



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	8 DECEMBER 2011
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 to date for 2011/12 and to update Members on current investments in accordance with the Chartered Institute of Public Finance (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

- 2.1 It is recommended that:

- (i) Members receive this report; and
- (ii) The current investments and performance in 2011/2012 be noted.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Council has adopted the Code. A provision of the Code is that the Policy and Resources Committee will receive and review regular monitoring reports relating to the treasury management activities of the current year.

4.0 SIGNIFICANT RISKS

- 4.1 There are no significant risks in considering this report. 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 The CIPFA Code states that Members will receive reports on the Council's Treasury

Management policies, practices, and activities at regular intervals including an annual strategy, a mid-year review of the strategy and performance, an annual outturn report and monitoring reports.

- 5.2 In compliance with the Treasury Management scheme of delegation a mid-year review report will be submitted to the December meeting of the Overview and Scrutiny Committee for scrutiny, prior to the submission to Full Council.

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.

- 8.2 As at 31 October 2011 internally managed investments totalled £12,920,000 which were lent out as follows:

Period of Maturity	£
Cash Equivalents:	
Call Monies (SIBA)	2,420,000
Repayable within 1 month	2,000,000
Fixed Term Deposits:	
Repayable 1 month to 3 months	2,500,000
Repayable 3 months to 6 months	1,500,000
Repayable 6 months to 12 months	4,500,000
Repayable 12 months to 24 months	0
Total	12,920,000

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

Type of Institution	£
UK Clearing Banks	8,420,000
Foreign Banks	2,000,000
Building Societies	1,500,000
Local Authorities	1,000,000
Total	12,920,000

8.4 Listed below are the current investments with foreign banks:

Foreign Bank	Investment £	Maturity Date	Latest Credit Rating Position
DBS Bank Ltd	1,000,000	23/11/11	Credit rating of up to 3 months
DBS Bank Ltd	1,000,000	03/01/12	Credit rating of up to 3 months

DBS Bank Ltd is a bank of Singapore which has a sovereign credit rating of AAA.

8.5 This Council uses the creditworthiness service provided by Sector Treasury Services as specified in the Council's Investment Strategy approved by Full Council 21 February 2011. The service uses a sophisticated modelling approach with credit ratings from all three agencies – Fitch, Moodys and Standard & Poors, forming the core element. The modelling approach combines credit ratings, credit watches, credit outlooks and credit default swap spreads in a weighted scoring system, which indicates the relative creditworthiness of counterparties.

8.6 However, with the worsening market uncertainty there has been a temporary review of Sectors Credit Methodology which now suggests a restricted duration of a maximum limit of 3 months with the exception of UK Government and related entities such as local authorities, UK semi nationalised institutions such as Lloyds and RBS and Money Market Funds. New investments will be restricted to these limits until market circumstances begin to stabilise. This is not a formal change to the investment strategy, merely an operational restriction of that strategy.

8.7 All the above borrowers met the required credit rating at the time of investment.

8.8 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 2011:

	Average Investment £	Gross Rate of Return	Net Rate of Return	Benchmark Return
Cash Equivalents	1,623,987	0.60%	n/a	n/a
Fixed Term Deposits	1,092,593	1.19%	n/a	0.47%

8.9 As illustrated above the Authority has to date outperformed the benchmark. The Council's budgeted investment return for 2011/12 is £130k. The interest received from investments and loans for the seven-month period to 31 October 2011 total £84k. The return on investments therefore is slightly above the profiled budget and it is anticipated that it will meet the budget target for the financial year.

8.10 In October the policymakers at the Bank of England held interest rates at 0.5% for the 30th month in a row. Sector's latest economic forecast predicts that the first Bank Rate increase will be in the third quarter of 2013 to 0.75%, with continuing increases to eventually reach 2.5% in March 2015.

8.11 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period 1 April 2011 to 31 October 2011.

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
None to report.

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Background Papers:
None.

Background Papers are available for inspection at:
None.