

<b>Subject:</b>	<b>Treasury Management Policy Statement 2010/11 (including Annual Investment Strategy 2010/11) – Mid Year Review</b>		
<b>Date of Meeting:</b>	<b>11 November 2010 (Cabinet) 14 December 2010</b>		
<b>Report of:</b>	<b>Director of Finance</b>		
<b>Contact Officer:</b>	<b>Name: Peter Sargent</b>	<b>Tel: 29-1241</b>	
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<b>Key Decision:</b>	<b>Yes</b>	<b>Forward Plan No: CAB17837</b>	
<b>Wards Affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The Treasury Management Policy Statement 2010/11 (TMPS) and the Treasury Management Practices (including the schedules) (TMPs) for the year commencing 1 April 2010 were approved by Cabinet on 11 March 2010. Full Council approved the Annual Investment Strategy 2010/11 (AIS), which forms part of the TMPS, on 20 March 2010. The policy statement sets out the key role for treasury management, whilst the practices and schedules set out the annual targets for treasury management and the methods by which these targets shall be met. The AIS sets out the parameters within which investments can be made.
- 1.2 The purpose of this report is to advise of the action taken during the period April to September 2010 to meet the policy statement and practices and the investment strategy.

**2. RECOMMENDATIONS:**

- 2.1 That Cabinet endorses the action taken during the half-year to meet the TMPS and associated TMPs and the AIS.
- 2.2 That Cabinet notes the maximum indicator for risk agreed at 0.05% has not been exceeded.
- 2.3 That Cabinet notes the authorised limit and operational boundary set by the Council have not been exceeded.

### 3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

#### *Overview of markets*

- 3.1 The first half-year has seen a continuation of the tentative signs of stability in the financial markets. The bias of policy decisions by the Bank of England continued towards stimulating the economy with official rates remaining at ½% and quantitative easing (QE) unchanged at £200 billion. The Bank, at its' monthly monetary policy meetings, has discussed the option of increasing QE in the coming months to prevent a return to negative growth but as yet no further action has been implemented.
- 3.2 A commentary on the markets is set out in Appendix 1 to this report.

#### *Treasury management strategy*

- 3.3 A summary of the action taken in the six months to September 2010 is provided in Appendix 2 to this report. The main points are:
- no new long-term debt has been raised and only a minor amount (less than £1,000) of long-term borrowing has been repaid in the period;
  - short-term debt outstanding at the beginning of the period (£24.7m) has been fully repaid;
  - the level of investments made by the in-house treasury team as at 30 September 2010 totalled £39.5m, an increase of £20.7m during the half-year;
  - the level of investments made by the cash manager as at 30 September 2010 totalled £24.2m, an increase of £0.1m during the half-year;
  - the return on investments by the in-house treasury team and cash manager has significantly exceeded the target rate;
  - the two borrowing limits approved by Budget Council in February 2010 – the 'authorised limit' and 'operational boundary' – have not been exceeded in the first half of the year.
- 3.4 Treasury management activity in the half-year has focused on a short-term horizon, with surplus cash being used to firstly repay short-term debt and secondly to invest for periods out to three months. This impact is demonstrated in the table below.

	April to Sept 2010
Net surplus cash available	£45.4m
Short-term borrowing repaid	£24.7m
Net increase in investments made by the in-house treasury team	£20.7m

- 3.5 Capital risk on the investment portfolio continues to be the primary objective for the council's investment strategy. The investment counterparty list approved by Council in March 2010 reflected a tightening of the investment parameters and these parameters have not changed during the first half-year. However, as part of the continuing assessment of the financial markets, new investments made in the half-year have not exceeded three months, with the average period for fixed period loans at around 2-3 weeks in duration.

### Security of investments

- 3.6 A summary of investments made by the in-house treasury team and outstanding as at 30 September 2010 is tabled below. The table shows that investments continue to be held in high quality, short-term instruments.

	Balance o/s 30 Sept 2010	
	'AAA' rated institutions / funds	£14.7m
'AA' rated institutions / funds	£15.5m	39%
'A' rated institutions / funds	£3.4m	9%
Top 7 building societies not included above	£5.9m	15%
	£39.5m	100%
Period – less than one month	£31.0m	78%
Period – over one month and less than two months	£3.5m	9%
Period – over two months and less than three months	£5.0m	13%
	£39.5m	100%

### Risk

- 3.7 As part of the investment strategy for 2010/11 the Council agreed a maximum risk indicator of 0.05%. The indicator is a simple target that measures the risk within the investment portfolio based on counterparty risk and length of investment. The indicator set for 2010/11 is consistent with the investment parameters set out in the AIS.
- 3.8 The following table summarises the maximum indicator for each month in the half-year period and confirms investments have been made in high quality counterparties.

	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10
Maximum risk indicator	0.000%	0.001%	0.002%	0.003%	0.005%	0.005%

### Performance

- 3.9 The following table summarises the performance on investments compared with the budgeted position and the benchmark rate.

(*) Annualised rates	In-house investments		Cash manager investments	
	Average balance	Average rate (*)	Average balance	Average rate (*)
Budget 2010/11 – full year	£17.7m	1.27%	£23.9m	1.38%
Actual to end Sept 2010	£44.9m	0.67%	£24.1m	0.94%
Benchmark rate (i.e. average market rate) to end Sept 2010	-	0.41%	-	0.41%

#### **4. CONSULTATION**

- 4.1 The council's external treasury advisors have been consulted in the drafting of this report. No other consultation was necessary.

#### **5. FINANCIAL & OTHER IMPLICATIONS:**

##### Financial Implications:

- 5.1 The financial implications arising from the action taken under the TMPS are included in Financing Costs. The month 6 forecast for financing costs shows that £150,000 from the reserve set up to offset the projected short-term reductions in investment income will be needed during 2010/11.

*Finance Officer Consulted: Peter Sargent*

*Date: 26/10/10*

##### Legal Implications:

- 5.2 Action under the TMPS must be in accordance with Part I of the Local Government Act 2003 and regulations issued thereunder. Relevant guidance also needs to be taken into account.
- 5.3 This report is for information purposes only and as such it is not considered that anyone's rights under the Human Rights Act will be adversely affected by it.

*Lawyer Consulted:*

*Abraham Ghebre-Ghiorghis*

*Date: 26/10/10*

##### Equalities Implications:

- 5.4 There are no direct implications arising from this report.

##### Sustainability Implications:

- 5.5 There are no direct implications arising from this report.

##### Crime & Disorder Implications:

- 5.6 There are no direct implications arising from this report

##### Risk & Opportunity Management Implications:

- 5.7 The continuing uncertainty in the financial markets means the increased risk in lending has not abated. The action taken in the first six months of 2010/11 has resulted in the council reducing capital risk on its investment portfolio.
- 5.8 The position will be regularly monitored and, when confidence returns to the financial markets, opportunities to raise new borrowing and rebuild the investment portfolio will be considered.

Corporate / Citywide Implications:

- 5.9 Investment income is used to support the budget requirement for the council. Any action taken to reduce the risk of capital loss will have a downward impact on the level of interest received.

**6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

- 6.1 This report sets out action taken in the six months to September 2010. No alternative options are therefore considered necessary.

**7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 The TMPS requires the Director of Finance & Resources to report on the action taken by the council in meeting borrowing limits and investment parameters after the first 6 months and at the end of the financial year. This report fulfils the first reporting requirement.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Market Overview – April to September 2010
2. A summary of the action taken in the period April to September 2010
3. Performance and balances

**Documents In Members' Rooms**

None

**Background Documents**

1. Part I of the Local Government Act 2003 and associated regulations
2. The Treasury Management Policy Statement and associated schedules 2010/11 approved by Cabinet on 13 March 2010
3. The Annual Investment Strategy 2010/11 approved by full Council on 20 March 2010
4. Papers held within Strategic Finance, Finance & Resources
5. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2003

