

**REPORT TO:** Cabinet

**DATE:** 27 January 2011

**SUBJECT:** Treasury Management 2010/11 – Third Quarter Update

**WARDS AFFECTED:** All

**REPORT OF:** John Farrell  
Interim Head of Corporate Finance and Information Services

**CONTACT OFFICER:** Jeff Kenah  
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**EXEMPT/CONFIDENTIAL:** No

**PURPOSE/SUMMARY:**

To inform members of Treasury Management Activities undertaken in the third quarter of 2010/11.

**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 third quarter of 2010/11.

**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 2010/11 that was approved by Cabinet in March 2010.

**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.

<b><u>CAPITAL EXPENDITURE</u></b>	<b>2010/ 2011 £</b>	<b>2011/ 2012 £</b>	<b>2012/ 2013 £</b>	<b>2013/ 2014 £</b>
Gross Increase in Capital Expenditure	---	---	---	---
Funded by:	---	---	---	---
Sefton Capital Resources	---	---	---	---
Specific Capital Resources	---	---	---	---
<b><u>REVENUE IMPLICATIONS</u></b>				
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?			
How will the service be funded post expiry?				

**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:**

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
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 2010/11 (approved by Council on 4 March 2010) included a requirement for quarterly reports to be provided to Cabinet on the investment activity of the Authority. This report is the third of such documents and presents relevant Treasury Management information for the period ending 31 December 2010.
- 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 the Council aims to work).
- 1.3 It is noted within section 7 that two Prudential Indicators have been breached: i.e. a continuation of the position as reported in the half year report to Cabinet. The breaching of these indicators has been caused by specific reasons which are not considered to be an indication of any inherent problems.
- 1.4 The only indicator that would be required to be reported to Council if it was breached, under the Prudential Code Fully Revised Second Edition 2009, is the authorised limit, which is the maximum that the Council is allowed to borrow. This indicator has not been breached.

## 2. INVESTMENTS HELD

- 2.1 Investments held at the end of December 2010 comprise the following:

### Overnight deposits

Institution	Deposit £m	Rate %	Maturity date	On current counterparty list?
Santander Group	5.000	0.80	N/A	Yes
Lloyds	5.000	0.75	N/A	Yes
Natwest	15.000	0.80	N/A	Yes
Insight MMF	11.380	0.62	N/A	Yes
<b>Total</b>	<u>36.380</u>			

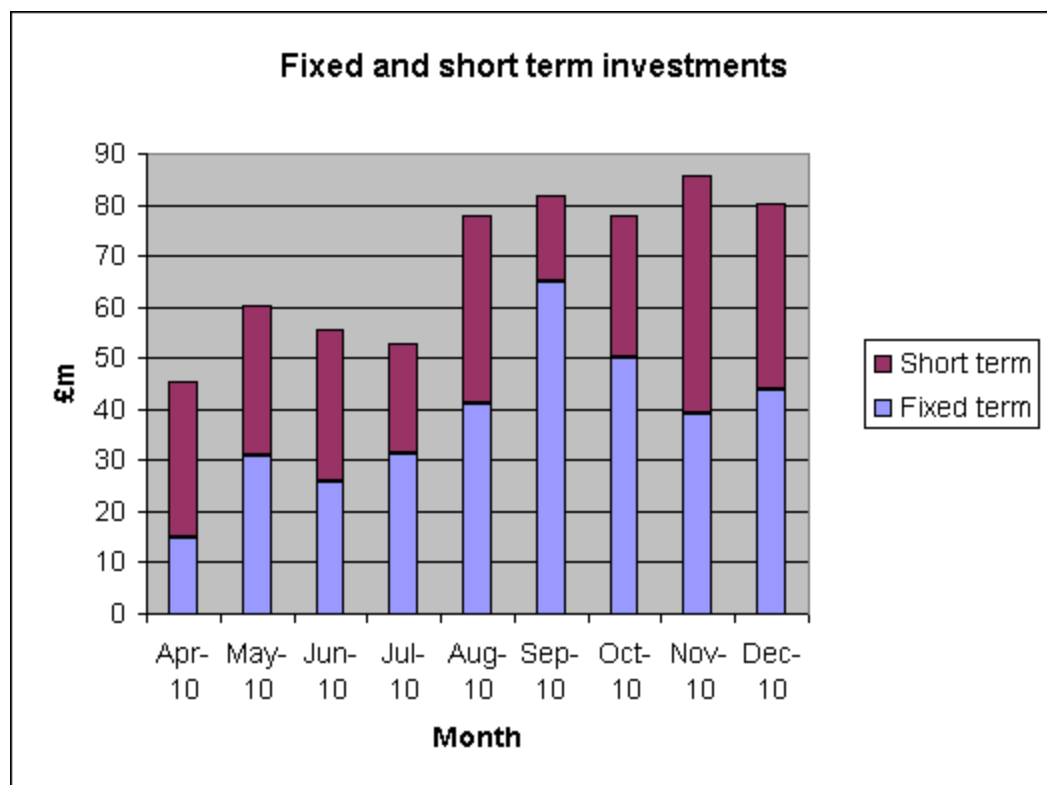
### Fixed term deposits

Clydesdale	15.000	0.75	04/01/2011	Yes
Barclays	4.000	0.90	01/03/2011	Yes
Barclays	5.000	0.95	15/06/2011	Yes
Santander	10.000	1.32	14/04/2011	Yes
Lloyds	10.000	1.70	22/09/2011	Yes
<b>Total</b>	<u>44.000</u>			
<b>TOTAL</b>	<u>80.380</u>			

- 2.2 All of the organisations are on the current counterparty list. The maximum level of investment permitted in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case conditions change, a day to day operational maximum of £15m is currently being imposed.

This will spread the risk of investments for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the first three quarters of the year. At present, it is not expected that there will be any need to review this limit.

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



### 3 INTEREST EARNED

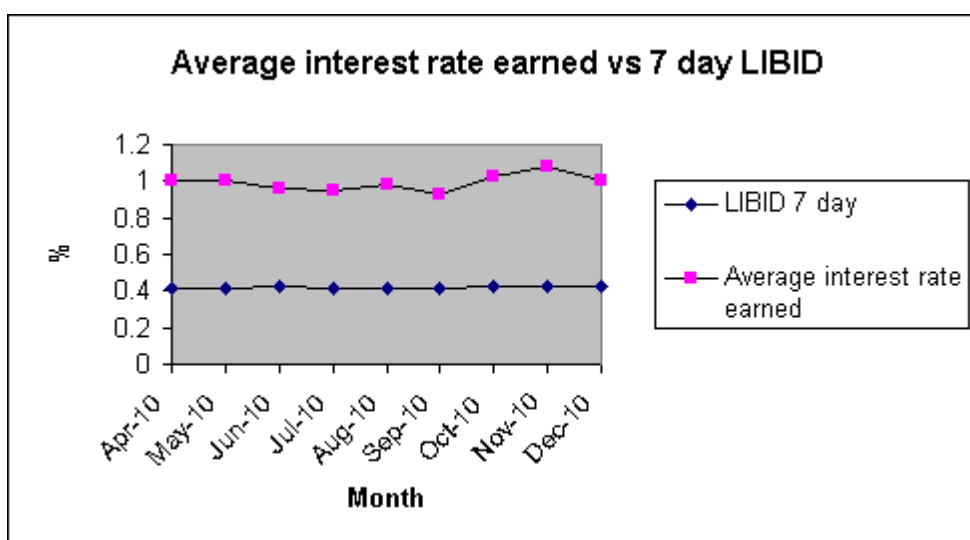
- 3.1 The actual performance of investments against the profiled budget for the period to 31 December 2010 is shown below:

## 2010/11 Quarterly Investment Income

	Budget '000s	Actual '000s	Variance '000s
Qtr 1	40	110	70
Qtr 2	56	155	99
Qtr 3	55	215	160

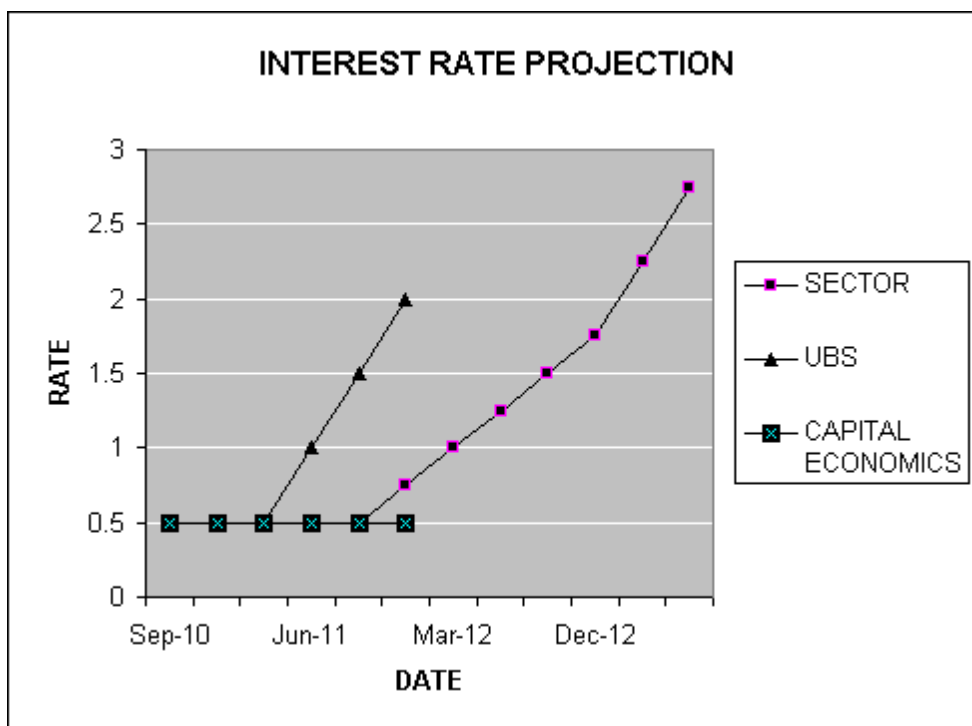
- 3.2 The budgeted investment average interest rate for 2010/11 is 0.99%, which equates to £0.490m income for the year. This figure assumes the income from investments already in place at 1st April 2010 and new returns based upon Bank of England's Base Rate projection as supplied by SECTOR.
- 3.3 The investment income achieved during the third quarter is £0.215m, which equates to an average interest rate of 1.04%.

We have outperformed the 7 day LIBID average as follows:



## 4 LATEST BANK OF ENGLAND BASE RATE FORECAST

- 4.1 SECTOR's base rate projection has been recently revised down slightly from April 2011 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 COUNTERPARTY LIST

5.1 The current counterparty list is detailed in **Appendix A**. There is little change to the composition of the list when comparing the position at the end of Qtr 4 2009/10 and Qtr 3 2010/11, which does suggest that stability has returned 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 two of the prudential indicators have been breached. This position is consistent with that reported for the first half year.

(i) The Capital Financing Requirement (CFR) limit has been breached by £0.85m. This is because when the indicator was calculated an assumed asset value of £6m was used in respect of the Crosby Leisure Centre PFI scheme, the valuation being supplied by Sector, our Treasury Management Consultants. The actual value of the asset at 31 March 2010 as valued by Capita Symonds was £7.525m, which has caused the breach. This issue was reported in the Prudential Indicators Outturn report 2009/10 as presented to Cabinet on 8 July 2010. This indicator will be monitored over the coming months and a revision of the indicator may be put forward; and

(ii) The Interest Rate Exposure Indicators has been exceeded:

- The limits for fixed rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between 200% and 120%.
- The limits for variable rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between -20% and -100%.

7.4 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.

7.5 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, including Money Market 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. If monitoring does suggest that these indicators will continue to be breached, a revision of the indicators may be put forward for 2011/12.

7.6 The breaching of these indicators has been caused by specific reasons which are not considered to be an indication of any inherent problems.

## **8 RECOMMENDATION**

Cabinet is asked to note the Treasury Management update for the third quarter 2010/11.



## Appendix A

### SEFTON COUNCIL STANDARD LENDING LIST

<u>UK and International Banks (including Nationwide Building Society</u>	<b>RATING</b>	<b>Negative rating watch?</b>	<b>Individual rating</b>	<b>Support rating</b>	<b>CDS</b>
<b><u>United Kingdom</u></b>					
<b><u>AAA</u></b>					
Santander UK)	F1+ / AA-	Yes	B	1	Monitoring
Barclays	F1+ / AA-	Yes	B	1	In range
Clydesdale Bank	F1+ / AA-	Yes	C	1	N/A
HSBC	F1+ / AA	Yes	B	1	In range
Lloyds TSB/HBOS - nationalised	F1+ / AA-		C	1	N/A
RBS Group – nationalised	F1+ / AA-	Yes	C/D	1	N/A
Nationwide	F1+ / AA-	Yes	B	1	In range
<b><u>Canada AAA</u></b>					
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
<b><u>Finland AAA</u></b>					
Nordea Bank	F1+ / AA-		B	1	N/A
<b><u>France AAA</u></b>					
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

<b><u>UK and International Banks (including Nationwide Building Society)</u></b>	<b>RATING</b>	<b>Negative rating watch?</b>	<b>Individual rating</b>	<b>Support rating</b>	<b>CDS</b>
<b><u>Germany AAA</u></b>					
Deutsche Bank	F1+ / AA-	Yes	B/C	1	In range
Landwirtschaftliche retenbank	F1+/AAA		W/D	1	N/A
<b><u>Netherlands AAA</u></b>					
Bank Nederlandse Gemeenten	F1+ / AAA			1	N/A
Coop Centrale Raiffeisen – Boerenleenbank BA	F1+ / AA+	Yes	A/B	1	In range
<b><u>Singapore AAA</u></b>					
DBS	F1+ / AA-		B	1	In range
Overseas Chinese Banking Corporation	F1+ / AA-		B	1	In range
United Overseas Bank	F1+ / AA-		B	1	In range
<b><u>Sweden AAA</u></b>					
Nordea Bank	F1+ / AA-	Yes	B	1	N/A
Svenska Handelsbanken	F1+ / AA-		B	1	In range
<b><u>Switzerland AAA</u></b>					
Credit Suisse	F1+ / AA-	Yes	B	1	In range
<b><u>USA AAA</u></b>					
Bank of New York Mellon	F1+ / AA-	Yes	A/B	1	N/A
Deutsche Bank Trust Company Americas	F1+ / AA-	Yes	N/R	1	N/A
HSBC Bank USA	F1+ / AA	Yes	B/C	1	N/A
JP Morgan Chase Bank	F1+ / AA-	Yes	B	1	In range
Wells Fargo	F1+ / AA-	Yes	B	1	In range