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To: City Executive Board

Date: 15 December 2016

Report of: Finance Panel (Panel of the Scrutiny Committee)

Title of Report: Treasury Management Performance report for the six months ending 30 September 2016

Summary and Recommendations

Purpose of report: To present recommendation of the Finance Panel on the Treasury Management Performance report for the six months ending 30 September 2016

Scrutiny Lead Member: Councillor Craig Simmons, Chair of Finance Panel

Executive lead members: Councillor Ed Turner, Board Member for Finance, Asset Management and Public Health

Recommendation of the Finance Panel to the City Executive Board:

That the City Executive Board states whether it agrees or disagrees with the recommendation set out in the body of this report.

Introduction

1. The Finance Panel considered treasury management performance at its meeting on 8 December 2016. The Panel would like to thank Nigel Kennedy and Anna Winship for presenting the report and answering questions.

Summary of the discussion

2. The Panel noted that the Council's investment performance at the end of September 2016 was above the starting target despite the Bank of England decision in early August to lower the base rate from 0.5% to 0.25%. An overachievement of £179k from investment income is forecast for year end and property fund investments are the primary driver of this good performance.

3. In response to a question, the Panel heard that a planned additional investment of £10m in homelessness property acquisitions (to be funded by £3m of Right to

Buy receipts and £7m of prudential borrowing) would not count as a non-specified investment because the Council would be going directly to the market. The £5m already committed did count as a non-specified investment because it had been invested in a fund.

4. The Treasury Management Strategy allows for non-specified investments to total no more than 25% of the previous year's average investment portfolio. In the current year the limit is £18m, of which £15m is already committed, leaving £3m of headroom. The Panel heard that the Council would soon be making decisions about providing loans to the housing company and the OXWED development vehicle and that these cash resources could be used to offset the need for external borrowing (which incurs costs) through internal borrowing.

5. The Panel questioned whether returns from non-specified investments would more than offset the costs of external borrowing and what the risks of doing so would be. The Head of Financial Services advised that 50 year loans are available on 2.5% interest rates and that property funds are currently returning 4-5% per year. The Council could also benefit from unit price increases upon withdrawing from property funds but these should be seen as long-term investments. The risks are from reduced liquidity, reduced returns due to lower occupancy rates and decreases in asset values. The Panel suggest that consideration should be given to how the £3m available for unspecified investments should be utilised and whether there is a case for increasing investments in property funds, for example, given the relatively low cost of borrowing from the market as a substitute for internal borrowing.

   Recommendation - That consideration is given to how the remaining £3m of cash resources available for non-specified investments in 2016/17 can best be utilised and whether there is a case for maximising unspecified investments given the relatively low interest rates available on external borrowing as an alternative to internal borrowing.

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