

**Report To** CORPORATE SERVICES SCRUTINY COMMITTEE,  
EXECUTIVE AND COUNCIL  
**Date of Meeting:** Corporate Services Scrutiny Committee – 27 June 2019  
Executive – 9 July 2019  
Council – 23 July 2019  
**Report of:** Chief Finance Officer  
**Title:** Treasury Management 2018/19

**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 31 March 2019. The report is a statutory requirement and is for information only with no key decisions required.

**2. Recommendations:**

**It is recommended that Corporate Services Scrutiny Committee, the Executive and Council note the content of this report.**

**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 equality and diversity impacts of this decision?**

As this report does not call for a decision, an Equality Impact Assessment is not required.

**5. 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 2018/19 financial year. Therefore, there are no financial or non-financial resource implications.

**6. Section 151 Officer comments:**

The interest position is positive and principally relates to the delays in the capital programme, meaning additional funds are available for investment. The Council's investment strategy for 2018-19 will continue with the same approach. Certain projects have been backed by long term borrowing, where an income is generated. This provides long term certainty over the funding available.

**7. What are the legal aspects?**

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

## 8. Monitoring Officer's comments:

The purpose of this report is to provide an update on the Council's treasury management performance and provides information in accordance with the CIPFA Code of Practice and statutory provisions. This report raises no issues for the Monitoring Officer.

## 9. Report Details:

### 9.1 Interest Rate Forecast

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

Interest Rate Forecasts									
	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%
5yr PWLB Rate	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.20%	2.30%	2.40%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%
25yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%
50yr PWLB Rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%

### 9.2 Treasury Management Strategy

The Council approved the 2019/20 Treasury Management Strategy at its meeting on 26 February 2019. 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 which would be placed with Local Authorities, Banks or Building Societies which are on the Council's counterparty list.

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). As at 31 March the fund size was approximately £1,127 million, the dividend yield as at the end of March was 4.26%, which is significantly higher than the returns on other investment options available. The investment in the property fund is a long term commitment which will mean that there will be fluctuations in the return over the period of the investment. Details of the current value of the investment are provided later in the report.

The Council's stated borrowing strategy was to maintain, and if possible reduce, short-term borrowing as long as rates remained low.

In July 2018 the Council approved the establishment of a Housing Development Company. The Council has borrowed £2.2 million during the 2018/19 financial year over 25 years from the PWLB and has loaned the money to the Company at a rate of 5%. A second loan of £2.15m has been made in April 2019 and a further £5m loan amount was approved by Council in February 2019.

### 9.3 Net Interest Position

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

	<b>Estimate</b>	<b>Actual</b>	<b>Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Interest Paid</b>	<b>300,000</b>	<b>80,515</b>	<b>(219,485)</b>
<b>Interest Earned</b>			
Temporary investment interest	(190,610)	(423,420)	(232,810)
Other interest earned	(180)	0	180
Science Park Loan	(25,780)	(25,779)	1
CVS Loan	(19,530)	0	19,530
<b>Less</b>			
Interest to HRA	192,000	306,433	114,433
Interest to S106 agreements & CIL	90,000	92,663	2,663
Interest to Trust Funds	4,000	4,783	783
Lord Mayors Charity	100	83	(17)
Miscellaneous	0	(9,329)	(9,329)
GF interest (received) / paid out	<b>50,000</b>	<b>(54,565)</b>	<b>(104,565)</b>
<b>Net Interest</b>	<b>350,000</b>	<b>25,950</b>	<b>(324,050)</b>
			0
CCLA - LAPF Dividend	(250,000)	(241,840)	8,160
Investment Loss - General Fund	0	0	0
<b>Net Interest</b>	<b>100,000</b>	<b>(215,890)</b>	<b>(315,890)</b>

9.4 The HRA earned £306,433 interest on its balances. This is calculated on the following:

- HRA working balance;
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts

However it has also had to pay interest on borrowing. As members will be aware, the Council 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 £9,484 has been charged on the borrowing used to fund the Council's Own Build properties.

## 10. Investment Interest

10.1 A number of Money Market Funds have been set up by the Council, which also 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.

10.2 An investment has been made in the CCLA Property Fund. The investment in the property fund is a long term commitment which means that are fluctuations on the return from the investment, and this will continue to be the case.

10.3 The Council's investments as at 31 March 2019 are:

**Money Market Funds**

Amount	Investment	Interest rate
£1,000,000	Amundi Asset Management	0.74%
£500,000	Black Rock Asset Management	0.75%
£1,500,000	CCLA Public Sector Deposit Fund	0.79%
£5,000,000	Federated Investors	0.78%
£5,000,000	Aberdeen Standard Investments	0.78%

**Fixed Term Deposits**

Amount	Investment	Interest rate	Maturity Date
£5,000,000	Slough Borough Council	0.60%	03/04/2019
£5,000,000	Surrey County Council	1.00%	03/06/2019
£3,000,000	Goldman Sachs	1.00%	19/06/2019
£3,000,000	North Ayrshire Council	0.70%	25/06/2019
£3,000,000	Liverpool City Council	0.85%	13/08/2019
£5,000,000	Dundee City Council	0.85%	21/08/2019
£3,000,000	Cambridgeshire County Council	1.15%	09/12/2019
£3,000,000	North Lanarkshire Council	0.95%	15/07/2019
£3,000,000	Stirling Council	1.00%	22/08/2019
£3,000,000	Eastleigh Borough Council	0.97%	27/08/2019

**Property Fund**

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.26%

The value of the investment as at 31 March 2019 was £4,888,184. At the end of the financial year the value of the investment in the Property Fund is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

**11. Borrowings**

11.1 As at 31 March 2019 the Council has short term borrowing of £10m, long term borrowing has increased from £56.884m to £59.084. Details of the loans are set out in 11.2.

Interest rates remain at record low levels and indications are that they will remain at this level for the foreseeable future. The borrowing rates from other Local Authorities are currently around 1.35% for two years.

11.2	Amount	Lender	Interest rate	Date of repayment
	£10,000,000	London Borough of Wandsworth	0.90%	05/12/2019
	£2,200,000	PWLB	2.34%	11/01/2044
	£56,884,000	PWLB	3.48%	28/03/2062

## 12. Future Position

- 12.1 The future cash flow forecast includes planned borrowing of £35 million as part of the 2019/20 capital programme. The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the section 151 Officer and Leader of the Council.
- 12.2 The Council's five Money Market Funds which are AAA rated, currently offer rates which vary from 0.71% to 0.77%, the rates are liable to fluctuation in the year.
- 12.3 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.
- 12.4 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. The rates received for Local Authority deposits are currently between 0.80% and 0.90%.

## 13. New Investment Opportunities

- 13.1 Officers meet with the Council's treasury advisors in order to explore alternative investment opportunities.
- 13.2 Officers will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.
- 13.3 If an amendment to the current treasury management strategy is required, a report will be presented to committee requesting the necessary amendments.

## 14. 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.

## 15. 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.

## 16. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact.

**17. Are there any other options?**

No.

**Dave Hodgson  
Chief Finance Officer**

**Local Government (Access to Information) Act 1972 (as amended)  
Background papers used in compiling this report: None**

Contact for enquiries:  
Democratic Services (Committees), Room 2.3, (01392) 265275