

CYNGOR SIR POWYS COUNTY COUNCIL.

**MODERNISATION & IMPROVEMENT
2nd September 2011**

**CABINET
13th September 2011**

**AUDIT COMMITTEE
29th September 2011**

**REPORT AUTHOR: County Councillor Tony Thomas
Portfolio Holder for Finance & Infrastructure**

SUBJECT: Treasury Management Quarterly Report

REPORT FOR: Information

1. Summary

1.1 The Treasury Management Scrutiny Review recommended that quarterly reports to Board should be adopted. CIPFA also issued a Treasury Management Bulletin in March 2009 highlighting interim advice to local authorities on treasury management practices in the light of the Icelandic Banks collapse and the continuing “credit crunch”. The document suggested:

“In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly.”

The Revised CIPFA Code of Practice on Treasury Management 2009 emphasised a number of key areas including the following:-

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 This report, therefore, is providing information on the activities for the quarter ending 30th June 2011.

2. Economic Background and Forecasts

2.1 The economic background is attached at Appendix A.

2.2 The most recent forecast of interest rates by the Authority’s advisor is as follows:

	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%
5yr PWLB	2.90%	3.00%	3.20%	3.40%	3.50%	3.50%	3.60%	3.80%
10yr PWLB	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
25yr PWLB	5.10%	5.20%	5.30%	5.30%	5.30%	5.40%	5.40%	5.40%
50yr PWLB	5.10%	5.20%	5.30%	5.30%	5.30%	5.40%	5.40%	5.40%

3. Treasury Management Strategy

3.1 Full Council on 2nd March 2011 approved the Investment Strategy for 2011/12 as follows:

Long Term Ratings:

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings:

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
F1+	N/A	A-1+
F1	P-1	A-1

Country Limits:

Country	Maximum Investment per Country	Credit Rating/Other Assessment of Risk
AAA rated – countries (excluding the UK)	£2M	As per rating list
AAA rated – UK	No Maximum Investment	As per rating list

Group/Institutions - Counterparty Criteria/Limits:

Specified Investments:

Institution	Maximum Investment per Group/ Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	15	Up to 364 days	As per Sector's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 364 days	As per Sector's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

Non-Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	10 (£3m limit with any one institution)	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Money Market Funds (max. of 3)	15	N/A	All are AAA rated
Other Local Authorities	10	Up to 2 years	N/A
European Investment Bank Bonds	3	2-3 years	N/A

Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole e.g. Lloyds TSB and BOS will have an overall limit of £15M.

4. Current Investments

4.1 The Authority's investment position as at 30th June 2011 is as shown below:-

Invested with:	Principal £000's	Interest Rate	Current Limit(s)	Start Date	Maturity Date
RBS	5,000	1.07313%	^15,000,000	19.08.08	19.08.11
Barclays	5,000	1.25%	#15,000,000	07.01.11	07.10.11
Lloyds TSB	5,000	1.40%	*15,000,000	11.03.11	12.09.11
Barclays	5,000	1.03%	See # above	12.04.11	12.10.11
Bank of Scotland	3,000	1.30%	See * above	04.05.11	04.08.11
Barclays	5,000	1.00%	See # above	16.05.11	16.11.11
Lloyds TSB	4,000	1.45%	See * above	09.06.11	09.12.11
Lloyds TSB	3,000	1.80%	See * above	09.06.11	09.03.12
RBS	10,000	0.86%	See ^ above	N/A	Deposit A/c
Bank of Scotland	0	0.75%	See * above	N/A	Deposit A/c
HSBC	475	0.25%	15,000,000	N/A	Deposit A/c
Barclays Global	4,570	Varies daily	15,000,000	N/A	MMF
Total	50,045	1.11%			

4.2 The table above excludes investments still held in Iceland. The Icelandic court granted preferential creditor status for these investments in April 2011 but this decision is currently subject to appeal. A decision in respect of this appeal is likely by September. Costs to date in respect of the legal representation amount to £29,606.64.

4.3 The investments total of £50,045 includes £4.1M received from WAG so far in respect of the Ystradgynlais Schools Modernisation project.

5. Redemption Penalties

5.1 Royal Bank of Scotland has always indicated that they would consider early redemption of investments if required. The other investments are not available for early redemption.

6. Market rates

6.1 Current market rates available for fixed term deposits are attached at Appendix B for information.

7. Credit Rating Changes

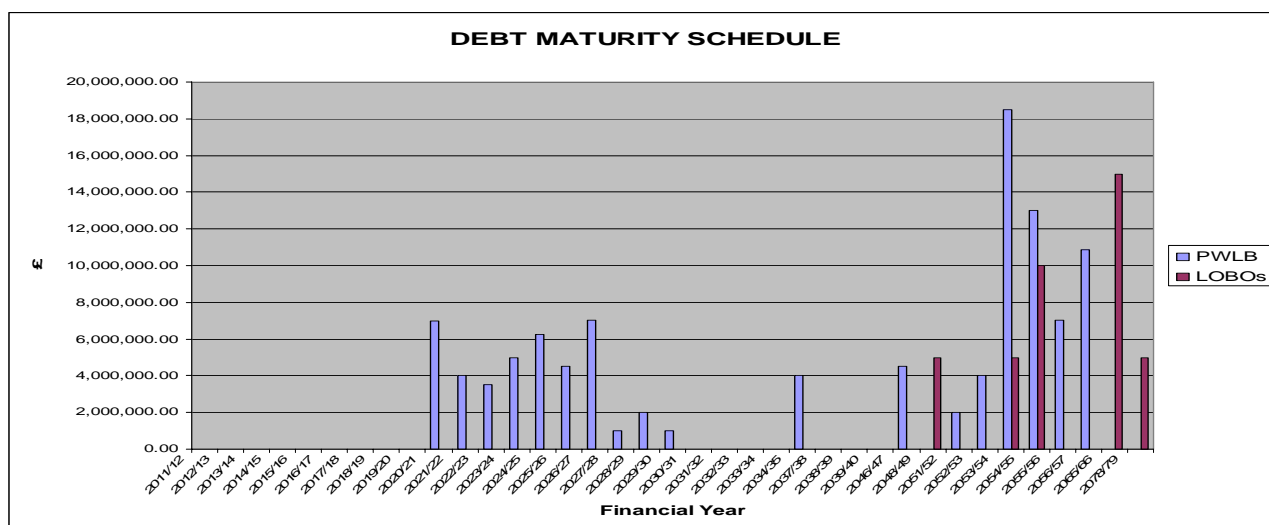
7.1 The credit rating list for end of June is attached as a separate file to this report.

8. Borrowing / Re-scheduling

8.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

8.2 *Debt Maturity Profile as at 30.06.11:*

(please click on the graph below and increase the percentage in the toolbar above for an enhanced view)



8.3 Total outstanding debt at 30th June 2011 was £145.8M which was well within the Capital Financing Requirement at 31st March 2011 of £190.4M. Capital spend in the ledger at the end of June was £3.3M against a working budget of £68.3M.

8.5 The Public Works Loans Board released a circular regarding rates on 20th October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular is that:-

- it is far more difficult for authorities to reschedule debt
- the PWLB will no longer necessarily be the first option for local authority borrowing as more favourable rates are likely to be available via the commercial sector.

8.6 Members are aware that officers continue to look for interest savings on a daily basis by monitoring rates that may mean the Authority can re-schedule some of its debt or prematurely repay debt if applicable. As mentioned previously, however, the Authority is currently borrowed well below its CFR and is, indeed, internally borrowed at present.

The 2011/12 Capital Programme has approved Prudential Borrowing of £13M so it may be an option to continue to use cash balances to delay or defer this borrowing although consideration will need to be given to ensure that this does not result in costlier borrowing at a later date.

9. Prudential Indicators

9.1 All Prudential Indicators were complied with in the quarter ending 30th June 2011.

Proposal

It is proposed that the Treasury Management Quarterly Report is received.

Statutory Officers

Chief Finance Officer's comment:

"The CFO supports the recommendation of the report".

Future Status of the Report

Not applicable

Recommendation:		Reason for Recommendation:	
That the Treasury Management Quarterly Report be received			
Relevant Policy (ies):		Treasury Management Policy	
Within Policy:	Y	Within Budget:	Y
Relevant Local Member(s):			
Person(s) To Implement Decision:			
Date By When Decision To Be Implemented:			

Contact Officer Name:	Tel:	Fax:	Email:
Ann Owen	01597 826327	01597 826290	ann.owen@powys.gov.uk

Background Papers used to prepare Report:

CIPFA Code of Practice on Treasury Management and Cross Sectoral Guidance Notes

Treasury Management Policy Statement

Advisors' Information

WAG Guidance on Local Government Investments 2010

PWLB circular

Appendix A:

Economic Background

The Bank of England voted 7-2 in favour of keeping bank rate at 0.5% in June as opposed to 6-3 in May. The rate was kept at a record low as signs of economic weakness at home and abroad appeared to outweigh any concerns about above-target inflation. Money markets have scaled back UK interest rate expectations once more with overnight inter-bank average rates suggesting borrowing costs will be left on hold until August 2012.

Inflation held steady at 4.5% in May as rising food prices balanced a drop in travel costs but this provided little comfort for the Bank of England which expects inflation to hit 5% later this year as utility companies have announced further price rises for heating and energy.

Consumer confidence fell by 4 points to -25 in June as a boost from the Royal Wedding and a run of May bank holidays gave way to harsher economic realities. Retail sales fell by 1.4% in May, reversing the rise seen in April when sales were boosted by the Royal Wedding. The number of unemployed people fell by 88,000 in the three months to April, the biggest decline since August 2000.

The Halifax house price index indicated that prices were 1.2% lower in the three months to June. Demand has been constrained by low earnings growth, higher taxes and high inflation whilst mortgage availability is also a key factor. Halifax expects the housing market to stabilise this year as the economy strengthens. According to Nationwide, house prices showed no change in June, compared to a 0.3% rise in May, and were 1.1% lower on the year.

Sterling began the month of June at \$1.640 and fell to a five-month low of \$1.594 towards the end of June as worries about the European debt crisis, ahead of a key Greek vote on reforms required for further aid, curtailed risk appetite and investors bought safe haven currencies. The pound is likely to stay under pressure on growing speculation the Bank of England might resort to more monetary stimulus. At the beginning of the month Sterling stood at E1.138 and remained on a downward trend ending the month at E1.107.

Appendix B:

MARKET RATES AVAILABLE

Banks:

Duration	%
Overnight	0.50 – 0.55
1 Week	0.50 – 0.55
2 Week	0.50 – 0.55
1 Month	0.55 – 0.60
2 Month	0.65 – 0.70
3 Month	0.75 – 0.80
4 Month	0.85 – 0.90
5 Month	0.95 – 1.00
6 Month	1.05 – 1.10
9 Month	1.30 – 1.35
10 Month	1.40 – 1.45
11 Month	1.45 – 1.50
12 Month	1.55 – 1.60

Building Societies:

Duration	%
1 Month	0.60
2 Month	0.75
3 Month	0.90
4 Month	1.00
5 Month	1.10
6 Month	1.25
9 Month	1.60
10 Month	1.70
11 Month	1.80
12 Month	1.90