

**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE – 1 NOVEMBER 2011**

**TREASURY MANAGEMENT UPDATE REPORT**

**REPORT OF THE CHIEF FINANCE OFFICER AND HEAD OF FINANCE**

**PART A – SUMMARY REPORT**

**1. SUMMARY**

The report updates members on Treasury Management activities for the first half year.

The Committee may, within their terms of reference, make recommendations to Cabinet.

The treasury portfolio at the end of September shows overall net indebtedness at £59m (borrowing : £134m less investments: £75m). Base rates have been 0.5% all year with the next move expected to be upwards but not until late 2012 at the earliest.

The borrowing strategy is to use maturing investments to reduce the level of additional borrowing required to support the capital programme. This will allow the Council to reduce investment exposure going forward, given the current unprecedented uncertainty in the financial markets, which has recently seen major banks and sovereign states downgraded. Temporary borrowing is used to fund short term cash flow requirements.

Investments are managed internally and are a mixture of shorter temporary investments for cash flow purposes and longer term investments. All investments are closely monitored, taking advice from the Council's specialist Treasury Advisors, Arlingclose. The weighted average return on internal investments at 30 September was 3.27% compared to a benchmark return for the period of 0.42%. A schedule of investments held at 30 September is shown at Appendix 1.

Overall treasury management is generating a net surplus over 2011/12 budget of £0.445m, which was included in the financial monitoring report taken to Cabinet on the 20 October 2011.

Prudential Indicators are set at the beginning of the financial year and the position against these is shown in Appendix 2 which confirms that no limits have been breached.

2. **RECOMMENDATIONS**

Members are asked to note the treasury management activities and the update on prudential indicators.

3. **SUMMARY IMPACT ASSESSMENT**

**COMMUNITY IMPACT** Do these proposals contribute to specific priority plan objectives?

Yes/No Efficient Community Focussed Council

Will the proposals impact on specific groups of people?

Yes/No

**TARGET COMPLETION / DELIVERY DATE**

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

**FINANCIAL/VALUE FOR MONEY IMPACT**

Yes/No Where appropriate these are detailed in the body of the report.

**LEGAL ISSUES**

Yes/No The Head of Finance and (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Head of Finance is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."

**OTHER IMPACTS, RISKS AND OPPORTUNITIES**

Yes/No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

**IMPACT ON SPECIFIC WARDS**

Yes/No

## PART B – ADDITIONAL INFORMATION

### 4. 2011/12 TREASURY MANAGEMENT UPDATE

#### 4.1 CURRENT PORTFOLIO POSITION

	<i>31 March 2011</i>	<i>30 Sept 2011</i>
	<b>Principal</b>	<b>Principal</b>
	<b>£m</b>	<b>£m</b>
Fixed Rate Borrowing - PWLB	70.905	74.243
Fixed Rate Borrowing - LOBO	55.000	55.000
Variable Rate Borrowing - LOBO	<u>5.000</u>	<u>5.000</u>
<b>Total Debt</b>	<b>130.905</b>	<b>134.243</b>
Investments - in-house	75.678	75.000
- with external managers	<u>0.000</u>	<u>0.000</u>
<b>Total Investments</b>	<b>75.678</b>	<b>75.000</b>
<b>Net Indebtedness</b>	<b>55.227</b>	<b>59.243</b>

#### 4.2 INTEREST RATES

Base rates began the year at 0.5% and have remained there all year. The Bank of England extended its Quantitative Easing programme in October by £75bn to £275bn. The next move in the base rate is expected to be upwards, but not until late 2012 at the earliest.

#### 4.3 BORROWING & RESCHEDULING

The borrowing strategy for the remainder of the current year is to use maturing investments to reduce the level of additional borrowing.

##### **Rescheduling**

During 2011/12 no rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

##### **New Borrowing**

During May one of our short term PWLB loans for £5m matured and in August a new PWLB loan has been taken for £10m for a period of 3 years with repayment of principal at maturity. This was to partially replace the loan that matured in May and the £10m maturity we have in November given the level of capital programme funding required. The borrowing has been undertaken to take advantage of favourable rates.

Between the period 1 June 2011 (previous Member update) and 30 September 2011, £25.5m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.30% to 0.50% - interest rates have remained fairly low during this time. £2.2m of this temporary borrowing was outstanding at 30 September 2011.

#### 4.4 INVESTMENTS

The strategy for the current year is: To gain maximum benefit, subject to risk control parameters, whilst achieving as a minimum target the 7 day deposit rate. As part of the risk strategy we are also now looking to run investment levels down as opportunities arise in order to reduce exposure.

##### 4.4.1 Investments

The Council's investments are internally managed - a mix of both temporary investments for cash flow purposes and longer term investments are undertaken:

###### Temporary Investments

A proportion of funds are invested by the Council's own officers in order to maximise returns from day to day cash flows. The target return is to achieve at least the seven day deposit rate.

In total £514.8m of investments were placed between 1 June and 30 September. Interest rates have ranged from 0.25% to 0.80% and periods ranged from overnight deposits to 90 days. £5.0m temporary investments were held at 30 September 2011 in an RBS Call Account.

###### Longer Term Investments

A number of internally managed deposits have been made over recent years. These are as follows.

Fixed or Variable Interest Rate	Duration	£m	%
Fixed Deposit – Dexia	01/10/08 – 01/10/13	5.0	6.62
Fixed Deposit – RBS	02/10/08 – 02/10/13	5.0	6.80
Variable Deposit – RBS	30/07/08 – 30/07/12	10.0	1.08
Fixed Deposit – Barclays	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit – Barclays	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit – Barclays	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit - Barclays	22/04/09 – 22/04/14	5.0	6.35
Fixed Deposit – Lloyds TSB	18/11/10 – 17/11/11	5.0	1.90
Fixed Deposit – Lloyds TSB	27/05/11 – 27/07/12	5.0	2.65
Fixed Deposit – Santander	27/05/11 – 22/11/11	10.0	1.41
Fixed Deposit – Lloyds TSB	08/08/11 – 06/08/12	10.0	2.17
Total		70.0	

The Council employs a firm of specialist Treasury advisers, Arlingclose, whose role is to advise on all treasury management matters and particularly to advise on investments.

In the light of the unprecedented turmoil in financial markets affected particularly by sovereign debt ratings in the euro zone, which has also impacted on the credit ratings of major banks, Arlingclose's current guidance is that new investments should not be placed for longer than 6 months. However they do not generally recommend seeking to withdraw early from existing term deposits. The majority of the Council's term investments were placed before the start of the financial crisis which resulted in recommended periods for maximum duration being shortened. The council is however benefiting from very attractive rates of interest on some of these longer term investments that are no longer available.

Overall the weighted average return on internal investments for the year to date was 3.27% compared to a benchmark return for the period of 0.42% representing a projected annual additional £2.2m generated over what we would have achieved had all the investments been short term.

We have one investment with the Dexia bank which was backed by the governments of Belgium, France and Luxembourg - £5m placed for 5 years at 6.62% pa on 1<sup>st</sup> October 2008 with interest payable at maturity. This bank group has recently come under significant financial pressure due to its exposure to Greek debt and this has resulted in changes to the bank group structure with the Belgium Government taking 100% state ownership of that part of the bank holding our investment. Thus the position on the Council's investment is that it resides with that part of the bank which is now 100% guaranteed by the Belgium Government. The current credit rating of Dexia is Long term F1+, Short term A+, Individual D and Support 1 which falls below the Council's minimum requirement of F1+, A+, C, 1 for new investments. Acting on advice from our treasury advisers the Council has made enquiries about terms for a premature repayment of this existing investment and we are awaiting a response.

#### **4.4.2 Overall Position and Exposure**

Overall treasury is generating a net surplus over 2011/12 budget of £0.445m, which was included in the financial monitoring report taken to Cabinet on the 20 October 2011.

Appendix 1 shows the Council's total investment with each counterparty at 30<sup>th</sup> September. Our current maximum exposure permitted under the Council's Treasury Management Policy is £20.0m with any one counterparty. Counterparty limits will be reviewed when our long term investments mature and in the light of changes to credit ratings. At the end of September the greatest exposure with a single counterparty was £20.0m with both Barclays and Royal Bank of Scotland (£20m represents 26.7% of the total portfolio).

No investments in Supranational Bonds were held at the end of September.

#### **4.5 LEASING**

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost over a number of years.

The first drawdown for 2011/12 is in progress for completion at the end of the month. It is likely to amount to around £565,000 for minibuses.

#### **4.6 PRUDENTIAL INDICATORS**

Prudential Indicator monitoring. The position against prudential indicators as at the end of September is shown in Appendix 2. As can be seen all indicators are within the limit set, no limits have been breached during the year and no limits have been revised from those set in March.

<b>5.</b>	<b><u>PREVIOUS MINUTES</u></b>
	Audit Committee 1 February 2011 Council 3 March 2011 Audit Committee 27 June 2011

#### **6. BACKGROUND PAPERS**

CIPFA Code of Practice for Treasury Management in Local Authorities  
Temporary Borrowing Records  
PWLB records  
Investment records  
Draft Treasury Strategy provided by Arlingclose  
Local Government Act 2003  
CLG Guidance on Local Authority Investments  
Audit Commission – Risk and Return

Report prepared by  
Bernie Morris, Finance Manager (01952) 383702  
Ken Clarke, Head of Finance (01952) 383100.

<b>SUMMARY OF INVESTMENTS AS AT 30 SEPTEMBER 2011</b>				
	<b>CREDIT</b>	<b>CREDIT</b>		<b>%</b>
	<b>RATING</b>	<b>RATING</b>	<b>TOTAL</b>	
	<b>Sovereign</b>		£'000's	
<b>FIXED TERM DEPOSITS</b>				
Barclays	UK AAA	F1+ AA- B 1	<b>20,000</b>	
Dexia	Belgium AA+	F1 A D 1	<b>5,000</b>	
Lloyds/TSB	UK AAA	F1 A C 1	<b>20,000</b>	
Royal Bank of Scotland	UK AAA	F1 A C 1	<b>10,000</b>	
Santander	UK AAA	F1+ AA- B 1	<b>10,000</b>	
	<b>TOTAL</b>		<b>65,000</b>	<b>86.67</b>
<b><u>VARIABLE DEPOSITS</u></b>				
Royal Bank of Scotland	UK AAA	F1 A C 1	10,000	<b>13.33</b>
	<b><u>TOTAL</u></b>		<b><u>75,000</u></b>	<b><u>100</u></b>
<b>FITCH CURRENT RATINGS</b>				

**2011/12 Prudential Indicators Monitoring**

PRUDENTIAL INDICATOR	2011/12	2011/12
	Budget	Projected
<b>Council Tax</b>	£p	£p
Increase in council tax (band B, in year)	-0.96	-0.96
	£m	£m
<b>Capital Expenditure</b>	105.470	100.190
<b>Ratio of financing costs to net revenue stream</b>	2.60%	2.30%
<b>Capital Financing Requirement (as at 31 March)</b>	284.4	258.6
<b>Authorised limit for external debt</b>		
Borrowing	330	221
Other long term liabilities	6	1
TOTAL AUTHORISED LIMIT	336	222
<b>Operational Boundary</b>		
Borrowing	310	221
Other long term liabilities	4	1
TOTAL	314	222
<b>Upper and lower limit for fixed interest rate exposure</b>		
Expressed as :-		
Upper Limit for Fixed Interest Rate Exposure:	100%	89%
<b>Upper limit for variable rate exposure</b>		
Expressed as -		
Upper Limit for Variable Interest Rate Exposure	30%	11%
<b>Upper limit for variable rate exposure expressed as</b>		
Net principal re gross variable rate borrowing and investments divided gross borrowing plus investments	80%	8%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	95%	80%

<b>Maturity structure of fixed rate borrowing</b>	Lower Limit	Upper limit	Projected
Under 12 months	0%	20%	8%
12 months and within 24 months	0%	25%	5%
24 months and within 5 years	0%	50%	18%
5 years and within 10 years	0%	75%	4%
10 years and within 20 years	0%	75%	0%
20 years and within 30 years	0%	75%	0%
30 years and within 40 years	0%	100%	0%
40 years and within 50 years	10%	100%	22%
50 years and above	15%	100%	43%