

REPORT TO: Cabinet

DATE: 20th May 2010

SUBJECT: TREASURY MANAGEMENT 2009/10 – Fourth Quarter Update

WARDS AFFECTED: All

REPORT OF: John Farrell
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EXEMPT/CONFIDENTIAL: No

PURPOSE/SUMMARY:

To inform members of Treasury Management Activities undertaken in the fourth 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 fourth 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.

<u>CAPITAL EXPENDITURE</u>	2009/ 2010 £	2010/ 2011 £	2011/ 2012 £	2012/ 2013 £
Gross Increase in Capital Expenditure	---	---	---	---
Funded by:	---	---	---	---
Sefton Capital Resources	---	---	---	---
Specific Capital Resources	---	---	---	---
<u>REVENUE IMPLICATIONS</u>				
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 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 fourth of such documents and presents relevant Treasury Management information for the period ending 31 March 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 we aim to work).

2. INVESTMENTS HELD

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

Overnight deposits

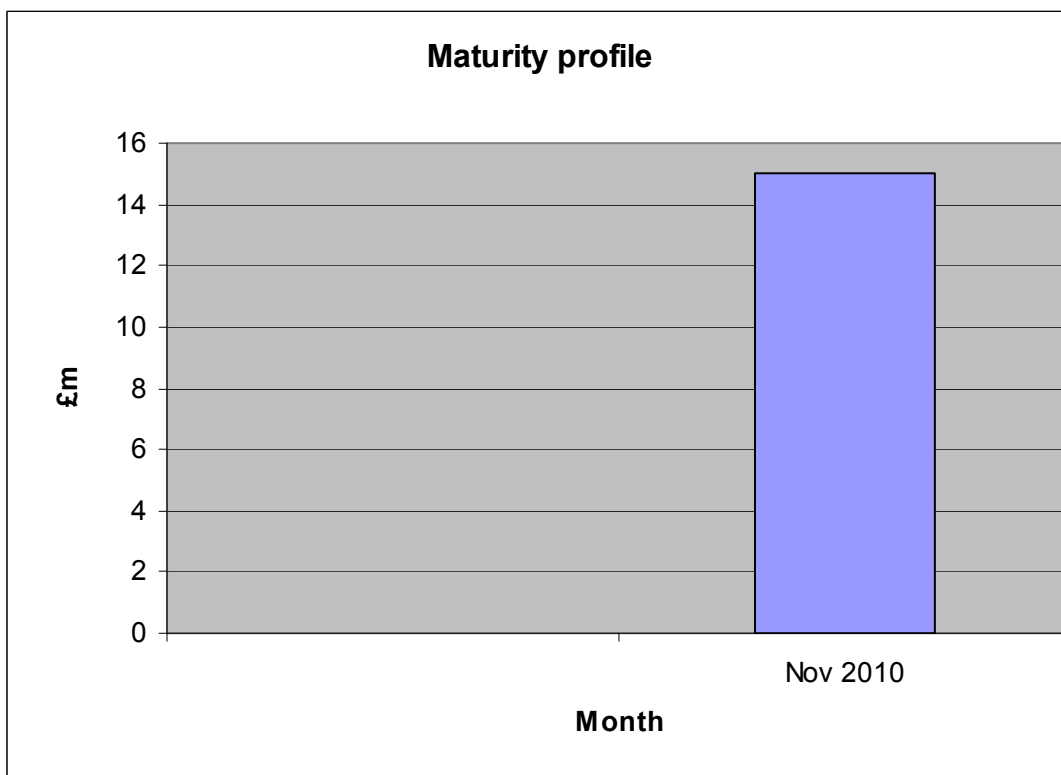
Institution	Deposit £m	Rate %	Maturity date	On current counterparty list?
NatWest	1.250	0.80	N/A	Yes
Santander Group	15.000	0.80	N/A	Yes
Total	<u>16.250</u>			

Fixed term deposits

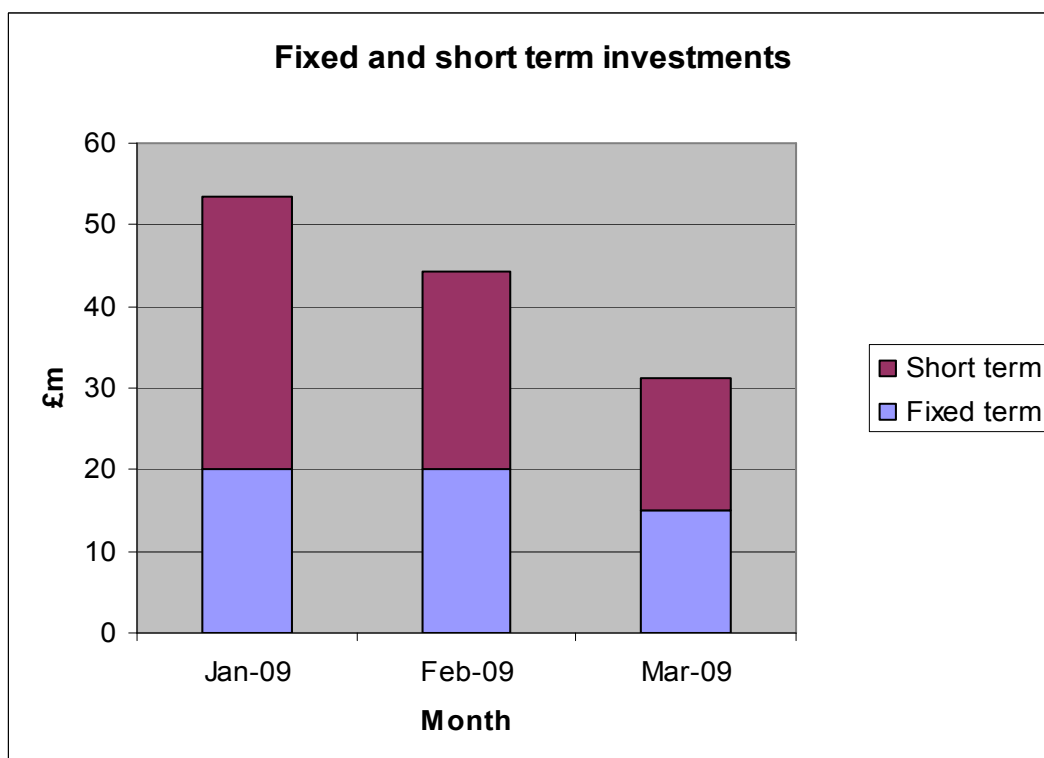
Lloyds TSB	5.000	1.82	30/11/10	Yes
NatWest	10.000	1.32	30/11/10	Yes
Total	<u>15.000</u>			
TOTAL	<u>31.250</u>			

All of the organisations are on the current counterparty list. It should be noted that the investment of £5m with the Skipton Building Society matured in March and was paid in full. Current market conditions are improving and the range of institutions with which the Council can invest, and receive reasonable return has increased. 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 worsen, 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.

- 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 four quarters of the year is shown below:

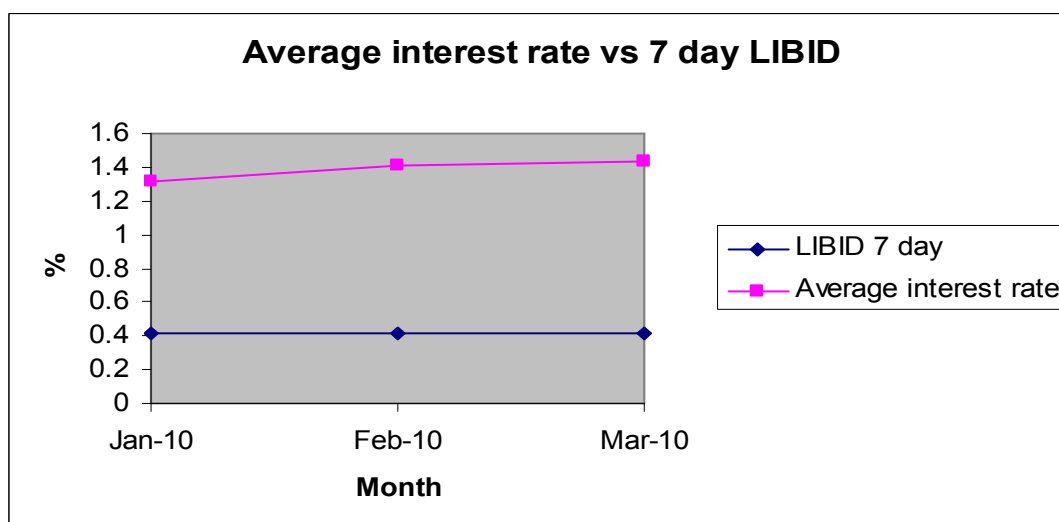
2009/10 Quarterly Investment Income

	Budget '000s	Actual '000s	Variance '000s
Qtr1	258	402	144
Qtr2	143	324	181
Qtr3	143	271	128
Qtr4	155	205	50
Full year	699	1202	503

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 1st April 2009 and new returns based upon Bank of England's Base Rate projection as supplied by SECTOR.

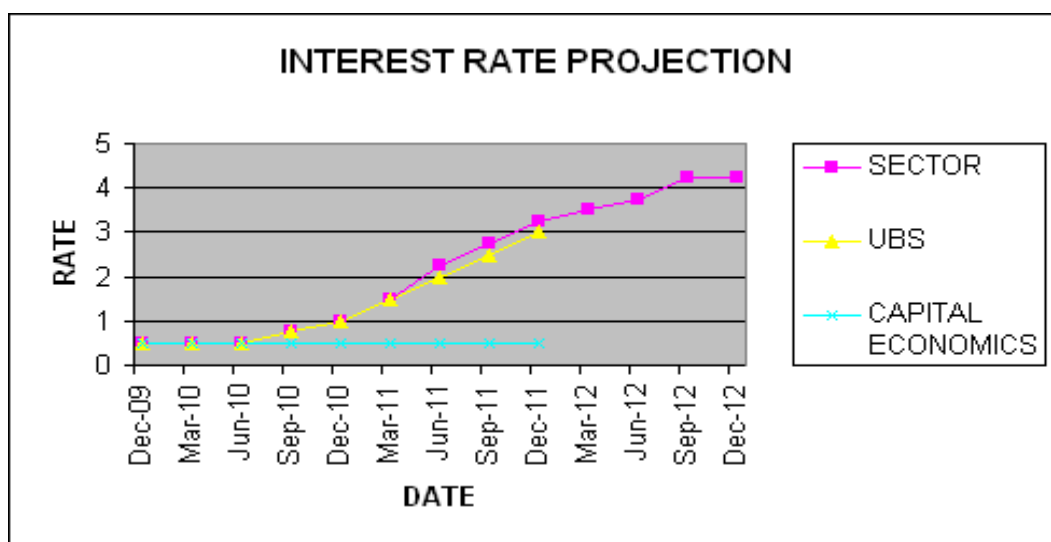
3.3 The investment income achieved during the fourth quarter is £0.205m, which in conjunction with qtr 1, qtr 2 and qtr 3 equates to an average interest rate to date of 1.8%. As noted in the qtr 3 report, the increase in investment income over budget is due to higher than anticipated cash balances, and 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 December 2010 onwards. This is based upon the view that the economic recovery will be slower than expected. However, reports in the press have suggested interest rates may increase earlier than expected. This demonstrates the current levels of uncertainty within the markets.
- 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 3 and Qtr 4, 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 has been exceeded in the fourth quarter (as they were in the previous three quarters):

- 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.

10 RECOMMENDATION

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

Appendix A

SEFTON COUNCIL STANDARD LENDING LIST

<u>UK and International Banks (including Nationwide Building Society)</u>	RATING	Negative rating watch?	Individual rating	Support rating	CDS	Deposit £000s
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<u>UK and International Banks (including Nationwide Building Society)</u>	RATING	Negative rating watch?	Individual rating	Support rating	CDS	Deposit £000s
<u>United Kingdom AAA</u>						
Santander UK)	F1+ / AA-	Yes	B	1	In range	
Alliance & Leicester (part of Santander)	F1+ / AA-	Yes	B	1	In range	
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	D/E	1	N/A	
Nationwide	F1+ / AA-	Yes	B	1	Monitoring	
<u>Canada AAA</u>						
Bank of Montreal	F1+ / AA-		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	
<u>Finland AAA</u>						
Nordea Bank	F1+ / AA-		B	1	N/A	
<u>France AAA</u>						
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	

<u>UK and International Banks (including Nationwide Building Society)</u>	RATING	Negative rating watch?	Individual rating	Support rating	CDS	Deposit £000s
<u>Germany AAA</u>						
Deutsche Bank	F1+ / AA-	Yes	B/C	1	In range	
Landwirtschaftliche retenbank	F1+/AAA		W/D	1	N/A	
<u>Netherlands AAA</u>						
Bank Nederlandse Gemeenten	F1+ / AAA		A	1	N/A	
Coop Centrale Raiffeisen – Boerenleenbank BA	F1+ / AA+	Yes	A	1	In range	
<u>Singapore AAA</u>						
DBS	F1+ / AA-	Yes	B	1	In range	
Overseas Chinese Banking Corporation	F1+ / AA-	Yes	B	1	In range	
United Overseas Bank	F1+ / AA-	Yes	B	1	In range	

<u>UK and International Banks (including Nationwide Building Society</u>	RATING	Negative rating watch?	Individual rating	Support rating	CDS	Deposit £000s
<u>Spain AAA</u>						
Banco Santander Central Hispano (parent of Abbey National)	F1+ / AA	Yes	A/B	1	Monitoring	
<u>Sweden AAA</u>						
Nordea Bank	F1+ / AA-	Yes	B	1	N/A	
Svenska Handelsbanken	F1+ / AA-	Yes	B	1	In range	
<u>Switzerland AAA</u>						
Credit Suisse	F1+ / AA-	Yes	B/C	1	In range	
<u>USA AAA</u>						
Bank of New York Mellon	F1+ / AA-		A/B	2	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	
Wachovia	F1+ / AA-	Yes	B	1	N/A	
Wells Fargo	F1+ / AA-	Yes	B	1	Monitoring	