

Report of	Meeting	Date
Director of Transformation (Introduced by the Executive Member for Transformation)	Executive Cabinet	12 August 2010

TREASURY MANAGEMENT ACTIVITY 2010/11

PURPOSE OF REPORT

- To report to members on
 - Treasury Management activity and performance, up to 30 June 2010
 - Compliance with the Treasury and Investment Strategies.

RECOMMENDATION

- Committee is asked to note the report

EXECUTIVE SUMMARY OF REPORT

- The report advises that, on average, the Council had surplus cash balances of £5.8m on which it received a return of 0.73% during the first quarter of 2010/11. Investments continue to be made only for short periods and with highly rated institutions. The report also includes the commentary of the Council's treasury advisor on the economic background.
- It confirms compliance with the prudential indicators specified in the Treasury Strategy .

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

- No changes in strategy are required.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- None

CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the Central Lancashire sub-region		Develop local solutions to climate change.	
Improving equality of opportunity and life chances		Develop the Character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Borough Council is a performing organization	X

INTRODUCTION

8. CIPFA issued the revised Code of Practice for Treasury Management in November 2009, This was adopted by the Council on 2 March 2010. The revised Code suggests that members should be informed of Treasury Management activities at least twice a year. This report therefore ensures this Council is embracing Best Practice in accordance with CIPFA's revised Code of Practice.

ECONOMIC BACKGROUND:

9. The major features of the quarter were as follows:
- Activity indicators suggest that the recovery picked up a little pace in the first quarter;
 - High street spending recovered after a weak start to the year;
 - The labour market showed some tentative signs of improvement;
 - The UK's trade position deteriorated, despite the weak pound;
 - CPI inflation remained above target, however the measure of underlying inflation fell;
 - The Monetary Policy Committee maintained quantitative easing (QE) and kept Bank Rate on hold at 0.5%;
 - The equity rally went into reverse over concerns about the shape of the global recovery;
 - The recovery in the US remains fairly strong, but stays weak in the euro-zone

ECONOMIC ACTIVITY

10. The interest rate forecast of the Council's treasury advisor is as follows:

	Now	Dec 2010	Mar 2011	June 2011	Sep 2011	Mar 2012	June 2012	Dec 2012	Mar 2013
	%	%	%	%	%	%	%	%	%
Base rate	0.50	0.50	0.75	1.00	1.50	2.25	2.50	3.50	3.75
5 yr PWLB	2.48	2.95	3.15	3.50	3.50	3.95	4.30	4.70	4.80
10 yr PWLB	3.83	4.40	4.45	4.50	4.60	4.70	4.75	4.95	5.10
25 yr PWLB	4.46	4.75	4.75	4.85	4.90	5.05	5.15	5.25	5.25
50 yr PWLB	4.49	4.75	4.80	4.90	4.95	5.05	5.20	5.25	5.25

- The forecast is based on moderate economic recovery and MPC inflation forecast being below target in two years' time
- The first Bank Rate increase is expected to be in 2011; and to reach 3.75% by March 2013
- Long term PWLB rates are expected to steadily increase to reach 5.25% by early 2013 due to huge gilt issuance, reversal of QE and investor concerns over inflation
- There is considerable uncertainty in all forecasts due to the difficulties of forecasting the timing and amounts of QE reversal, the tough cuts outlined in the Emergency Budget, speed of recovery of banks profitability and balance sheet position, changes in the consumer saving ratio, rebalancing of the UK economy in terms of export and import etc
- The balance of risks is weighted to the downside

TREASURY ACTIVITY

11. The Treasury Management Strategy Statement (TMSS) for 2010/11 was approved by Council on 2 March 2010. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlined the Council's investment priorities as follows:

- Security of Capital
- Liquidity

12. The Council also aims to achieve the optimum return (yield) 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.

13. Investment activity in the first quarter is summarised in the following table:

	Average Daily investment.	Earnings	Average Rate
	£'000	£	%
DMO (effectively the Government)	480	299	0.25
Money market Fund	988	1,206	0.49
Call Accounts	3,424	6,479	0.76
Term Deposit	989	2,663	1.08
	5,882	10,647	0.73

14. A full list of investments held as at 30 June 2010 is shown at Appendix B.

15. The interest earning benchmark is the LIBID 7 day rate. This was 0.42% during the first quarter. As illustrated, the authority outperformed the benchmark by 0.31%.

16. The following table compares the budgets for interest payable and receivable against the latest projection. It will be seen that it is not anticipated that the budget will be exceeded

	Budget for year	Actual for first quarter	Forecast for year
	£'000	£'000	£'000
Interest payable	77	35	194
Interest earned			
On current investments	(11)	(11)	(135)
On Landsbanki			(89)
Net cost	66	24	59

17. The above table includes provision for further borrowing of £3.5m, as envisaged in the original treasury strategy. It also includes the assumed interest earnings on the Landsbanki loan. This may seem strange in as much as the borrower is in default. However, in writing down the value of the investment in the last two years, the receipt of this interest was built into the calculation and it had the effect of inflating the loss charged. This income has therefore to be brought into account this year, and smaller amounts will continue to accrue until the loan is finally redeemed.

18. There have been no other developments in respect of Landbanki. It is still many months off the court hearing which will decide whether Council investments retain priority status.

BORROWING

19. The borrowing of £5m @ 2.4% from the PWLB on 25 May 2010 has previously been reported to members

PRUDENTIAL INDICATORS

20. It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits” which were reported in the approved Treasury Management Statement.
21. The following table shows the approved limits and the current position:

Prudential Indicator	2010/11 Indicator £'000	Quarter 1 Actual £'000
Capital Financing Requirement (CFR)	9,979	9,674
Gross borrowing	9,400	7,267
Investments	Zero by year end	8,005
Net borrowing	9,400	(738)
Authorised limit for external debt	9,979	9,979
Operational boundary for external debt	9,400	9,400
Limit of fixed interest rates (based on net debt)	9,900	9,900
Limit of variable interest rates (based on net debt)	10,000	10,000
Principal sums invested for periods exceeding 364 days	0	0
Maturity structure of borrowing limits		
Under 12 months	No restriction	1,367
12 months to 2 years	No restriction	700
2 years to 5 years	No restriction	200
5 years to 10 years	No restriction	5,000
10 years and above	No restriction	0

All prudential limits are being complied with.

IMPLICATIONS OF REPORT

22. This report has implications in the following areas and the relevant Corporate Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

Background Papers

Document	Date	File	Place of Inspection
Treasury strategy statement	March 2 2010		Town Hall

Report Author	Ext	Date	Doc ID
G Whitehead	5485	20/7/2010	***

Investments held as at 30 June 2010:

Counterparty	Amount	Rate	Period	Sector recommended time limit
	£'000	%		
Call Account – Nat West	2,000	0.80	On call	12 months
Call Account – Santander	2,005	0.70	On call	6 months
Money market Fund	2,000	0.51	On call	
Term Deposit – Bank of Scotland	2,000	1.08	3 months	12 months
	8,005			

Sector's time limit recommendation is based on the credit rating of an institution adjusted for any outlook warnings, and also takes account of the "spread" on credit default swap transactions (effectively the rate charged by the market to underwrite borrowings and thus a good and early indicator of market perception of risk).

It will be seen that the Council only has one term deposit, for a period of three months. All other investments offer immediate access.