REPORT TO:	Cabinet
DATE:	29 October 2009
SUBJECT:	Treasury Management 2009/10 – Second Quarter Update
WARDS AFFECTED:	All
REPORT OF:	Paul Edwards Finance & Information Services Director 0151 934 4082
CONTACT OFFICER:	Lynton Green Senior Finance & Information Services Director 0151 934 4096
EXEMPT/CONFIDENTIAL:	No

PURPOSE/SUMMARY:

To inform members of Treasury Management Activities undertaken in the second quarter of 2009/10.

REASON WHY DECISION REQUIRED:

To comply with the requirements of the Council's Treasury Management Policy Statement.

RECOMMENDATION(S):

Cabinet is requested to note the Treasury Management update for the second quarter of 2009/10.

KEY DECISION:	No
FORWARD PLAN:	No
IMPLEMENTATION DATE:	Following the expiry of the 'call-in' period for the minutes of this meeting.

ALTERNATIVE OPTIONS:
This report is put before Cabinet in order to comply with the Treasury Management Policy and Strategy document 2009/10 that was approved by Cabinet in February 2009.

IMPLICATIONS:

Budget/Policy Framework: Compliance with the Policy and Strategy Documents, incorporating appropriate reporting, will enable the Council to secure the most favourable terms for raising funds, maximise returns on investments whilst at all time minimising the level of risk to which it is exposed.

Financial: There are no additional Financial implications as a result of the report.

CAPITAL EXPENDITURE	**2009/ 2010 £**	**2010/ 2011 £**	**2011/ 2012 £**	**2012/ 2013 £**
Gross Increase in Capital Expenditure	---	---	---	---
Funded by:	---	---	---	---
Sefton Capital Resources	---	---	---	---
Specific Capital Resources	---	---	---	---
REVENUE IMPLICATIONS				
Gross Increase in Revenue Expenditure	---	---	---	---
Funded by:				
Sefton funded Resources	---	---	---	---
Funded from External Resources	---	---	---	---
Does the External Funding have an expiry date? Y/N		When?		

Legal: None.

Risk Assessment: Compliance with the Policy and Strategy Documents minimise the level of risk to which the Council is exposed.

Asset Management: None.

CONSULTATION UNDERTAKEN/VIEWS

Discussion with the Council's Treasury Management Advisor – Sector Treasury Services.

CORPORATE OBJECTIVE MONITORING:

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community		√	
2	Creating Safe Communities		√	
3	Jobs and Prosperity		√	
4	Improving Health and Well-Being		√	
5	Environmental Sustainability		√	
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People		√	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

None.

1. BACKGROUND

1.1 The Treasury Management Policy and Strategy document for 2009/10 (approved by Council on 26 February 2009) included a requirement for quarterly reports to be provided to Cabinet on the investment activity of the Authority. This report is the second of such documents and presents relevant Treasury Management information for the period ending 30 September 2009.

1.2 The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy Strategy and the Prudential Indicators (the operational boundaries within which we aim to work).

1.3 The technical nature of this report is recognised by officers and in order to help Members a Glossary of Terms is attached at **Annex B**.

2. INVESTMENTS HELD

2.1 Investments held at the end of September 2009 comprise the following:

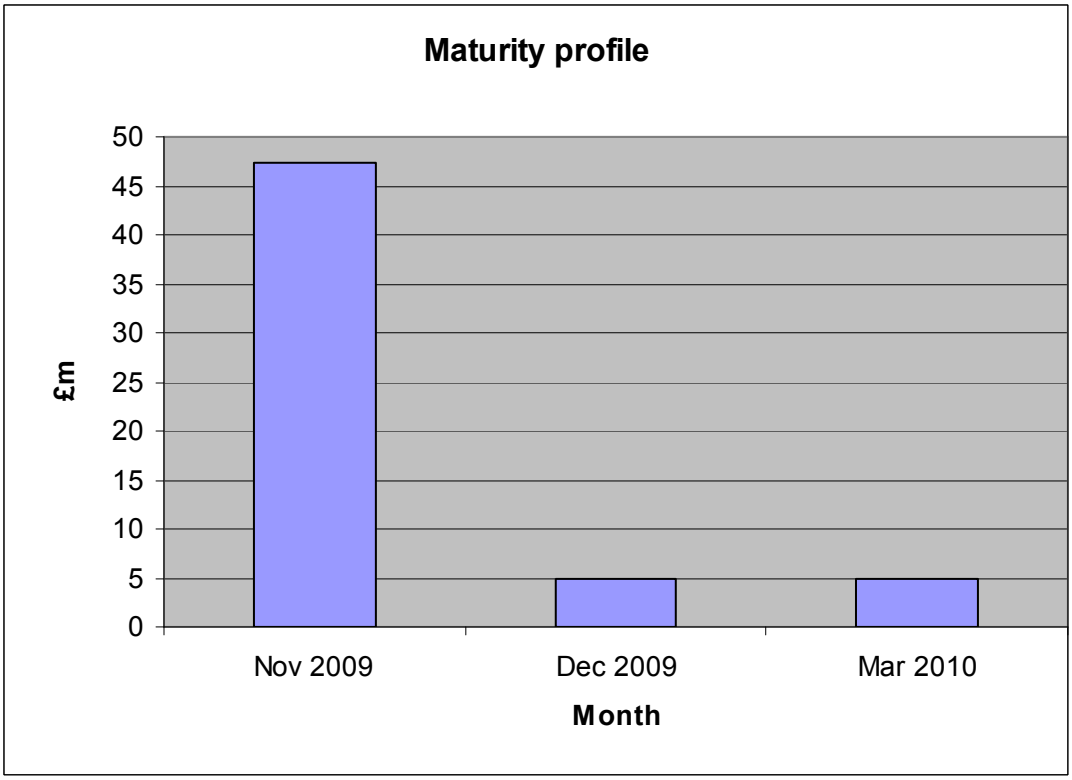
Overnight deposits

Institution	Deposit £m	Rate %	Maturity date	On current counterparty list?
Clydesdale	7.730	0.75	N/A	Yes
Lloyds TSB	15.000	0.75	N/A	Yes
Abbey National	1.460	0.60	N/A	Yes
Total	24.190			

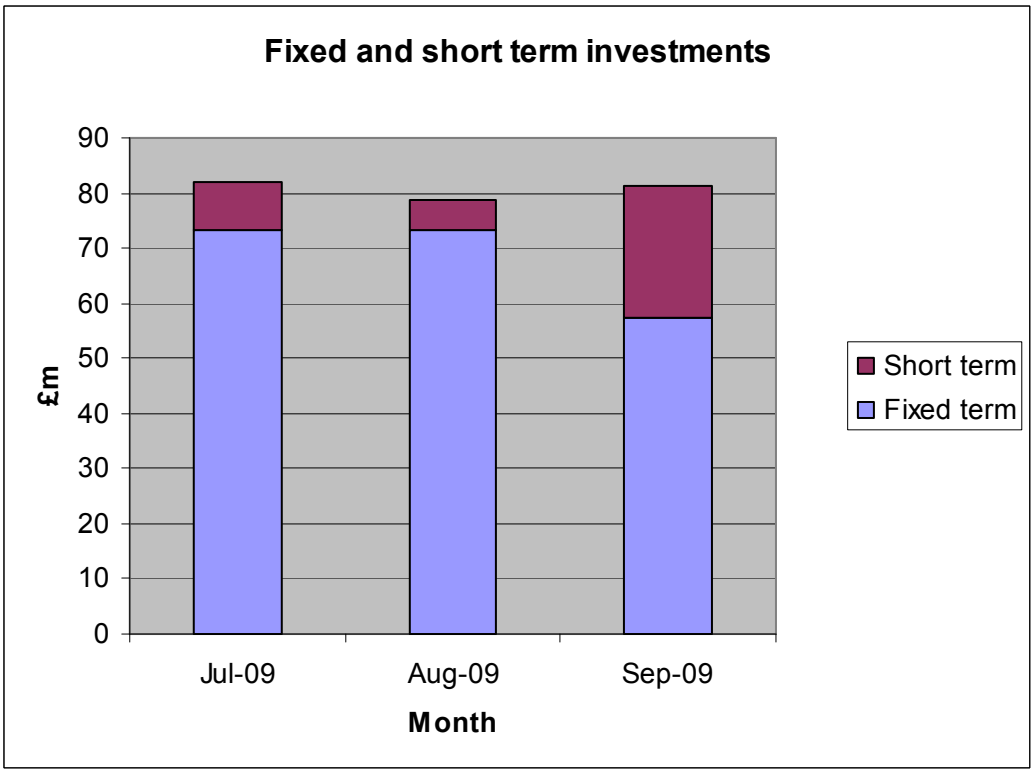
Fixed term deposits

Lloyds TSB	10.000	1.20	26/11/09	Yes
NatWest	10.000	1.45	27/11/09	Yes
Clydesdale	12.270	1.33	28/11/09	Yes
NatWest	15.000	1.45	28/11/09	Yes
Clydesdale	5.000	1.35	09/12/09	Yes
Skipton	5.000	5.58	11/03/10	No
Total	57.270			
TOTAL	81.460			

2.2 The maturity profile of the above investments is illustrated in the bar chart below. This highlights the need for forward planning of investment opportunities prior to maturity date.



The ratio of overnight deposits (i.e. short term) to fixed term investments is illustrated below:



2.3 The current economic situation has provided problems for the Council with regard to its investment strategy. The report presented to Cabinet on 11 June 2009 explained the difficulties in identifying banking institutions to invest in (which provided reasonable investment returns), whilst remaining within the deposit limit of £15m. Consequently, Cabinet agreed to increase the deposit limit from £15m to £25m. Since the approval of the new limit, the Council has remained within that boundary. At present, it is not expected that there will be any need to review this limit.

3. INTEREST EARNED

3.1 The performance of investments against budget for the first quarter and second quarter of the year is shown below:

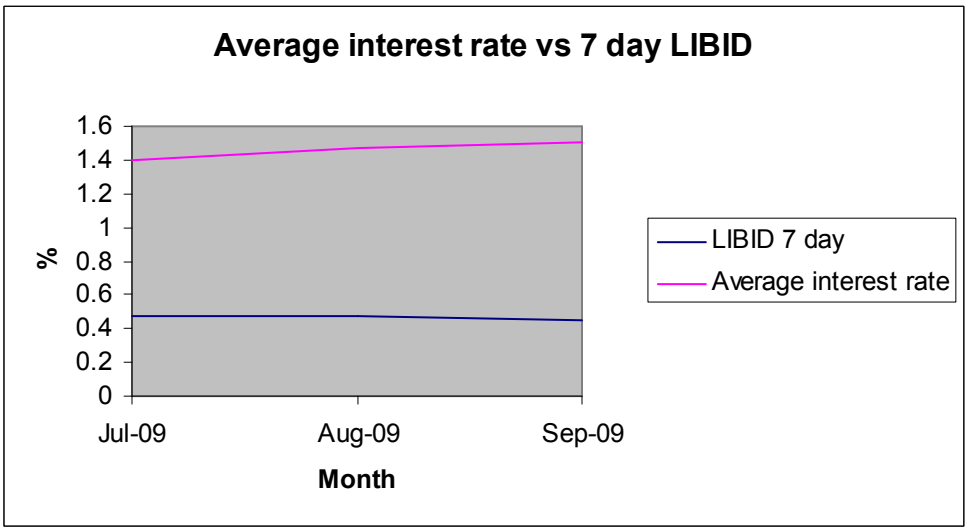
2009/10 Quarter 2 – Investment Income

Full year budget £'000	Budget for Quarter 1 £'000	Actual for Quarter 1 £'000	Variance £'000
699	258	402	144
	Budget for Quarter 2 £'000	**Actual for Quarter 2 £'000**	**Variance £'000**
	143	324	181

3.2 The budgeted investment average interest rate for 2009/10 is 1.15%, which equates to £0.699m income for the year. This figure assumes the income from investments already in place at 1 April 2009 and new returns based upon Bank of England's Base Rate projection as supplied by SECTOR.

3.3 The investment income achieved during the second quarter is £0.324m, which in conjunction with Quarter 1 equates to an average interest rate to date of 1.99%. As noted in the Quarter 1 report, the increase in investment income over budget is due to higher than anticipated cash balances, and higher than projected returns from fixed rate investments. As the existing longer term investments mature and are reinvested this will be at the lower prevailing rates, hence the year end average rate will reduce from its current position.

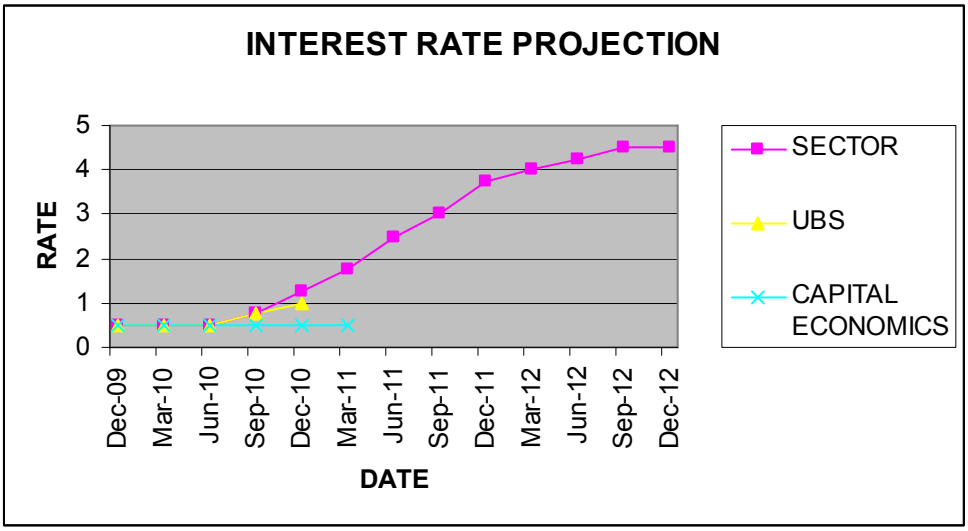
We have outperformed the 7 day LIBID average as follows:



4. LATEST BASE RATE FORECAST

4.1 SECTOR's base rate projection has been recently revised down slightly from June 2010 onwards. This is based upon the view that the economic recovery will be slower than expected.

4.2 SECTOR's revised base rate projection is detailed in the graph below. It compares Sector's base rate projection with those of UBS and Capital Economics.



5. MONEY MARKET FUNDS

5.1 A Money Market Fund (MMF) is a fund that invests in a range of low risk investments. Due to the wide spread of investments risk is lower than investing in any one institution such as a clearing bank. All MMFs are regulated by the International Money Market Fund Association (IMMFA). Until recently the Council held one MMF, being the RBS Global Treasury

Fund, but we have now expanded this by opening accounts with the following sterling funds:

a) BLACKROCK
b) GOLDMAN SACHS
c) INSIGHT.

5.3 The reason for this expansion is to allow greater flexibility to achieve an acceptable level of return within a relatively risk free environment for balances available over short time scales. All MMFs give daily access to funds deposited.

5.4 The above MMFs were chosen following an exercise carried out in conjunction with SECTOR which identified those MMFs most suited to the Council's risk profile.

5.5 All of these funds are AAA rated which is the highest credit rating achievable. This rating looks at the probability of default, as it is the intention of any MMF to return £1 for every £1 invested. MMFs are also rated for volatility which reviews the stability of the value of the investment. All of the above achieve either the highest rating of MR1+ from Moody's or V1+ from Fitch.

6. COUNTERPARTY LIST

6.1 The current counterparty list is detailed in **Annex A**. There is no change to the composition of the list when comparing the position at the end of Quarter 1 and Quarter 2, which does suggest that some stability is returning to the banking sector.

7. PRUDENTIAL INDICATOR MONITORING

7.1 Prudential indicators are an integral component of measuring how prudently a Council is acting with regard to its finances. They were introduced into all local authorities (by CIPFA) following the Local Government Act 2003. A number of measures/limits/parameters including capital financing, external debt, impact on council tax, and treasury management are set prior to the start of the year and are monitored on a monthly basis.

7.2 It should be noted that the indicators set by the Council in February 2009 for Interest Rate Exposure have been exceeded:

- The limits for fixed rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between 160% and 85%.
- The limits for variable rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between 15% and -60%.

7.3 The above indicators are there to prevent either too much investment in fixed (or variable) interest rate arrangements. This is to ensure a reasonable balance between fixed rate investments where cash is locked away, and variable rate investments that earn a lower rate of interest but give more immediate access to funds.

7.4 The variance in both of these indicators is due to the higher level of overnight deposits being held than originally envisaged. As noted in paragraph 2.3, the problem of identifying institutions with which to invest has meant higher levels of investments in liquid funds. Although these deposits do not earn as much income as fixed term deposits, they are felt to be safer in current economic conditions due the immediate access to funds that they allow. Hence, this breaching of these indicators may continue over coming months, and no corrective action is considered necessary.

8. MEMBERS' TRAINING

8.1 A treasury management training session for Audit and Governance Committee, and the Corporate Services Cabinet Member/Spokespersons has now been organised for 18 November, and it is to be delivered by SECTOR. This is timely, as the recent Cabinet report to Audit and Governance Committee highlighted the likely inclusion, in a revised Treasury Management Code of Practice by CIPFA due in the autumn, of the need for training in treasury management to be made available to relevant Council Members with responsibility in this area.

9. RECOMMENDATION

9.1 Cabinet is asked to note the Treasury Management update for the second quarter 2009/10.

ANNEX A

SEFTON COUNCIL

STANDARD LENDING LIST

UK and International Banks (including Nationwide Building Society	**RATING**	**Negative rating watch?**	**Individual rating**	**Support rating**	**CDS**
United Kingdom AAA					
Abbey National (part of Santander)	F1+ / AA-	Yes	B	1	In range
Alliance & Leicester (part of Santander)	F1+ / AA-	Yes	B/C	1	In range
Barclays	F1+ / AA-	Yes	B	1	In range
Clydesdale Bank	F1+ / AA-	Yes	C	1	N/A
HSBC	F1+ / AA	Yes	A/B	1	In range
Nationwide Building Society	F1+ / AA-	Yes	B	1	Monitoring
Lloyds TSB/HBOS – nationalised	F1+ / AA-		E	1	N/A
RBS Group – nationalised	F1+ / AA-		E	1	N/A
Canada AAA					
Bank of Montreal	F1+ / AA-	Yes	B	1	N/A
Bank of Nova Scotia	F1+ / AA-		B	1	N/A
Canadian Imperial Bank of Commerce	F1+ / AA-	Yes	B	1	N/A
Royal Bank of Canada	F1+ / AA	Yes	A/B	1	N/A
Toronto Dominion Bank	F1+ / AA-	Yes	B	1	N/A

UK and International Banks (including Nationwide Building Society	RATING	Negative rating watch?	Individual rating	Support rating	CDS
Finland AAA					
Nordea Bank	F1+ / AA-		B	1	N/A
France AAA					
BNP Paribas	F1+ / AA-	Yes	B	1	In range
CNCE Calyon Corporate & Investment	F1+ / AA-	Yes	C	1	Monitoring
Credit Industriel et Commercial	F1+ / AA-		B/C	1	N/A
Credit Agricole	F1+ / AA-	Yes	B	1	Monitoring
Germany AAA					
Deutsche Bank	F1+ / AA-	Yes	B/C	1	Monitoring
Landwirtschaftflich Retenbank	F1+ / AAA		W/D	1	N/A
Netherlands AAA					
Bank Nederlandse Gemeenten	F1+ / AAA		A	1	N/A
ING Bank	F1+ / AA-	Yes	B/C	1	In range
Rabobank International	F1+ / AA+		A	1	In range
Singapore AAA					
DBS	F1+ / AA-	Yes	B	1	In range
United Overseas Bank	F1+ / AA-	Yes	B	1	In range
Overseas Chinese Banking Corp	F1+ / AA-	Yes	B	1	In range

UK and International Banks (including Nationwide Building Society	**RATING**	**Negative rating watch?**	**Individual rating**	**Support rating**	**CDS**
Spain AAA					
Banco Bilboa Vizcaya Argentaria	F1+ / AA-	Yes	A/B	1	Monitoring
Banco Santander	F1+ / AA	Yes	A/B	1	Monitoring
Conferderacion Espanola de Casa de Ahorros	F1+ / AA-		B/C	2	N/A
Sweden AAA					
Nordea Bank	F1+ / AA-	Yes	B	1	In range
Svenska Handelsbanken	F1+ / AA-	Yes	B	1	In range
Switzerland AAA					
Credit Suisse	F1+ / AA-	Yes	B/C	1	Monitoring
USA AAA					
Bank of new York Mellon	F1+ / AA-		A/B	2	N/A
Deutsche Bank Trust Company	F1+ / AA-	Yes	N/R	1	N/A
HSBC Bank USA	F1+ / AA	Yes	B	1	N/A
JP Morgan Chase	F1+ / AA-	Yes	B	1	Monitoring
Wachovia	F1+/AA	Yes	A/B	1	N/A
Wells Fargo	F1+/AA	Yes	A/B	1	Monitoring

	RATING
Building Societies UK AAA	
Coventry	F1
Leeds	F1

ANNEX B

GLOSSARY OF TERMS

FIXED TERM INVESTMENT	Cash on deposit that is locked away for a fixed term at a fixed rate of interest
SHORT TERM INVESTMENT	Cash on deposit that can be accessed on a daily basis, and which gives a variable rate of interest that is typically less than for fixed term investments
BANK OF ENGLAND BASE RATE	This is the rate at which the Bank of England ends to other financial institutions
LIBID	London Interbank Bid Rate is the rate at which banks borrow from each other for periods ranging from overnight to 5 years
7 DAY LIBID	Average of LIBID over the last 7 days. This is the benchmark for investment performance
MMF	A fund that invests in a range of investments in order to spread the risk of any one institution failing, whilst giving daily access to funds invested
IMMFA	This is the International Money Market Fund Association, which is a voluntary code of practice issued in 1992 that regulates MMFs
AAA RATING	The rating given to the most secure MMFs. It denotes superior capacity to maintain the principal invested and limits exposure to loss
MR1/V1+	This is the rating given to those MMFs that have the greatest stability in their value