

OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE
DISTRICT
COUNCIL**



REPORT TO: COUNCIL

DATE: 13 JANUARY 2011

REPORT OF THE: CORPORATE DIRECTOR (s151)
PAUL CRESSWELL

TITLE OF REPORT: TREASURY MANAGEMENT MID-YEAR REVIEW

WARDS AFFECTED: ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities to date for the financial year 2010/11 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATION(S)

2.1 It is recommended that:

- (i) Members receive this report; and
- (ii) The mid-year performance of the in-house and externally managed funds to date is noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current year.

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 strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 The CIPFA Code of Practice on Treasury Management 2009 was adopted by this Council on 22 February 2010 and this Council fully complies with its requirements.
- 5.2 The primary requirements of the Code are as follows:
1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a **mid-year review report** and an annual report (stewardship report) covering activities during the previous year.
 4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Overview and Scrutiny Committee.

Treasury management in this context is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 5.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:
- An economic update for the first seven months of 2010/11;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - A review of the Council's investment portfolio for 2010/11;
 - A review of compliance with Treasury and Prudential Limits for 2010/11.

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 uses the services of Sector Treasury Services Limited to provide treasury management information and advice.

8.0 REPORT DETAILS

Economic Update

- 8.1 The global economy has had to deal with a sovereign debt crisis, in the first place regarding major concerns over the size of the Greek government's total debt and

annual deficit. This culminated with the EU and IMF putting together a 750bn euro support package for Greece. Since then, a similar crisis with Ireland has also resulted in that country also requiring a support arrangement. Any default or write down of debt by these two countries would have a substantial impact on other countries, in particular, Portugal and Spain.

- 8.2 With regard to the UK economy, following the general election in May 2010 the coalition government has put into place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence. GDP growth is likely to have peaked at 1.2% in quarter 2 of 2010. The trend of falling unemployment (on the benefit claimant count) has now been replaced since July with small increases which are likely to be a trend of rising unemployment.
- 8.3 The Consumer Price Index has remained high during 2010. It peaked at 3.7% in April and has fallen back to 3.2% in October. The Retail Price Index remains high, at 4.5% in October. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.
- 8.4 Prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being down graded. However, since the Chancellors budget on 22 June, Sterling has strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating.
- 8.5 With regard to interest rates, Sector's view is that there is unlikely to be any increase in Bank Rate until the middle of 2011. Sectors latest forecast for the Bank Rate is as follows:

Sep-2010	Dec-2010	Mar-2011	Jun-2011	Sep-2011	Dec-2011	Mar-2012	Jun-2012	Sep-2012	Dec-2012	Mar-2013
0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%

Treasury Management Strategy Statement and Annual Investment Strategy Update

- 8.6 The Treasury Management Strategy (TMSS) for 2010/11 was approved by this Council on 22 February 2010. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
- Security of capital
 - Liquidity
- 8.7 The Council will also aim 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 (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Sector.
- 8.8 Investments during the first seven months of the year have been in line with the strategy and there have been no deviations from the strategy.

- 8.9 As outlined above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 22 February 2010 is still fit for purpose in the current economic climate.

Investment Portfolio 2010/11

- 8.10 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 8.11 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Internally Managed (£)	Externally Managed (£)	Total (£)
UK Clearing Banks	4,370,000	1,000,000	5,370,000
Foreign Banks	1,000,000	2,500,000	3,500,000
Building Societies	0	1,500,000	1,500,000
Total	5,370,000	5,000,000	10,370,000

- 8.12 A full list of investments held as at 31 October 2010, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first seven months of 2010/11 is shown in annex B and summarised below:

Type of Institution	Internally Managed (£)	Externally Managed (£)	Total (£)
UK Clearing Banks	7,400,000	2,500,000	9,900,000
Foreign Banks	2,500,000	1,000,000	3,500,000
Building Societies	0	1,500,000	1,500,000
Total	9,900,000	5,000,000	14,900,000

- 8.13 As illustrated in the economic background section above, investment rates available in the market are at a historical low point. The average level of funds available for investment purposes in the first seven months of 2010/11 was £13.7m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

- 8.14 The table below compares the investment portfolio yield for the first seven months of the year against a benchmark of the average 7 day LIBID rate of 0.43%.

	Average Investment (£)	Average Gross Rate of Return	Net Rate of Return	Benchmark Return	Interest Earned (£)
Internally Managed:					
Temporary Investments	1,297,843	0.60%	n/a	n/a	12,992
Fixed Term Deposits	1,250,000	1.09%	1.09%	0.43%	32,061
Externally Managed	1,250,000	1.04%	0.98%	0.43%	30,547

- 8.15 The Council's budgeted investment for 2010/11 is £230k and performance during the financial year to 31 October 2010 is £64k below budget.

Compliance with Treasury and Prudential Limits

- 8.16 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. The Council’s approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS).
- 8.17 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s TMSS and in compliance with the Council’s Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.
- 8.18 The Council has no long-term borrowing and retains its status as a debt-free authority. There have been no temporary borrowing transactions in the year.

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. The investment income return to 31 October 2010 was £64k lower than estimated.
 - b) Legal
There are no additional legal implications within this report.
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

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Background Papers:

None

Background Papers are available for inspection at:

N/a

PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators

	2009/10	2010/11	2011/12	2012/13
Extract from budget setting report	Actual	Estimate	Estimate	Estimate
Capital Expenditure	£1.589m	£5.624m	£3.163m	£0.715m
Ratio of financing costs to net revenue stream	-3.05%	-2.42%	-1.79%	-3.48%
Net borrowing requirement	-£10.37m	-£7.054m	-£4.464m	-£4.491m
Capital Financing Requirement as at 31 March	£0	£0	£2.396m	£2.339m
Annual change in Capital Financing Requirement	£0	£0	£2.396m	-£0.570m
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	N/a	£4.39	£15.46	£8.44

Treasury Management Indicators

	2009/10	2010/11	2011/12	2012/13
	Actual	Estimate	Estimate	Estimate
Authorised Limit for external debt -				
Borrowing	N/a	£20.0m	£20.0m	£20.0m
Other long term liabilities	N/a	£0	£0	£0
Total	N/a	£20.0m	£20.0m	£20.0m
Operational Boundary for external debt -				
Borrowing	N/a	£5.0m	£5.0m	£5.0m
Other long term liabilities	N/a	£0	£0	£0
Total	N/a	£5.0m	£5.0m	£5.0m
Actual external debt	£0	N/a	N/a	N/a
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	N/a	100%	100%	100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	N/a	20%	20%	20%
Upper limit for total principal sums invested for over 364 days (per maturity date)	N/a	£2.5m	£2.5m	£2.5m

ANNEX B

Investment Portfolio as at 31 October 2010

Investment by Institution	Investment £	Duration of Investment	Latest Sector Duration Band Rating	Sovereignty Rating
UK Clearing Banks				
National Westminster Bank	3,600,000	On Call	12 Months	AAA
Santander UK plc	1,500,000	6 Months	6 Months	AAA
Bank of Scotland	1,500,000	12 Months	12 Months	AAA
Yorkshire Bank (Clydesdale Bank)	1,000,000	15 Day Notice	3 Months	AAA
Clydesdale Bank	1,000,000	3 Months	3 Months	AAA
Barclays Bank	1,000,000	6 Months	6 Months	AAA
Santander UK plc	300,000	1 Month	6 Months	AAA
	9,900,000			
Foreign Banks				
Credit Industriel et Commercial	1,500,000	6 Months	6 Months	AAA
DBS Bank	1,000,000	6 Months	12 Months	AAA
DBS Bank	1,000,000	6 Months	12 Months	AAA
	3,500,000			
Building Societies				
Nationwide Building Society	1,500,000	3 Months	6 Months	AAA
	1,500,000			
Grand Total	14,900,000			