Leeds City Council	0.40%	01/06/2018
£5,000,000	Blackpool Borough Council	0.60%	06/12/2018
£3,000,000	Surrey Heath BC	0.53%	06/06/2018
£5,000,000	Plymouth City Council	0.50%	26/02/2019

Property Fund

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.54%

The value of the investment as at 31 March 2018 was £4,813,392.12. 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 2018 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 0.60% and 0.90% for two years.

10.1

Amount	Lender	Interest rate	Date of repayment
£10,000,000	London Borough of Wandsworth	0.90%	05/12/2019
£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 0.47% to 0.59%, 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 0.38% and 0.60%.
- 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 Officers meet with the Council's treasury advisors in order to explore alternative investment opportunities.
- 12.2 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.
- 12.3 If an amendment to the current treasury management strategy is required, a report will be presented 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, community 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

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