

Subject:	Treasury Management Policy Statement 2011/12 (including Annual Investment Strategy 2011/12) – Mid Year Review		
Date of Meeting:	10 November 2011		
Report of:	Director of Finance		
Lead Member	Cabinet Member for Finance & Central Services		
Contact Officer:	Name: Peter Sargent	Tel: 29-1241	
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Key Decision:	No		
Wards Affected:	All		

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

- 1.1 The Treasury Management Policy Statement 2011/12 (TMPS) and the Treasury Management Practices (including the schedules) for the year commencing 1 April 2011 were approved by Cabinet on 17 March 2011. Full Council approved the Annual Investment Strategy 2010/11 (AIS), which forms part of the TMPS, on 24 March 2011. 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 2011 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 Treasury management policy statement and associated treasury management practices and the Annual investment strategy.
- 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 major financial turbulence within the global economy. Issues around Euro zone sovereign debt, in particular Greece, Portugal and Ireland, continue to affect the financial markets. The bail-out fund approved by various countries in September has brought temporary relief to financial markets but does not provide a credible remedy to the scale of the sovereign debt problem. In the United States the debate around, and eventual approval of, increasing the sovereign debt cap led to a downgrade of the US sovereign rating by the major rating agencies.
- 3.2 In the UK 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. With UK economic growth forecasts being revised downwards the Bank agreed at its meeting in October 2011 to increase QE by a further £75 billion.
- 3.3 A commentary on the markets is set out in Appendix 1 to this report.

Treasury management strategy

- 3.4 A summary of the action taken in the six months to September 2011 is provided in Appendix 2 to this report. The main points are:
- no new long-term debt has been raised. Two loans totalling £6 million matured on 30th September 2011;
 - no short-term debt has been raised in the half-year;
 - the level of investments made by the in-house treasury team as at 30 September 2011 totalled £31.4m, a decrease of £1.2m during the half-year;
 - the level of investments made by the cash manager as at 30 September 2011 totalled £24.5m, 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 March 2011 – the ‘authorised limit’ and ‘operational boundary’ – have not been exceeded in the first half of the year.
- 3.5 Treasury management activity in the half-year has focused on a short-term horizon as summarised in the table below.

	Amount invested 1 April to 30 Sept 2011			
	Fixed deposits	Money market funds	Total	
Up to 1 week	£98.1m	£108.0m	£206.1m	70%
Between 1 week and 1 mth	£24.7m	-	£24.7m	8%
Between 1 month and 3 mths	£28.2m	-	£28.2m	10%
Over 3 mths	£33.8m	-	£33.8m	12%
	£184.8m	£108.0m	£292.8m	100%

- 3.6 Capital risk on the investment portfolio continues to be the primary objective for the council's investment strategy. The investment counterparty list approved by the Council in March 2011 reflected low risk investment parameters and these parameters have not changed during the first half-year. The majority of investments made in the half-year were for 7 days or less. The average period for fixed deposits (i.e. excluding money market funds) was around 13 days. The average amount invested in money market funds was £19.9 million.

Security of investments

- 3.7 A summary of investments made by the in-house treasury team and outstanding as at 30 September 2011 is tabled below. The table shows that investments continue to be held in high quality, short-term instruments.

	Balance o/s 30 Sept 2011	
Local authorities	£5.0m	16%
'AAA' rated institutions / funds	£13.4m	43%
'AA' rated institutions / funds	£8.0m	25%
Top 7 building societies not included above	£5.0m	16%
	£31.4m	100%
Period – less than one week	£13.4m	43%
Period – between one week and one month	£13.0m	41%
Period – between one month and three months	-	-
Period – over three months	£5.0m	16%
	£31.4m	100%

Risk

- 3.8 As part of the investment strategy for 2011/12 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 2011/12 is consistent with the investment parameters set out in the AIS.
- 3.9 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 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11
Maximum risk indicator	0.011%	0.011%	0.013%	0.014%	0.009%	0.005%

Performance

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

(*) <i>Annualised rates</i>	In-house investments		Cash manager investments	
	Average balance	Average rate (*)	Average balance	Average rate (*)
Budget 2011/12 – full year	£26.6m	0.94%	£24.3m	1.03%
Actual to end Sept 2011	£58.3m	0.80%	£24.4m	1.02%
Benchmark rate (i.e. average market rate) to end Sept 2011	-	0.46%	-	0.46%

Rating changes since end of September

- 3.11 On 7th October 2011 the rating agency Moody's announced its' well publicised change to the ratings of a number of UK financial institutions. These changes have been driven by the agency's review of the likelihood of financial support in the event of financial difficulties and follow similar reviews in Spain, France and the United States.
- 3.12 Appendix 2 to this report summarises the changes made and the impact on the council's approved investment schedule. In all bar two cases the change has made no difference to the investment limits previously advised – the two exceptions being:
- Santander (UK) plc – a reduction in the maximum investment period of investment from 2 years to 1 year;
 - Leeds Building Society – a reduction in the maximum investment period of investment from 1 year to 6 months.
- 3.13 The limit for the Co-operative Bank, although showing a reduction to £5m under the council's investment matrix, will continue to be £10m to reflect their role as the council's bankers and the maximum one month exposure on any investment.

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 an overspend of £185,000 due primarily to interest rates remaining lower for longer than forecast when the budget was set and thereby reducing investment income and the recharge of interest to the HRA.

Finance Officer Consulted: Peter Sargent

Date: 10/10/11

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: 10/10/11

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 2011/12 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 2011. 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 2011
2. A summary of the action taken in the period April to September 2011
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 2011/12 approved by Cabinet on 17 March 2011
3. The Annual Investment Strategy 2011/12 approved by full Council on 24 March 2011
4. Papers held within Strategic Finance, Finance
5. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2003