

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 2 NOVEMBER 2010

TREASURY MANAGEMENT HALF YEAR REPORT

REPORT OF THE CHIEF FINANCE OFFICER AND HEAD OF FINANCE

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

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.

2. RECOMMENDATIONS

Members are asked to note the treasury management activities for the first half year.

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. 2009/10 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 2010	30 Sept 2010
	Principal	Principal
	£m	£m
Fixed Rate Borrowing	118.024	123.024
Variable Rate Borrowing	<u>5.000</u>	<u>5.000</u>
Total Debt	123.024	128.024
Investments - in-house	54.033	68.900
- with external managers	<u>19.811</u>	<u>19.902</u>
Total Investments	73.844	88.802
Net Indebtedness	49.180	39.222

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 during last year to £200bn. There has not been any extension to this nor any unwinding during the current year. The next move in the base rate is expected to be upwards, but not until 2011 and will be strongly linked to how the economy recovers.

4.3 BORROWING & RESCHEDULING

The borrowing strategy for the current year has been to use maturing investments to reduce borrowing.

Rescheduling

During 2010/11 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 recently 2 new PWLB loans have been taken both for £5m and 10 years with Equal Instalments of Principal. These are to fund capital investment. The borrowing has been undertaken in advance to take advantage of current favourable rates. Rates are predicted to increase over the next few months.

Between the period 1 June 2010 (previous Member update) and 30 September 2010, £15.9m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.28% to 0.55% - interest rates have remained fairly low during this time. £0.0m of this temporary borrowing was outstanding at 30 September 2010.

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.

4.4.1 Fund Managers

The average value of the portfolio held by our fund manager in six months to 30 September 2010 is as follows:

	Average Capital Value £m	Interest Year to date (annualised %)	
		£m	%
Investec	<u>19.845</u>	<u>0.099</u>	<u>0.85</u>

It has been very difficult for Fund Managers to achieve reasonable rates of return in the current climate. The outlook for future years is only slightly more promising and the decision has been taken to withdraw all the remaining funds held with fund managers given the very low rate of return being achieved and limited prospects for improvement in the short and medium term.

4.4.2 In-House Investments

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

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 £334.4m 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 40 days. £13.9m in house temporary investments were held at 30 September 2010.

Longer Term Investments

A number of internally managed deposits have been made previously as an alternative to fund managers, this has been added to during 2010/11 with a one year investment at 2.15%. These are as follows.

		£m	%
Fixed Deposit	22/01/07 – 24/01/11	5.0	5.52
Fixed Deposit	01/10/08 – 01/10/13	5.0	6.62
Fixed Deposit	02/10/08 – 02/10/13	5.0	6.80
Variable Deposit	30/07/08 – 30/07/12	10.0	1.00
Fixed Deposit	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit	22/04/09 – 22/04/14	5.0	6.35
Fixed Deposit	09/07/10 – 15/07/11	10.0	2.15
Total		55.0	

It should be noted that under the current guidance from our Treasury Advisors our investment policy would mean that investments should not be placed for longer than 2 years. However the majority of these investments were placed before the start of the financial crisis which resulted in recommended periods for maximum duration being shortened. The council is benefiting from very attractive rates of interest that are no longer available.

Overall the weighted average return on internal investments for the year to date was 4.28% compared to a benchmark return for the period of 0.41% representing a projected annual additional £2.1m generated over what we would have achieved had all the investments been short term.

4.4.3 Overall Position and Exposure

A full analysis of all Council investments at the end of September is shown in Appendix 1.

Appendix 2 shows the Council's total investment with each counterparty. Our current maximum exposure is £20.0m with any one counterparty which was agreed when we had 3 fund managers, each investment manager may place £5m of the funds managed on the Council's behalf with the same institution as the council (except for Royal Bank of Scotland, National Australia Bank and Barclays which are ring fenced for sole use by the council). Counterparty limits

will be reviewed when our long term investments mature. At the end of September the greatest exposure with a single counterparty was £20.0m with Barclays and £20m with Royal Bank of Scotland (22.5% of the total portfolio).

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

The Council is guided by its Treasury advisers, Arlingclose, in assessing investments.

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 2010/11 took place in October for ICT equipment and vehicles. The value of the lease is £120,305 with JCB Finance.

5.	<u>PREVIOUS MINUTES</u>
	<p>Audit Committee 2 February 2010</p> <p>Audit Committee 10 February 2010</p> <p>Council 4 March 2010</p> <p>Audit Committee 28 June 2010</p>

6. BACKGROUND PAPERS

CIPFA Code of Practice for Treasury Management in Local Authorities
 Fund Manager Valuations
 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

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SUMMARY OF INVESTMENTS AS AT 30 SEPTEMBER 2010

	CREDIT RATE	CREDIT RATE	INVESTEC	%	IN HOUSE	%	TOTAL	%
	sovereign		£'000's				£'000's	
<u>FIXED TERM DEPOSITS</u>								
<u>Alliance & Leicester</u>		Fitch rating withdrawn			5,000		5,000	
<u>Barclays</u>	uk AAA	F1+AA- B 1			20,000		20,000	
<u>Dexia</u>	belgium AA+	F1+A+ D 1			5,000		5,000	
<u>Lloyds/TSB</u>	uk AAA	F1+AA- C 1			10,000		10,000	
<u>Royal bank of Scotland</u>	uk AAA	F1+AA- C/D 1			10,000		10,000	
<u>Yorkshire Bank</u>	uk AAA	F1+AA- C 1			8,900		8,900	
TOTAL			0	0.00	58,900	85.49	58,900	66.33
<u>CD'S</u>								
<u>BNP Paribas</u>	France AAA	F1+AA- B 1	1,903				1,903	
<u>Credit Agricole</u>	France AAA	F1+AA- C 1	1,000				1,000	
<u>HSBC</u>	uk AAA	F1+AA B 1	2,596				2,596	
<u>Lloyds Bank</u>	uk AAA	F1+AA- C 1	2,917				2,917	
<u>Nationwide</u>	uk AAA	F1+AA- B 1	2,913				2,913	
<u>Nordea</u>	Finland AAA	F1+AA- B 1	1,101				1,101	
<u>Rabobank</u>	Netherlands AAA	F1+AA+ A/B 1	1,906				1,906	
TOTAL			14,336	72.03			14,336	16.14
<u>MONEY MARKET FUNDS</u>								
<u>Investec Liquidity Fund</u>	Domiciled in Ireland	AAA	2,200				2,200	
<u>see note below</u>								
TOTAL			2,200	11.05			2,200	2.48
<u>GILTS</u>		AAA	3,364	16.90			3,364	3.79
<u>CASH</u>			2	0.00			2	0.00
<u>VARIABLE DEPOSITS</u>								
<u>The Royal Bank of Scot</u>	uk AAA	F1+AA- C/D 1			10,000	14.51	10,000	11.26
TOTAL			19,902	100	68,900	100	88,802	100

FITCH 30 SEPTEMBER 2010 RATINGS-

Rabobank name change to Co operative Centrale Raiffeisen- Boerenleenbank BA

Yorkshire bank is trading entity of Clydesdale bank

Alliance & Leicester is progressively being integrated into Santander UK plc full integration should be completed by end 2010 at which point A&L will cease to have a banking licence in its own name A&L assigned a long term rating by Moody's Aa3 equivalent to Fitch AA-standard & Poor's rates A&L one notch higher at AA

note The Investec sterling liquidity fund is domiciled in Ireland; this fund is highly diversified and invests in high quality liquid fixed income investments
The fund does not invest in Irish institutions only rated by Standard & Poor,s long term AAA

TOTAL RISK PER COUNTERPARTY AS AT 30 SEPTEMBER 2010

	CREDIT RATING		TOTAL £'000'S
Alliance & Leicester		Fitch rating withdrawn	5,000
Barclays	uk AAA	F1+AA- B 1	20,000
BNP Paribas	France AAA	F1+AA- B 1	1,903
Credit Agricole	France AAA	F1+AA- C 1	1,000
Dexia	belgium AA+	F1+AA- D 1	5,000
HSBC	uk AAA	F1+AA B 1	2,596
Lloyds TSB Bank	uk AAA	F1+AA- C 1	12,917
Nationwide	uk AAA	F1+AA- B 1	2,913
Nordea	Finland AAA	F1+AA- B 1	1,101
Rabobank	Netherlands AAA	F1+AA+ A/B 1	1,906
Royal bank of Scotland	uk AAA	F1+AA- C/D 1	20,000
Yorkshire Bank	uk AAA	F1+AA- C 1	8,900

TOTAL- FIXED TERM AND CASH DEPOSITS 83,236

Money Market Funds Domiciled in Ireland 2,200

Gilts 3,364

Cash 2

Supranational 0

Total **88,802**

SUMMARY BY SOVERIGN RATING

**% OF
PORTFOLIO**

UK AAA	75,692	85.24
Belguim AA+	5,000	5.63
France AAA	2,903	3.27
supranational	0	0.00
Netherlands AAA	1,906	2.15
Finland AAA	1,101	1.23
Money Market Fund	2,200	2.48
<u>TOTAL</u>	<u>88,802</u>	100