South Cambridgeshire District Council

Report To: Finance and Staffing Portfolio Holder 20 February 2018
Lead Officer: Executive Director (Corporate Services)

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
    - agree to the proposal to appoint treasury management advisers

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 and the outcomes achieved by applying it should be reviewed to ensure it continues to meet the needs of the authority. The Borrowing and Investment Strategy is reviewed and revised annually and will be presented to Council for consideration and approval on 22 February 2018.

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 £109.5 million were held by the Council at 31 December, and included £107.6 million held in fixed rate investments. Detail of the investment counterparties is included as **Appendix A**. Investments with Ermine Street Housing account for £30.27 million or 28% 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 12th 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 31 March 2018 is approximately £71million. The level of investments held will reduce during February and March as maturing investments are used to cover precept and supplier payments, and Council Tax and Business Rates refunds.

9. The average return on new investments excluding Ermine Street Housing since 1 April 2017 is 0.64% compared with 0.74% for the same period in 2016-17. Investments with Ermine Street Housing average 3.70%. The reduction in average return was due to the change in Bank of England Base Rate on 4th August 2016. The average return will begin to increase following the Bank of England decision of 2nd November to increase the Base rate to 0.5%. Market expectations are for the base rate to rise to 0.75% during 2018, possibly as early as May and to reach 1% by 2020.

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 £622,500 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 2018.

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:

Group of Organisations	Maximum Investment £m	Maximum Proportion %	Current Proportion %
UK Debt Management Office	unlimited	100%	0%
Money Market Funds	10	30%	2%
UK Local authorities (excluding Parish Councils)	10	75%	3%
UK Banks	10	60%	30%
South Cambs Ltd (Ermine St)	45	60%	28%
Housing Assoc	5	20%	5%
Subsidiaries of UK Banks	3.0	10%	0%
Other Banks & Financial Institutions	5	20%	5%
Building Societies	10/5.0/3.0	100%	28%

14. **Appointment of Treasury Management Advisers**

15. The council is embarking on a number of direct investments that will require funding through external borrowing. As such, it will be managing a more complex and diverse set of requirements in relation to the management of its cash balances, borrowings and investments. It is proposed to appoint Treasury Management Advisers to be in place by the beginning of April 2018. Prospective advisers have been asked to demonstrate that they can recover at least the cost of their fees by improving our investment income due to their advice.

16. **Treasury Risk Management**

17. Risk is being managed by spreading investments across available counterparties with the current average period for all fixed term deposits being 18 months, money markets being utilised for short term cash needs. The yield curve remains relatively flat with rates ranging from 0.38% for one month to 0.90% 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 0.68% (excluding Ermine Street Housing investments).

18. Any uplift in rates above that already included in the Council's estimates would provide additional interest to support the provision of services.

19. 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

20. 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

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

Risk Management

22. 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)

23. Consultation was not deemed necessary in this case.

Effect on Strategic Aims

24. 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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