

8. TREASURY MANAGEMENT – AN INTERIM UPDATE

REPORT OF: HEAD OF CORPORATE RESOURCES
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Wards Affected: None
Key Decision: No
Report to: Audit Committee
23rd January 2017

Purpose of Report

1. This report sets out the current position for the authority's loans and investment portfolio in the context of the Orchards Shopping Centre purchase.

Recommendations

- (i) **The Committee is recommended to note the report.**
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Background

2. The committee receives reports on Treasury Management at appropriate times in the year in order to set the TM policy, monitor its execution at the half year and review the year upon its end
3. This report updates the committee on the position after completing one of the larger transactions in the Council's history when it bought the head lease of the Orchards Shopping Centre in December 2016. This involved borrowing the purchase sum through a combination of internal and external financing as set out in the criteria agreed by this Committee and Council during the latter part of 2016.

The Criteria

4. The Council resolved to fund the purchase both internally and externally. The following is an extract from the paper received by Council:

'After consultation with Cabinet and Chairs of Scrutiny and Audit Committees, an approach has been devised that preserves flexibility for the medium term, and provides a lower cost option than financing the purchase via the PWLB. In broad terms this uses a combination of available resources currently lent out via the money market and some further borrowing over the medium term. This latter funding would itself be spread between 2 and 5 years. This is tabulated below:

Use balance sheet for £12.5m		
Borrow £12.5m <ul style="list-style-type: none"> • Structure that between 2 and 5 years • Weighted toward the longer period 		
Cost	£12.5m @ 0.6%:	£75k pa (seen as lost TM interest)
Cost	£5m @ 0.32%:	£16k pa
Cost	£7.5m @ 1.00%:	£75k pa
Total interest on borrowing		£166k per year compared to £603k (from paragraph 39)

Members should be aware that this approach has inherent interest rate risk. By not fixing the interest rate over the longer term, the Council would be open to the possibility that rates rise and the gap narrows between the investment return and the cost of the related borrowing’.

The Financing arranged

5. During the week of 14th November 2016, Officers put into place the arrangements set out above, within the particular circumstances that the money market offered.
6. The deals transacted during that week are set out in Appendix 1. Members will note that the external borrowing totals more than £12.5m – this is a timing issue. When investments already placed fall due for repayment to us, we will not renew them; thereby decreasing our total external borrowing.
7. As previously reported to Members, we are having to more actively manage our portfolio now and will be carefully monitoring the economic situation both locally and more widely. The availability of a capital receipt will be a key part of our cashflow position as the year unfolds.

The overall portfolio

8. The complete range of current investments is shown in Appendix 2 – including those loans shown in Appendix 1.

Policy Context

9. Treasury Management is a central part of the Council’s financial management. This report helps the Council fulfill its statutory functions.

Other Options Considered

10. None.

Financial Implications

11. This report has no such implications.

Risk Management Implications

12. This report has no such implications.

Equality and Customer Service Implications

13. This report has no such implications.

Other Material Implications

14. None.

Background Papers

- None