

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – RESOURCES
19 JUNE 2013

EXECUTIVE
1 JULY 2013

COUNCIL
16 JULY 2013

TREASURY MANAGEMENT – 2012/13

1. PURPOSE OF REPORT

- 1.1 To report the overall performance for the 2012/13 financial year and the position regarding investments and borrowings at 31 March 2013.

2. FINAL NET INTEREST POSITION

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

	Estimate		Actual	Variation
	£		£	£
Interest paid	125,000		48,080	(76,920)
Interest earned				
Temporary investment interest	(36,000)		(62,060)	(26,060)
Other interest earned	(1,750)		(844)	906
Less				
Interest to HRA	52,500		40,183	(12,317)
Interest to s106 agreements	8,000		7,229	(771)
Interest to Trust Funds	2,250		2,994	744
Lord Mayors Charity	0		23	23
	<u>25,000</u>		<u>(12,475)</u>	<u>(37,475)</u>
GF Net interest paid	<u>150,000</u>		<u>35,605</u>	<u>(114,395)</u>
Investment Gain – General Fund	0		(29,924)	(29,924)
Investment Gain - Capital	0		(62,326)	(62,326)

- 2.2 The other interest earned relates to car loan repayments. The investment gain of £29,924 relates to a gain on the foreign exchange rates, relating to the two investments repaid in Icelandic Krona, which due to currency restrictions remain invested in Iceland. Additionally an investment gain has been recognised totalling £62,326 on the value of the Landsbanki investment. As the loss was originally capitalised this gain has been written off against the initial capital expenditure and will reduce our provisions for repaying debt in future years.

- 2.3 The HRA has earned £40,183 interest on its balances. This is calculated on the following:
- HRA working balance;
 - the balance of funds in the Major Repairs Reserve.

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 £7,987 has been charged on the borrowing used to fund the Council's Own Build properties.

- 2.4 Two principal factors have caused the underspend against budget for net interest payable. Please see section 3.1 for an explanation.

3. INVESTMENT INTEREST

- 3.1 Interest rates remain at record low levels and indications are that they will remain at this level for several years. This has caused borrowing rates from other Local Authorities to drop to around 0.5% for one year money. This has reduced the cost of borrowing to the Council significantly. Additionally, the investments that remain held in Iceland have benefitted from relatively high rates of interest (over 4%) and favourable foreign exchange rates. This has meant significantly higher than budgeted investment income for the year.

- 3.2 There has been much progress in respect of recovering the £5m invested in two Icelandic banks back in late 2007. The Supreme Court in Iceland upheld the ruling that Local Authorities were priority creditors and the two banks have commenced payments. Further details are set out below.

3.3 Glitnir

Glitnir repaid in full the funds invested during 2011-12. However the proportion that was repaid in Icelandic Krona remains invested in Iceland owing to currency controls that restrict the movement of Krona out of Iceland. The money is currently invested at 4.2% and during the year has earned £16,518 interest and gained £28,302 in Foreign Exchange movements taking the total value of the investment to £427,387.

3.4 Landsbanki

Landsbanki have continued to make repayments during 2012-13. A further £576,040 has been repaid, all of which has been repaid in currencies that the Council has been able to convert into Sterling. This means that £1.527m has now been repaid and £1.472m plus interest of £189,000 is outstanding. It is still anticipated that the Council will recover 100% of the funds invested plus the interest. Of the funds repaid, only a small amount remains in Iceland and totals £24,504. It is expected that full recovery will take a number of years and the best estimate for the final return of all funds is 2019.

4. BORROWINGS

- 4.1 The Council has had to borrow temporarily for cashflow purposes throughout the year and incurred interest of £56,067 during the year. Of this £7,987 has been allocated against the Council Own Build scheme (HRA). Interest rates have remained very low throughout the year. At 31 March 2013, the Council had £15m of short term borrowing, an increase of £7m over last year.
- 4.2 The Council has borrowed £56,884,000 long-term to cover the payment required by the Government in respect of the HRA self-financing scheme. The money has been borrowed from the Public Works Loans Board (PWLB) over 50 years and is repayable on maturity in March 2062. The interest rate is 3.48% and annual interest payments are £1,979,563.

5. FUTURE POSITION

- 5.1 As interest rates remain very low, the Council will continue to use short term borrowing to manage its cashflow. Current rates for borrowing are approximately 0.5% for up to 1 year. Borrowing over 25 years through the Public Works Loans Board costs around 4.16% for a loan repayable on maturity or 3.38% for a loan with equal repayments of the loan principal throughout the term of the loan. The Council has applied for the Government's new certainty interest rate, which is 0.2% lower than the normal PWLB rates, this is offered in return for us setting out our borrowing plans for the forthcoming year.
- 5.2 The internal investment strategy has been tightly restricted to UK only banking operations meaning that it is difficult to invest at the moment. The Council is planning to open a Money Market Fund which is AAA rated and offers around 0.38%, and a call account with Barclays offering 0.5% for the average annual balance. We will also lend to other Local Authorities and the Debt Management Office. However the rates received are between 0.25% and 0.3%, which will continue to have an adverse impact of the interest earned by both the General Fund and the HRA.
- 5.3 During the year it is likely that further repayments will be made by Landsbanki, and the LGA and their legal advisers continue to seek a resolution to the funds held in Icelandic Krona.

6. RECOMMENDATION

- 6.1 That Scrutiny and Executive support and Executive recommend to Council the Treasury Management report for the 2012/13 financial year.

ACTING ASSISTANT DIRECTOR FINANCE

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

Background papers used in compiling the report:

None