

REPORT TO **CORPORATE SERVICES SCRUTINY COMMITTEE,
EXECUTIVE AND COUNCIL**

Date of Meeting: **Corporate Services Scrutiny - 22 November 2018
Executive – 11 December 2018
Council - 18 December 2018**

Report of: **Chief Finance Officer**
Title: **Treasury Management 2018/19 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 2018/19 financial year and the position regarding investments and borrowings at 30 September 2018. 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 2018/19 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 2018/19 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

The report sets out the current position in respect of Treasury Management. The increase in interest received reflects the additional cash reserves that the Council has, which are being placed in line with the approved Strategy.

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 Economic Context and Interest Rate Prospects

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase the Bank Rate on 2 August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats –

mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

The Authority's treasury management advisors have provided the following information:

"We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit."

8.2 **Treasury Management Strategy**

The Council approved the 2018/19 Treasury Management Strategy at its meeting on 20 February 2018. There were no significant changes to the 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). The yield from the Property Fund has been in the region of 4.5% in this financial year, which is significantly higher than the returns on other investment options available.

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.

In July the Council approved the establishment of a Housing Development Company. The Council is expecting to borrow £2.2 million during this financial year over 25 years from the PWLB and will lend the money to the Company at a rate of 4.86%. It is expected that the transaction will take place in the near future.

8.3 Net Interest Position

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

	Estimate	Actual to 30 September 2018	Estimated Outturn	Variation
	£	£	£	£
Interest paid	300,000	44,877	89,753	(210,247)
Interest earned				
Temporary investment interest	(190,610)	(172,405)	(326,408)	(135,798)
Other interest earned	(180)	0	0	180
Science Park Loan	(25,780)	(12,890)	(25,780)	0
CVS Loan	(19,530)	(1,953)	(3,906)	15,624
Less				
Interest to HRA	192,000	123,566	247,133	55,133
Interest to S106 agreements	90,000	49,710	99,420	9,420
Interest to Trust Funds	4,000	2,215	4,430	430
Lord Mayors Charity	100	95	190	90
GF interest (received) / paid out	50,000	(11,662)	(4,922)	(54,922)
Net Interest	350,000	33,215	84,832	(265,168)
CCLA – LAPF Dividend	(250,000)	(112,572)	(225,143)	24,857
Investment Loss – General Fund	0	0	0	0
Net Interest	100,000	(79,356)	(140,311)	(240,311)

9. Investment Interest

The Council can use the Government's Debt Management Office account and call accounts with Handelsbanken and Barclays, however, due to low interest rates these have not yet been used this financial year. 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.

9.1 The Council's current investments are:

Money Market Funds

Amount	Investment	Interest rate*
£5,000,000	Amundi Asset Management	0.56%
£4,000,000	Federated Investors UK	0.56%
£1,500,000	CCLA	0.57%

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

Fixed Term Deposits - Current

Amount	Investment	Interest rate	Date Invested	No of Days
£3,000,000	Eastleigh Borough Council	0.55%	15/11/17	364
£5,000,000	Guildford Borough Council	0.55%	28/11/17	364
£5,000,000	Blackpool Borough Council	0.60%	07/12/17	364
£5,000,000	Leeds City Council	0.60%	08/06/18	185
£5,000,000	London Borough of Southwark	0.95%	27/02/18	364
£3,000,000	Salford City Council	0.78%	24/08/18	210
£5,000,000	Slough Borough Council	0.60%	04/04/18	364
£3,000,000	North Ayrshire Council	0.70%	26/06/18	364
£3,000,000	The City of Liverpool	0.85%	14/08/18	364
£5,000,000	Dundee City Council	0.85%	22/08/18	364

Fixed Term Deposits – Forward Deals

Amount	Investment	Interest rate	Date Invested	No of Days
£5,000,000	Blackpool Borough Council	0.81%	06/12/18	99

Property Funds

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.50%

10. Borrowings

The Council's short term borrowing is £10 million, long term borrowing remains at £56.884 million. Details of current loans are set out in 10.1. The future cash flow forecast included planned borrowing of £10 million as part of the 2018-19 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	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 between 0.90% and 1.10% 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 0.69% and 0.72%, the rates are liable to fluctuation in the year. The call accounts offer between up to 0.40% 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.

The Council is anticipating £16 million of expenditure on the St Sidwells Point and Bus Station projects in 2019/20 and a further £15 million in 2020/21 but will utilise its cash balances and short term borrowing to reduce the cost of financing the project until such time as it is operational and generating an income. This will be reviewed if interest rates begin to rise substantially.

- 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. The rates received are currently around 0.80%.
- 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 2019.

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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