REPORT TO: POLICY AND RESOURCES COMMITTEE ON 20 OCTOBER 2009

SUBJECT: TREASURY MANAGEMENT – MONITORING REPORT FOR THE PERIOD 1 JULY 2009 TO 30 SEPTEMBER 2009

BY: CHIEF FINANCIAL OFFICER

1. REASON FOR REPORT

1.1 To advise Committee on matters relating to the Treasury Management function for the second quarter of the 2009/10 financial year.

1.2 This report is submitted to Committee in terms of the Council's Administrative Scheme relating to Treasury Management.

2. RECOMMENDATION

2.1 It is recommended that the Committee consider and notes the contents of this Report.

3. BACKGROUND

3.1 In terms of the Council's Financial Regulations, a Monitoring Report requires to be submitted quarterly to the Policy and Resources Committee detailing the movements in the debt portfolio.

3.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. All treasury management activities are carried out in accordance with the Code.

Economic Background

3.3 The Council’s Treasury Advisers currently forecast that the bank base rate will remain at the historical low level of 0.50% until the middle of the quarter ending September 2010, by which time the economy is expected to have improved. They forecast an increase of 0.25% by the end of that quarter and further increases to reach 1.25% by the end of December 2010. For the same reason, PWLB rates are also expected to increase over time.

Long Term Borrowing

3.4 The total long-term debt outstanding at 30 September 2009 was £123.3 million. The average length of debt was 41.21 years, and the average interest rate was 5.86%.

3.5 The debt outstanding comprises PWLB fixed rate loans and market loans. The periods for repayment range from 11 to 67.5 years. A profile of long-term debt repayments for the current debt portfolio is shown as **APPENDIX 1**.

The debt is split as follows: -

	£m	**Average Rate (%)**	**Proportion of Total Debt (%)**
PWLB	89.9	6.36	72.9
Market Loans	33.4	4.51	27.1
TOTAL	**123.3**	**5.86**	**100.0**

3.6 The Public Works Loan Board (PWLB) is a statutory body operating within The UK Debt Management Office, which is an executive agency of H.M.Treasury. PWLB's function is to lend money from the National Loans Fund to Local Authorities and other prescribed bodies, and to collect the repayments.

Short Term Borrowing

3.7 During the quarter a total of £10 million of temporary borrowing was undertaken at an average rate of 0.37%. As at 30 September 2009 temporary borrowing of £3 million was held, which was one loan at a rate of 0.65%. This borrowing is fixed to 3 August 2010.

Investments

3.8 During the period 1 July to 30 September 2009, surplus funds of between nil and £4.98 million at any one time were deposited with an Alliance & Leicester Call Account at a rate of 0.80%.

3.9 During the same period, sums which varied between £200,000 and £7.98 million at any one time were deposited with the Council's Bankers, Bank of Scotland in a Call Account at a rate of 0.85%.

3.10 As at 30 September 2009, £0.2 million was held on deposit in the Call Account with the Council's Bankers.

3.11 In addition, the Council also has £2 million on deposit with the Icelandic bank, Landsbanki. That bank is in receivership and the deposit is currently frozen. The resolution committee has stipulated that the deadline for all depositors/creditors claims is 30th October 2009. The Council's legal advisers Bevan Brittan have collated the information required and will be submitting claims on behalf of all the Local Authorities in the UK that have deposits frozen. The latest indication is that depositors will receive 83p per £1 claimed. The Council's claim is for the £2M deposit plus interest due at maturity plus penalty interest for 6 months post maturity.

3.12 Performance of investments is measured against the benchmark of the average 7 day London Interbank Bid Rate (LIBID). During the quarter the average rate achieved by the Council was 0.84% and the average LIBID rate was 0.41%.

Counterparty List

3.13 The Chief Financial Officer maintains a Counter Party list in compliance with criteria based on Fitch Credit Ratings which were agreed at Policy and Resources Committee on 7 April 2009 (para 9 refers). Where a Counter Party does not have a Fitch rating, an equivalent rating is used. All credit ratings are monitored daily and the Counter Party list is amended to reflect any changes.

3.13.1 The Council's current criteria are:

- **Banks –** the Council will use banks which have at least the following Fitch or equivalent ratings. (Further definitions of these ratings are shown in **APPENDIX 2)**
    - **Short Term – F1**
    - **Individual / Financial Strength – C**
    - **Support – 1**
- **Bank Subsidiary and Treasury Operations –** the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies –** the Council will include all Societies, which meet the ratings for banks outlined above.
- **K Government** (Debt Management Office)
- **Local Authorities** (These bodies have a statutory duty to set Council Tax so that their budgets break even)

3.13.2 Due to the recent changes in some UK Bank Equity structures, there has been a new rating introduced which reflects the UK Governments stake in several Banks. These banks have been classified as "Nationalised Banks" and Fitch have assigned an "F" rating and these are defined as a Bank which at some historical point of time has failed and are now owned by the Government. Likewise where a Bank has not been fully nationalised but has received substantial support from the Government, Fitch has assigned an “E” rating, being a Bank which requires external support.

3.13.3 However these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself and they have a Support Rating of 1. In other words, they have the highest ratings possible. It is on this basis that Bank of Scotland, Lloyds TSB and The Royal Bank of Scotland are included in the Counterparty list as at 2 October 2009 (**APPENDIX 3**).

3.13.4 A further enhancement to assessing the creditworthiness of institutions has been introduced by the Council’s treasury advisers. This involves the use of Credit Default Swap (CDS) spreads as an overlay to the credit ratings. CDS spreads provide perceived market sentiment regarding the credit quality of an institution. Since they are traded instruments, they carry in them market perception related to that entity’s credit quality whereas credit ratings look at an institution’s balance sheet etc. and tend to focus on a longer term view of the institution. By using both credit ratings and the credit default swap spreads, the Council will be able to minimise the risks on investments made.

4. SUMMARY OF IMPLICATIONS

(a) Single Outcome Agreement/Service Improvement Plan

None.

(b) Policy and Legal

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. All Treasury Management activities are carried out in accordance with the Code.

(c) Resources (Financial, Risks, Staffing and Property)

The Treasury Management Strategy for 2009/10 was based on close monitoring of the interest rate market with a view to making a sound long-term debt portfolio whilst minimising the Council’s exposure to risk.

(d) Consultations

None.

5. CONCLUSION

5.1 The Council's requirement for funds continues to be managed in accordance with the agreed Treasury Management strategy.

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Background Papers:
Ref: AB/LJC/679670/679673/679674/679676