Chorley Council

Report of	Meeting	Date
Statutory Finance Officer	Governance Committee	28 September 2012

TREASURY STRATEGIES AND PRUDENTIAL INDICATORS 2012/13 to 2014/15

PURPOSE OF REPORT

1. To review the Treasury and Investment Strategies approved by the Council on February 28 2012, and to report on performance in the first half of the year and compliance with prudential indicators. This report will go to Council in November 2012.

RECOMMENDATION

2. That the limit on investments with the part nationalised UK banks be increased from £3m to £5m.

EXECUTIVE SUMMARY OF REPORT

3. The only change proposed to the existing Treasury Strategy is that the limit on investments with the two part nationalised banking groups should be increased to £5m from the current £3m. This could generate an additional return of up to £80k at current rates (paragraph 14) with minimum risk.

4. This report includes investment activity to 22 August 2012. It advises that the average daily amount invested totalled £17.58m on which it received a return of 1.48%. This exceeds the benchmark. It also reports that, because this level of investment exceeds that budgeted for, investment income is predicted to be £0.1m greater than estimated.

5. It confirms compliance with the prudential indicators specified in the Treasury Strategy

REASONS FOR RECOMMENDATION

(If the recommendations are accepted)

6. The Code of Practice for Treasury Management specifies that Councils should review their treasury strategy and activity half yearly. This report meets that requirement.

7. The reasons for the recommendation are summarised in paragraph 3 above.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

8. None

CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	

Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			X

INTEREST RATE FORECAST

10 The following table shows the interest rate forecast of the Council's treasury advisors, Sector.

	Sep 2012 %	Dec 2012 %	Mar 2013 %	June 2013 %	Sep 2012 %	Dec 2013 %	Mar 2014 %	June 2014 %	Sep 2014 %
Base Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5 yr PWLB	1.70	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00
10 yr PWLB	2.50	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00
25 yr PWLB	3.90	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10
50 yr PWLB	4.10	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30

Comparison with the forecast of six months ago, when the Treasury Strategy was drafted, shows that the timing of future rate increases has slipped in all periods. This reflects the Continuing economic uncertainty and lack of confidence.

REVIEW OF THE TREASURY STRATEGY

11 The Treasury Management and Investment Strategy defines the Council's investment priorities as being:

- Security of Capital
- Liquidity

The Council also aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity.

12 To achieve these priorities the strategy fixed limits on the amounts that can be invested with individual institutions. These limits reflect the ratings and alerts issued by the rating agencies, and market sentiment shown by credit default spreads. These limits are detailed in appendix B.

13 It will be noted that the maximum permitted investment is either £2m or £3m, the higher limit only applying to deposits which have immediate access (call accounts and Money market Funds) or deposits with Government backed institutions (the part nationalised banks and the Debt management Office).

14 **It is proposed** that the limit on deposits with the two part nationalised banks (Lloyds Group and the RBS group) be increased from £3m to £5m thus enabling up to an additional £4m to be placed with the two groups. It is felt that the increased risk is minimal, but the additional return would be significant. The following table shows the rates on offer from the various counterparties and the additional potential return.

Counterparty	Rate paid %	Earnings
Earnings on £4m with existing counterparties		
Lending to the government via the Debt Management Office (DMO)	0.25	£10,000
Call accounts	0.75	£30,000

Money Market Funds	0.80	£32,000
Earnings if invested with part nationalised banks		
RBS group additional £2m	1.75	£35,000
Lloyds group additional £2m	2.70	£54,000

15 The Council regularly has to use the DMO. The table below shows that on average, in the first five months of this year, deposits at the DMO totalled £3.7m, earning less than £4k in interest. Had the same sum been deposited with the Lloyds group it would have generated an extra £34k

TREASURY ACTIVITY

16 Investment activity up to 22 August 2012 is summarised in the following table:

	Average Daily investment. £'000	**Earnings to 22/8/2012 £**	**Average Rate %**
DMO	3,710	(3,660)	0.25
Other fixed term deposits	11,007	(90,532)	2.08
Call accounts	11	(25)	0.51
Money Market Fund	2,852	(8,438)	0.75
Sub total	**17,580**	**(102,655)**	**1.48**
Iceland deposit		(20,713)	5.81
		(123,368)	

A full list of investments currently held is shown at Appendix A.

17 The interest earned of 1.48% exceeds the benchmark of 0.43% (being the LIBID 7 day rate).

18 The following table compares the budgets for interest receivable and payable against the latest projection.

	Budget for year £'000	**Actual to 22/8/2012** £'000	**Forecast for year** £'000
Interest paid	173	69	173
Interest earned	(180)	(123)	(281)
Net cost/(surplus)	(7)	(54)	(113)

19 It will be seen that earnings are predicted to exceed the budget by £101k. The reason for this is that the cash available for investment in the year to date (£17.58m per para. 16 above) has been significantly higher than the amount originally estimated of £9.02m, and it is expected that investments will remain above estimate over the remainder of the year

ICELANDIC DEPOSIT

20 Members have been advised that following the successful court action, a first repayment of the Icelandic investment was made in February 2012. A further repayment of 12% was made in May meaning that the total recovered is now approximately 43%. There are two on-going issues potentially affecting repayments to all creditors. The first is the strengthening of the Icelandic currency controls. The impact of this is still unknown. The second is the possible challenge to the decision by the Winding Up Board to use the exchange rates on 22/4/09 as a single basis for measuring the amounts owed to, and settled with, the various claimants. These factors do not alter the expectation that 100% recovery will be ultimately achieved.

BORROWING

21 The Treasury Strategy anticipated that further borrowing would be made only to finance the proposed new health centre. That is unlikely to happen in the immediate future and no further borrowing is therefore anticipated in 2012/13.

PRUDENTIAL INDICATORS

22 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.

The following table shows the approved limits and the current position:

Prudential Indicator	March 2012 Indicator £’000	Actual £’000
Capital Financing Requirement (CFR) March 2012	8,626	8,072
Gross borrowing (actual as at 31/3/12)	7,822	7,822
Investments (note 1) (actual as at 22/8/12)	(6.900)	(18,389)
Net borrowing/(investments) actual at 22/8/12	922	(10,567)
Authorised limit for external debt (note 2)	9,013	9,013
Operational boundary for external debt (note 2)	9,513	8,885
Limit of fixed interest rates (based on net debt)	8,000	8,000
Limit of variable interest rates (based on net debt)	100% on inv cash	100%
Principal sums invested for periods exceeding 364 days	0	0
Maturity structure of borrowing limits		
Under 12 months	Max 50%	7%
12 months to 2 years	Max 50%	5%
2 years to 5 years	Max 100%	77%
5 years to 10 years	Max 50%	11%
10 years and above	Max 50%	0

Note 1 - The prudential indicators assumed investments, excluding outstanding Icelandic loans, of £6.9m at March 2012 falling to £3.5m at March 2013. The actual value at March 2012 was £13m and is currently £18.4m. This is expected to fall significantly by year end.

Note 2 – The figures shown for both the operational boundary and the authorised limit are at 31/3/12. There is no need to change these. Actuals are within these limits.

Note 3 – The limits on fixed rate debt is unchanged at £8m. Actual debt is below this figure

IMPLICATIONS OF REPORT

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

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

24 This report meets statutory requirements. Its statistical content is consistent with the assumptions made in the revenue and capital budgets. The criteria it recommends will direct the Council's treasury operations for the remainder of the year.

COMMENTS OF THE MONITORING OFFICER

25 There are no legal issues with the report, the recommendation is in line with the approved treasury strategy with justified alterations to investment limits as detailed.

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
G Whitehead	5485	6/9/2012	***

Appendix A

List of investments as at August 22 2012

Counterparty	Type	Amount £'000	Rate %	Date	Maturity
Bank of Scotland	Term deposit	2,000	3.10	13/2/12	13/2/13
Bank of Scotland	Term deposit	1,000	3.10	02/3/12	13/2/13
Lancashire County Council	Term deposit	3,000	1.83	22/12/11	20/12/12
National Westminster	Term deposit	3,000	2.25	05/4/12	04/4/13
Nationwide	Term deposit	2,000	0.58	09/08/12	09/11/12
Barclays	Term deposit	2,000	0.55	09/08/12	09/11/12
DMO	Term deposit	2,500	0.25	22/08/12	28/08/12
Deutsche Bank	M.M.F.	2,889	variable	On call	

Appendix B

Current list of Financial Institutions and Investment Criteria (Council 28 February 2012)

Category	Institutions	Sector colour code	Sovereign rating	Max period	Limit per Institution
Sovereign or Sovereign "type"	DMADF Local Authority			6 months 1 year	No limit £3m
UK Nationalised Institutions	None (N Rock deposits no longer guaranteed)				
Institutions guaranteed by other governments	None (Irish Banks are guaranteed but have been removed from the list)				
UK Partly nationalised institutions	RBS group (inc Nat West) Lloyds Group (inc HBoS & Lloyds)	Blue Blue	AAA negative outlook from 2 agencies	1 year 1 year	£3m per group £3m per group
Independent UK Institutions	HSBC Barclays, Nationwide Any other with required rating	Orange Red/green	AAA negative outlook from 2 agencies	All investments currently restricted to 3 months maximum	£2m £2m
Money Market Funds	Deutsche Bank (formerly Standard Life) Global liquidity Fund	Aaa/MR1+		instant access	£3m
Deposit/Call Accounts	Bank of Scotland, Nat West Lancs CC			Call accounts with instant access	£3m less value of term deposits

Note – Deposits with any one institution shall not exceed £3m