



**Report To:** Finance and Staffing Portfolio Holder  
**Lead Officer:** Executive Director

22 August 2017

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## TREASURY MANAGEMENT REVIEW

### Purpose

1. To report on the performance of the treasury management function.
2. This is not a key decision but reporting to the Finance and Staffing Portfolio Holder on performance is a requirement of the Borrowing and Investment Strategy.

### Recommendations

3. It is recommended that the Finance and Staffing Portfolio Holder:
  - note the performance of the treasury management function
  - Approve increasing the maximum investment limit with Ermine Street Housing from £35million to £45million while retaining maximum 60% proportion of portfolio.

### Reasons for Recommendations

4. The performance of the treasury management function should be reviewed regularly to ensure reasonable returns are achieved commensurate with risk. This is achieved through regular monitoring by the Finance and Staffing Portfolio Holder and by being a member of a benchmarking group.
5. The Borrowing and Investment Strategy should be reviewed to ensure it continues to meet the needs of the authority.

### Background

6. The Borrowing and Investment Strategy approved by Council on 23 February 2017 delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Finance and Staffing Portfolio Holder.

### Considerations

7. **Current Performance**

Investments of £86.7 million were held by the Council at 30 June, and included £79.56 million held in fixed rate investments. Detail of the investment counterparties is included as **Appendix A**. Investments with Ermine Street Housing account for £27.26 million or 31% of the Council's current investments; this is in accordance with the Ermine Street Business Plan and the Council's agreement of £107million investment over a 5 year period, as agreed by Cabinet, at the meeting of 12<sup>th</sup> November 2014. This has had the effect of providing a good return on investments, supporting general fund expenditure at a time when market rates and returns are at historic lows.

8. The forecast for the investment balance at 30 September 2017 is approximately £97million. The level of investments held will increase with receipts of NNDR and Council Tax income and New Homes Bonus.
9. The average return on new investments excluding Ermine Street Housing since 1 April 2017 is 0.73% compared with 0.97% for the same period in 2016-17. Investments with Ermine Street Housing average 3.62%. The reduction in average return is due to the change in Bank of England Base Rate on 4<sup>th</sup> August 2016. Market expectations are for the base rate to remain at 0.25% for 15 months and to reach 1% by December 2021.
10. Net investment interest for the year was included in the Council budget estimates as £799,760 with an estimated £228,730 payable to the Housing Revenue Account. An additional £192,450 interest is expected in the year due to higher balance levels and longer periods of investment, predominantly with South Cambs Limited. The original estimate included the expectation that the Council would borrow to on-lend to the company however, cash flow balances have enabled the Council to continue with investments without a need to borrow thereby increasing interest without debt payments. Current cash flow forecasts indicate that Council will not need to borrow before December 2017.
11. Historically the HRA has been entitled to recover interest from the General Fund in respect of the HRA working balance and major repairs reserve balances held for future use, the interest on housing capital balances ( right to buy, shared ownership, land and other dwellings) being credited to the General Fund. The Introduction of self-financing for the HRA and the retention of right to buy receipts for re-investment in affordable housing has prompted a change in legislation for this area. The amending determination (Limits on Indebtedness Determination 2012 – Amending Determination 2013) requires that local authorities credit their HRA with interest earned on all unapplied capital receipts. This will result in an increase in interest earned by the HRA but a corresponding reduction in interest earned by the General Fund, the movement on capital balances will be monitored.
12. In March 2012, following the introduction of the Housing Revenue Account Self Financing regime, the Council acquired debt of £205 million. The full sum was borrowed from the Public Works Loans Board at an average fixed rate of 3.5% as 41 individual loans with maturity dates between 2037 and 2057; no other external borrowing has been undertaken.
13. As part of the Investment and Borrowing Strategy the Council is required to ensure that the proportion of investments do not exceed the agreed levels, the current levels are as follows:

<b>Group of Organisations</b>	<b>Maximum Investment £m</b>	<b>Maximum Proportion %</b>	<b>Current Proportion %</b>
UK Debt Management Office	unlimited	100%	0%
Money Market Funds	10	30%	10%
UK Local authorities	10	75%	3%

(excluding Parish Councils)			
UK Banks	10	60%	33%
South Cambs Ltd (Ermine St)	35	60%	31%
Housing Assoc	5	20%	1%
Subsidiaries of UK Banks	3.0	10%	0%
Other Banks & Financial Institutions	5	20%	3%
Building Societies	10/5.0/3.0	100%	19%

14. The current counterparty investment limit for Ermine Street Housing is £35m. This has enabled the Council to receive higher levels of interest than are currently available from other approved parties, with minimal risk being a wholly owned subsidiary of the Council and investments being matched by the property acquisitions of the company. At 31 March 2017 Ermine Street's Property portfolio and other Non-current assets was valued at £24.7million, supported by loans from the Council of £24.7million. The investment limit of £35million is expected to be reached during Quarter 3 of 2017/18. If the limit was increased to £45 million, predicted cash flow could sustain lending to Ermine Street until Quarter 2 of 2018/19. At the 31 March 2017 level of investment balances, this would represent 60% of the total invested.
15. **Treasury Risk Management**
16. Risk is being managed by spreading investments across available counterparties with the current average period for all fixed term deposits being 19 months, money markets being utilised for short term cash needs. The yield curve remains relatively flat with rates ranging from 0.15% for one month to 0.80% for periods up to one year, to 1.5% for 5 years. This compares to the average current return on investments (existing and new) being 0.73% (excluding Ermine Street Housing investments).
17. Any uplift in rates above that already included in the Council's estimates would provide additional interest to support the provision of services.
18. Options for the investment of surplus funds will be limited in the future as it may be more beneficial to use such funds to support internal borrowing for the General Fund capital programme or to reduce, marginally and temporarily, the £205 million debt arising from Housing Revenue Account Reform.

### **Implications**

19. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

### **Financial**

20. The interest received on investments is directly affected by changes in market interest and by the limitations of available counterparties.

### ***Risk Management***

21. The proposed European Commission changes to money market funds do not, at this time, affect the Councils Borrowing and Investment Strategy or the Councils use of money market funds.

### **Consultation responses (including from the Youth Council)**

22. Consultation was not deemed necessary in this case.

### **Effect on Strategic Aims**

23. This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may reduce the need for cuts in individual services and assist in the achievement of actions to support those aims.

### **Background Papers**

Treasury Management working papers (confidential)

The Limits on Indebtedness Determination 2013

Limits on Indebtedness Determination 2012 – Amending Determination 2013

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