

**TREASURY MANAGEMENT
INVESTMENT PERFORMANCE
(Report by the Head of Financial Services)**

1. INTRODUCTION

- 1.1. Members will be aware that due to the collapse of some Icelandic Banks in October 2008 a spotlight has been put on the treasury management practices of Local Authorities. The Treasury Management Strategy for 2009/10 identified that whilst security and liquidity of funds are the primary concern, the interest earned was still relevant and banks and building societies should continue to be used for investments
- 1.2. The majority of the 2009/10 capital programme will need to be funded from borrowing, however, in the short-term, the borrowing can be from in-house funds rather than external funding from the PWLB or the market. The Strategy is based on long term borrowing taking place when interest rates are judged to be close to the bottom of a cycle.
- 1.3. The purpose of this report is to update the Cabinet on the performance of investments, any concerns over the credit-worthiness of counterparties and borrowing to fund capital

2. IMPLEMENTING THE STRATEGY

- 2.1. The collapse of the Icelandic Banks highlighted the reliance that Local Authorities tended to place on information from the credit rating agencies and their dependence on time deposits which could result in the credit rating deteriorating but the Authority having no rights to have its funds returned until the prearranged date. The House of Commons Communities and Local Government Committee produced a report on Local Authority Investments and recommended that credit ratings should be viewed in the context of wider financial and economic information and advice. CIPFA will be issuing guidance as to what other information is available
- 3.3 In the meantime the Council's Treasury Management Advisors provide timely information on the credit ratings of counterparties and the counterparty list is amended in the light of that information. During the financial year to date there has been no concern over the credit-worthiness of any bank or building society where the Council has existing investments

3. PERFORMANCE SUMMARY

- 3.1 The Monetary Policy Committee reduced the bank base rate to 0.5% in March 2009 and it has remained at that level since then.
- 3.2 The returns are shown in Annex A
- 3.3 **CDCM**
At the start of the year CDCM managed £18m of funds but as individual investments matured they were brought in-house. Their portfolio was £12m as at 30 September 2009

3.4 The returns on the portfolio have been considerably above the benchmark of 3 month LIBID because the funds were invested some time ago at rates between 3.2% and 6.15%. The returns for the first half-year were 2.42% against a benchmark of 0.48%. Annex B shows the remaining loans together with their original investment date, rates and repayment dates. There are no current concerns about any of these counterparties.

3.5 **In-house funds**

The in-house portfolio historically comprised of a mixture of short-term investments and temporary borrowing to manage cash flow but now includes elements of funds returned by CDCM and previous Fund Managers together with the temporary investment of the £10m advance borrowing from the PWLB. As at 30 September 2009 this amounted to £24m and Annex B provides the details.

3.6 There are various categories of investment

- a) The temporary investment of the PWLB borrowing until December 2012 and December 2013 which were made as soon as the loan was taken in December 2008.
- b) Medium term investments taken out in November 2008 and March 2009 for up to 15 months and which are due back by March 2010.
- c) To manage day-to-day cash flow surplus monies are kept in the current account as the Council's existing bank contract gives a rate of 1.75% on credit balances but only until the bank charges for the year have been cancelled out. This in effect provides a high return compared with current market rates.
- d) Other investments are with the Alliance Leicester which provides same day return of funds if required but is still fairly competitive with market rates. Finally, once the Council's limit of £5M is exceeded with the Alliance Leicester funds are placed with UK building societies for up to 1 month.

3.7 Over these areas a performance of 1.92% compared with the benchmark of 0.22% has been achieved in the half-year

4 LONG-TERM BORROWING

4.1 Most of the capital programme will need to be funded from borrowing however in the short-term this can be 'internal borrowing' from in-house funds. The Strategy states that long-term borrowing will depend on actual borrowing rates and the perception of the future trend in rates.

4.2 The long term borrowing rate from the PWLB has not fallen below 4% this financial year and no long-term borrowing has taken place. The forecast of long-term rates is that they will not fall in the short-term and therefore it is unlikely that the Council will undertake any borrowing for capital purposes during 2009/10.

5. PERFORMANCE AGAINST BUDGET IN 2009/10

5.1 The latest forecast outturn is an increase in investment interest on the

net budget (investment interest less borrowing costs) of £473k. This is due to lower borrowing costs offset by lower interest rates on investments.

6. CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

- 6.1 CIPFA will soon be publishing a new Code and has indicated that it will contain:
- a) The audit committee (or similar scrutiny committee) to be responsible for the scrutiny of the treasury management policy/strategy and procedures.
 - b) The full Council will remain responsible for approving the annual strategy (the consultation proposed allowing another committee to approve it).
 - c) A mid year report to Members will be required, and more regular reports will be recommended, so that the subject receives attention out of the budget-setting process.
 - d) The Code will recommend that authorities do not place over-reliance on credit ratings. A bulletin will be produced offering informal guidance on what other sources of credit information are available,

7. RECOMMENDATIONS

- 7.1 It is recommended that Cabinet note this report

BACKGROUND PAPERS

Working papers in Financial Services

CONTACT OFFICER

Steve Couper – Head of Financial Services Tel. 01480 388103

ANNEX A

PERFORMANCE FOR THE 6 MONTHS APRIL 2009 – SEPTEMBER 2009					
	Performance (for half year) %	Benchmark (for half year) %	Variation from benchmark	Managed Funds	
				1 April 09	30 Sept 09
CDCM	2.42	0.48*	+1.94	£18m	£12m
In-house	1.92	0.22**	+1.70	£24.5m	£23.75m
Borrowed short-term				-£6.1m	
Borrowed long-term				-£10m	-£10m
Net investments				£26.4m	£25.75m

* 3 month LIBID

** 7 day rate

ANNEX B

CDCM investments as at 30 September 2009

	£000	Investment date	Rate %	Repayment date
Norwich and Peterborough Building Society	2,000	9/1/09	3.2	9/10/09
Northern Rock	2,000	28/11/07	5.78	28/11/09
Stroud and Swindon Building Society	3,000	21/8/08	6.15	22/2/10
Nationwide (formerly Cheshire BS)	2,000	25/6/08	3.315	24/6/10
Nationwide (formerly Dunfermline BS)	3,000	21/8/08	6.1	30/9/10
	12,000			

In-house investments as at 30 September 2009

		£000	Investment date	Rate %	Repayment date
Royal Bank of Scotland	Investment of PWLB monies	5,000	19/12/08	4.04	19/12/12
Skipton Building Society	Investment of PWLB monies	5,000	19/12/08	4.85	19/12/13
Principality BS	Medium term	4,000	24/11/08	4.4	24/2/10
Chelsea BS	Medium term	3,000	24/11/08	4.35	24/2/10
Newcastle BS	Medium term	1,000	24/11/08	4.35	24/2/10
Nottingham BS	Medium term	2,500	18/3/09	2.5	18/3/10
Alliance Leicester	Call monies	2,500	1/9/09	0.8	Call
NatWest	Current account	750		1.75	
		23,750			