



PART A: MATTERS DEALT WITH UNDER DELEGATED POWERS

REPORT TO: POLICY AND RESOURCES COMMITTEE

DATE: 3 DECEMBER 2009

**REPORT OF THE: CORPORATE DIRECTOR (s151)
PAUL CRESSWELL**

TITLE OF REPORT: TREASURY MANAGEMENT MONITORING REPORT

WARDS AFFECTED: ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on treasury management activities for 2009/10 and to update Members on current investments in accordance with the CIPFA Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (i) Members receive this report;
- (ii) The current investments and performance in 2009/2010 be noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that regular reports must be made to the Council relating to treasury management activities.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment policy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 As outlined in paragraph 3.1 the CIPFA Code stated that Members would receive

reports on its Treasury Management policies, practices, and activities at regular intervals including quarterly statements, an annual strategy and an annual post year review.

6.0 POLICY CONTEXT

6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

7.0 CONSULTATION

7.1 The Council use the services of Sector Treasury Services Limited (Sector) to provide treasury management information and advice.

8.0 REPORT DETAILS

8.1 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short-term and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including the Credit Default Swap overlay, which was formally adopted at the Policy and Resources Committee meeting on 30 July 2009.

8.2 The following table shows the relative performance of the external and internally managed funds with the 7-day benchmark for the period ended 31 October 2009:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary Investments	1,395,521	0.58%	n/a	n/a
Fixed Term Deposits	1,250,000	3.09%	n/a	n/a
Externally Managed	1,250,000	2.79%	2.73%	0.44%

8.3 As illustrated the authority has to date outperformed the benchmark. The Council's budgeted investment return for 2009/10 is £355k. The interest received from investments and loans for the seven-month period to 31 October 2009 total £197k, which is slightly below the profiled budget.

8.4 As fixed term deposits mature and the interest rates remain at the current low level the shortfall on the budgeted return will continue to increase at a significant rate and have a detrimental impact on the funding stream for the Council's capital programme.

8.5 Sector's latest economic forecast predicts that the first Bank Rate increase will be in the second quarter of 2010/11, with continuing increases to eventually reach 4.5% in the second quarter of 2012/13.

8.6 As at 31 October 2009 managed investments totalled £16,200,000 which were lent out as follows:

	Internally Managed (£)	Externally Managed (£)
Temporary Investments	6,200,000	0
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	0	0
Repayable 3 months to 6 months	2,000,000	2,500,000
Repayable 6 months to 12 months	3,000,000	1,500,000
Repayable 12 months to 24 months	0	1,000,000
Total	11,200,000	5,000,000

8.7 The above investments were held with the following types of institutions:

Type of Institution	Internally Managed (£)	Externally Managed (£)
UK Clearing Banks	9,200,000	1,000,000
Foreign Banks	1,000,000	2,500,000
Building Societies	1,000,000	1,500,000
Total	11,200,000	5,000,000

8.8 Listed below are the current investments with foreign banks:

Foreign Bank	Investment (£)	Latest Credit Rating Position
DBS Bank Ltd	2,000,000	Credit rating of up to 6 months
CIC Group	1,500,000	Credit rating of up to 6 months

8.9 The credit quality of counter-parties is determined by reference to credit ratings published by Fitch credit rating agency and meets the minimum credit criteria specified in the Council's Investment Policy. All the above borrowers met the required credit rating at the time of investment, however, since applying the Sector creditworthiness matrices one investment with Barclays Bank plc does not meet the current credit rating of investing up to six months. This investment was placed on 6 June 2008 and will not mature until 4 June 2010.

8.10 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the second quarter of 2009/10.

8.11 Following consultation with local authorities earlier this year it is anticipated that CIPFA will shortly issue an updated Treasury Management Code of Practice. Members will be informed of the changes at a future meeting.

9.0 IMPLICATIONS

9.1 The following implications have been identified:

- a) Financial

The results of the investment strategy affect the funding of the Capital Programme.

- b) Legal
There are no legal implications regarding this report.
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None to report.

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Background Papers:

None.

Background Papers are available for inspection at:

None.