

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE – RESOURCES
EXECUTIVE
COUNCIL

DATE OF MEETING: RESOURCES – 19 NOVEMBER 2014
EXECUTIVE – 9 DECEMBER 2014

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: TREASURY MANAGEMENT 2014-15 – HALF YEAR UPDATE

Is this a Key Decision?

No

Is this an Executive or Council Function?

No

1. What is the report about?

To report on the current Treasury Management performance for the 2014-15 financial year and the position regarding investments and borrowings at 30 September 2014. 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 2014-15 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 2014-15 financial year. Therefore, there are no financial or non financial resource implications.

5. Section 151 Officer comments:

Officers have complied in full with the Treasury Management Strategy for 2014-15. All investments and borrowing have been undertaken within the parameters set by Council.

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:

The Monitoring Officer has no issues to raise on the content of this report.

8. Report Details:

8.1 Interest Rate Prospects

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

| Period | Bank Rate | 20-year PWLB rate |
|---------|-----------|-------------------|
| Q3 2014 | 0.50 | 3.70 |
| Q4 2014 | 0.50 | 3.75 |
| Q1 2015 | 0.50 | 3.85 |
| Q2 2015 | 0.75 | 3.90 |
| Q3 2015 | 0.75 | 3.95 |
| Q4 2015 | 1.00 | 4.00 |
| Q1 2016 | 1.00 | 4.05 |
| Q2 2016 | 1.25 | 4.10 |
| Q3 2016 | 1.25 | 4.20 |
| Q4 2016 | 1.50 | 4.25 |
| Q1 2017 | 1.50 | 4.30 |

8.2 Treasury Management Strategy

The Council approved the 2014-15 treasury management strategy at its meeting on 25 February 2014. 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 (up to 3 months) which would be placed with Local Authorities.

A change from the 2013-14 strategy is the increase in the amount held in a money market fund and that is lent to an Upper Tier Local Authority from £3 million to £5 million. This reflects the fact that in a Money Market Fund, the funds are spread across a range of institutions and therefore risk is spread. It will also allow the Council to access a higher interest rate on the investments. In respect of Upper Tier Local Authorities, the risk of default is considered to be very low.

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 year periods.

8.3 Net Interest Position

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

| | Estimate | Sep-14 | Estimated | Variation |
|-----------------------------------|-----------------|---------------|------------------|------------------|
| | £ | £ | Outturn | £ |
| | £ | £ | £ | £ |
| Interest paid | 140,000 | 48,290 | 85,080 | (54,920) |
| Interest earned | | | | |
| Temporary investment interest | (36,000) | (34,240) | (60,000) | (24,000) |
| Other interest earned | (1,750) | (510) | (1,130) | 620 |
| Less | | | | |
| Interest to HRA | 51,750 | 25,875 | 62,000 | 10,250 |
| Interest to s106 agreements | 8,250 | 4,125 | 9,900 | 1,650 |
| Interest to Trust Funds | 2,250 | 1,250 | 2,700 | 450 |
| Lord Mayors Charity | 500 | 250 | 0 | (500) |
| GF interest (received) / paid out | 25,000 | (3,250) | 13,470 | (11,530) |
| Net Interest | 165,000 | 45,040 | 98,550 | (66,450) |
| | | | | |

8.4 The other interest earned relates to car loan repayments.

9. Investment Interest

The Council is utilising the Government's Debt Management Office account and call accounts with Handelsbanken and Barclays. Appendix A sets out the institutions that the Council can use for deposits – this is known as our Counterparty list.

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.

9.1 The Council's current investments are:

UK Owned Banks

| Amount | Investment | Interest rate |
|---------------|-------------------|----------------------|
| £3,000,000 | Barclays | 0.50% |

Foreign Owned Banks

| Amount | Investment | Interest rate |
|---------------|-------------------|----------------------|
| £2,000,000 | Handelsbanken | 0.40% |

Money Market Funds

| Amount | Investment | Interest rate |
|---------------|-----------------------------------|----------------------|
| £250,000 | CCLA - Public Sector Deposit Fund | 0.32% |
| £5,000,000 | Ignis Asset Management | 0.47% |
| £4,000,000 | Blackrock | 0.42% |

10. Borrowings

The Council has reduced its short term borrowing to £13m, long term borrowing remains at £56.884m. Details of the loans are set out in 10.1. The loan requiring repayment in early November will be replaced and the Council may need to borrow additional funds during the final three months of the financial year.

10.1

| Amount | Lender | Interest rate | Date of repayment |
|---------------|--------------------------|----------------------|--------------------------|
| £5,000,000 | Hull City Council | 0.50% | 05/11/2014 |
| £8,000,000 | Leicester County Council | 0.64% | 13/01/2015 |
| 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 0.60% and 0.70% for up to 1 year and the Council will continue to borrow for a 364 day period.

11.1 The Council's four Money Market Funds which are AAA rated, currently offer rates between 0.32% and 0.47%, the rates are liable to fluctuation in the year. The call accounts offer between 0.40% and 0.50% 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. However the rates received are between 0.25% and 0.40%, which will have an adverse impact of the interest earned.

11.4 Since 1 April 2014 the Council has opened additional Money Market Fund accounts with Blackrock and Federated Investors which provide a return in the region of 0.40% and opened a call account with Handelsbanken which also offers a return of 0.40%.

12. 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.

13. 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.

14. 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.

15. Are there any other options?

No.

David Hodgson, Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

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