

## EXETER CITY COUNCIL

### SCRUTINY COMMITTEE – RESOURCES 24 NOVEMBER 2010

EXECUTIVE  
7 DECEMBER 2010

#### TREASURY MANAGEMENT – 2010-11

#### 1. PURPOSE OF REPORT

- 1.1 To report on the current performance for the 2010-11 financial year and the position regarding investments and borrowings at 30 September 2010.

#### 2. TREASURY MANAGEMENT STRATEGY

- 2.1 The Council approved the 2010/11 treasury management strategy at its meeting on 23 February 2010. The Council's stated investment strategy was to continue to use Investec for longer term investments and utilise our call accounts and major banks and local authorities. The Council's stated borrowing strategy was to maintain short-term borrowing as long as rates remained low. The Council is currently borrowing over 6 monthly periods.
- 2.2 The Head of Treasury Services can confirm that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

#### 3. ECONOMIC REVIEW

- 3.1 The UK economy continued along the road to recovery during the first half of 2010/11, despite two shocks to consumer and business confidence. The Eurozone sovereign debt crisis caused marked financial market volatility, while the coalition government's emergency budget outlined significant cuts in public spending.
- 3.2 GDP expanded by 0.4% in Q1 and by a healthy 1.2% in Q2 2010. Manufacturers in particular benefited from the recovery in the global economy by increasing export volumes, largely supported by the value of sterling. The recovery was less impressive in the service sector due to depressed business and consumer confidence. Improved economic conditions did however help financial institutions to repair some of the damage the recession caused to their balance sheets, alleviating some credit risk concerns and partially re-opening the "frozen" financial markets.
- 3.3 Inflation has remained above the Bank of England's target rate of 2% since late 2009. The CPI rate peaked in April at 3.7% and eased back over the past few months as the effects of a number of temporary factors waned. Despite inflation remaining over target, the Bank of England has maintained Bank Rate at 0.5% to avoid the risk of a further downturn in economic growth, with just one MPC member voting for a rise in July, August and September.

#### 4. INTEREST RATE PROSPECTS

- 4.1 Looking ahead, the economic recovery is expected to slow as central government spending cuts and tax rises dampen demand. The Bank of England expects this to weigh on inflation, causing CPI to fall below target in the medium term, suggesting that the MPC is unlikely to increase interest rates anytime soon. It is therefore very likely that Bank Rate will remain at 0.5% for the remainder of the financial year, with there being only modest rises in money market and PWLB rates.

##### **Sterling Consultancy central forecast - September 2010**

	Bank Rate	1 month LIBOR	3 month LIBOR	12 month LIBOR	25 year PWLB	50 year PWLB
Current	0.50	0.57	0.73	1.47	4.10	4.14
Q4 2010	0.50	0.60	0.80	1.70	4.50	4.50
Q1 2011	0.50	0.60	0.80	1.80	4.60	4.60
Q2 2011	0.50	0.60	0.90	2.20	4.70	4.70
Q3 2011	0.50	0.60	1.00	2.50	4.80	4.80
Q4 2011	1.00	1.10	1.50	2.75	4.90	4.90
H1 2012	2.00	2.10	2.50	3.50	5.00	5.00
H2 2012	3.00	3.10	3.50	4.25	5.10	5.10
H1 2013	4.00	4.10	4.50	5.00	5.20	5.20

#### 5. NET INTEREST POSITION

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

	Estimate	Sept 10	Estimated Outturn	Variation
	£		£	£
<b>Interest paid</b>	40,000	40,000	80,000	40,000
<b>Interest earned</b>				
Interest from portfolio	(310,000)	(29,395)	(140,000)	170,000
Temporary investment interest	(20,000)	(14,278)	(30,000)	(10,000)
Other interest earned	(3,000)	(1,173)	(2,200)	800
Less				
Interest to HRA	153,000	36,800	73,599	(79,401)
Interest to s106 agreements	30,000	7,500	15,000	(15,000)
Interest to Trust Funds	10,000	1,960	3,920	(6,080)
Lord Mayors Charity	0	250	500	500
GF interest received	<u>(140,000)</u>	<u>1,664</u>	<u>(79,181)</u>	<u>60,819</u>
Net interest	<u><u>(100,000)</u></u>	<u><u>41,664</u></u>	<u><u>819</u></u>	<u><u>100,819</u></u>

The reduction against budget has been caused by a number of factors. Please see section 6 for a detailed explanation.

## **6. INVESTMENT INTEREST**

- 6.1 The Council has now completed the move to reduce its investments held by Investec, which was reported last year. This has had the effect of reducing the investment income earned during the year. However, their performance, in line with general investments, has also been weak and they will not meet the estimate for investment income in the year.
- 6.2 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.
- 6.3 The HRA interest is calculated according to statute, and has changed to reflect the lower returns from Investec.
- 6.4 In respect of the Icelandic investments, the submissions in support of the Landsbanki and Glitnir test cases have now been filed with the District Court in Iceland. At this point, no trial date has yet been set for either set of cases. It was originally expected that the trial would take place in November, but the LGA's Icelandic legal advisers indicate that January is more realistic, due to a backlog of cases in the district court. There will also likely be interim hearings before the trials to discuss procedural issues such as how to handle expert evidence, but again, no dates have been set. The main issue is that the Council has to account for the impact of the impairments during this financial year. The latest estimate is an impairment of £694,000, but this will change as the results of the court cases are known. The Council is seeking approval from the Government to capitalise this cost.

## **7. BORROWINGS**

- 7.1 The Council has reduced its temporary borrowing over the first six months of the year and as such now has only £10 million of borrowing down from £21.8 million at the start of the year. The £10 million will be renewed when it becomes repayable and will increase towards the end of the financial year. Interest rates remain very low and the Council is keeping borrowing and investments to a minimum. The Council continues to have no long term debt.

## **8. FUTURE POSITION**

- 8.1 Short term borrowing remains very cheap and therefore the Council will continue to utilise this in the short term, however it is important to note that PWLB rates have been increased by approximately 0.85% as a result of the spending review and therefore, with advice from our Treasury advisers, Sterling, the Council will look to move towards long term borrowing at the appropriate time.
- 8.2 Short term investment opportunities remain limited and the Council has continued to use our call account facilities. Under the new accounting regulations, these accounts are classed as cash and we have kept the account limit at £3 million per account. This is £1 million higher than our investment limit, but is considered prudent as we can gain instant access to these accounts.

**9. RECOMMENDATION**

9.1 That the Treasury Management report for the first six months of 2010-2011 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