

**EXETER CITY COUNCIL**  
**SCRUTINY COMMITTEE – RESOURCES**  
**25 NOVEMBER 2009**

**EXECUTIVE**  
**8 DECEMBER 2009**

**TREASURY MANAGEMENT – 2009/10**

**1. PURPOSE OF REPORT**

- 1.1 To report on the current performance for the 2009/10 financial year and the position regarding investments and borrowings at 30 September 2009.

**2. NET INTEREST POSITION**

- 2.1 The General Fund shows an estimated net reduction in interest receivable compared to the budget, the position is:

|                               | <b>Estimate</b>       | <b>Sept 09</b>        | <b>Estimated<br/>Outturn</b> | <b>Variation</b>       |
|-------------------------------|-----------------------|-----------------------|------------------------------|------------------------|
|                               | <b>£</b>              |                       | <b>£</b>                     | <b>£</b>               |
| <b>Interest paid</b>          | (60,000)              | (25,433)              | (45,000)                     | 15,000                 |
| <b>Interest earned</b>        |                       |                       |                              |                        |
| Interest from portfolio       | 603,000               | 322,168               | 499,000                      | (104,000)              |
| Temporary investment interest | 40,000                | 9,842                 | 30,000                       | (10,000)               |
| Other interest earned         | 4,000                 | 1,971                 | 4,000                        | (100)                  |
| Less                          |                       |                       |                              |                        |
| Interest to HRA               | (230,000)             | (115,000)             | (230,000)                    | 0                      |
| Interest to s106 agreements   | (45,000)              | (22,500)              | (45,000)                     | 0                      |
| Interest to Trust Funds       | (12,000)              | (6,000)               | (12,000)                     | 0                      |
| Lord Mayors Charity           | 0                     | (250)                 | (500)                        | (500)                  |
| GF interest received          | <u>360,000</u>        | <u>190,231</u>        | <u>245,500</u>               | <u>(114,500)</u>       |
| Net interest                  | <u><u>300,000</u></u> | <u><u>164,798</u></u> | <u><u>200,500</u></u>        | <u><u>(99,500)</u></u> |

- 2.2 The other interest earned relates principally to car loan repayments and various repayments of interest.

- 2.3 The reduction against budget has been caused by a number of factors. Please see section 3 for a detailed explanation.

### **3. INVESTMENT INTEREST**

- 3.1 A decision has been taken in line with advice from our Treasury advisors, that investments held with Investec are reduced in order to reduce the reliance on borrowing. It is planned, over the course of the year, to remove up to £12 million from Investec. Whilst this has the effect of reducing our investment interest for the year, it will reduce the interest paid as well and reduce our risk exposure as well as bringing our borrowing in line with our need to borrow for capital investment purposes.
- 3.2 In addition, temporary lending opportunities have been limited as the Council has maintained a negative cashflow during the year and relied upon short term borrowing to cover the shortfall.
- 3.3 The HRA interest is calculated according to statute, and will only change if the rate of interest earned changes during the year. At this stage, there is no evidence of this being the case and thus the full impact will fall on the General Fund.
- 3.4 There has been a little additional news in respect of the £5m invested in two Icelandic banks. The solicitors working for the LGA have prepared claims for local authorities to be submitted to the Banks. Additional advice has meant that both claims are for the full amount invested, all interest due up until maturity and penalty interest due up to 22 April 2009 (at around 22% - the current penalty rate in Iceland), which has substantially increased both claims. However, as a result Landsbanki have revised down the amount they anticipate that Councils will receive to 83p in the pound. The advice regarding Glitnir remains that, if confirmed as preferential creditors, Councils will receive 100%.

### **4. BORROWINGS**

- 4.1 The Council has had to borrow temporarily for cashflow purposes throughout the first half of the year and incurred interest of £25,433 so far. Interest rates remain very low. At 30 September 2009 the Council had £16,000,000 of borrowing which is being repaid over the next few months as set out in 3.1 above. The Council continues to have no long term debt.

### **5. FUTURE POSITION**

- 5.1 In order to ensure that the Council's borrowing is matched to its capital investment, the Council will reduce its investments held by Investec to approximately £8m. Whilst this will inevitably mean much lower future investment returns, it is a low risk strategy.
- 5.2 Short term borrowing rates currently remain extremely low and therefore the Council will continue to utilise this in the short term. However it is important to note that PWLB rates will increase as the Government's borrowing increases, therefore, with advice from our Treasury advisers, Sterling, the Council will look to move towards long term borrowing at the appropriate time.
- 5.3 Short term investment opportunities remain limited and the Council have added another call account facility (Nat West) to allow a further spread of investment. The Council is also limiting its use of the Co-op's facility as they have been downgraded by Fitch following the merger with Britannia Building Society.

**6. RECOMMENDATION**

6.1 That the Treasury Management report for the first six months of 2009/10 be noted.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

**Local Government (Access to Information ) Act 1985 (as amended)**

**Background papers used in compiling the report:**

None