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Meeting	Cabinet Resources Committee
Date	19 July 2010
Subject	Treasury Management Activity Update
Report of	Cabinet Member for Resources and Performance
Summary	To provide an update on Treasury Management activity to 31 May 2010.

Officer Contributors	Karen Balam – Assistant Director Strategic Finance Karen Bannister – Interim Treasury Manager
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix – Deposits as at 31 May 2010 with Credit Ratings
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Karen Balam, Assistant Director Strategic Finance, 020 8359 2460, or Karen Bannister, Interim Treasury Manager, 020 8359 7119.

1. RECOMMENDATIONS

- 1.1 That the Treasury Management position to 31 May 2010 be noted.**
- 1.2 That the Committee consider any areas on which it would like to receive further information.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet Resources Committee, 25 March 2008 (Decision item 18) – Treasury Management Business Strategy 2008/09.
- 2.2 Cabinet, 23 October 2008 (Decision item 12) – Council Deposits in Icelandic Banks.
- 2.3 The Leader of the Council and Cabinet Member for Resources approved under delegated powers (DPR 712) on 5 December 2008 the Treasury Management Strategy 2008/09 – Deposit Counterparty Limits.
- 2.4 Cabinet Resources Committee, 19 January 2009 (Decision item 16) – amendment to the Treasury Management Strategy 2008/09.
- 2.5 Cabinet Resources Committee, 30 March 2009 (Decision item 13) – Treasury Management Business Strategy 2009/10
- 2.6 Cabinet Resources Committee, 15 June 2009 (Decision item 17) – Outturn 2008/09.
- 2.7 Cabinet Resources Committee, 2 September 2009 (Decision item 15) – Treasury Management activity to the 30 June 2009.
- 2.8 Cabinet Resources Committee, 2 November 2009 (Decision item 14) – Treasury Management Activity to 31 August 2009.
- 2.9 Cabinet Resources Committee, 19 January 2010 (Decision item 9) – Treasury Management Activity to 18 December 2009.
- 2.10 Cabinet Resources Committee, 23 February 2010 (Decision item 10) – Treasury Management Activity to 31 December 2009.
- 2.11 Cabinet Resources Committee, 16 March 2010 (Decision item 9) – Treasury Management Strategy 2010/11.
- 2.12 Special Committee (Constitution Review), 25 March 2010 (Decision item 8) – Amending the Council's Financial Regulations.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Treasury Management Strategy (TMS) ensures effective treasury management supports the achievement of the Council's corporate priority for 2010-2013, 'Better services with less money', through the strategic objective "make sure we get best value from resources across the public sector, including our people and assets". The TMS is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

4. RISK MANAGEMENT ISSUES

- 4.1 Borrowing and deposit rates are determined by the market and can be volatile at times. Officers mitigate this volatility by monitoring the interest rate market in conjunction with treasury advisors and brokers, and by actively managing the debt and deposit portfolios.
- 4.2 There is a risk of the Council becoming too risk averse in its response to this situation, and not achieving budgeted deposit income.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 The management of the Council's cash flow ensures the availability of adequate monies to pay for the delivery of the Council's public duties.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance and Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 The wider financial implications for the Council are dealt with in section 9 of this report.

7. LEGAL ISSUES

- 7.1 None other than those in the body of this report.

8. CONSTITUTIONAL POWERS

- 8.1 Financial Regulations (Part 1, Section 7) within the Council Constitution state:
 - (1) This organisation adopts the key recommendations of CIPFA's Treasury Management in the Public Services Code of Practice (the Code), as described in Section 4 of that code.
 - (2) Cabinet Resources Committee will create and maintain a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities.
 - (3) The Chief Finance Officer will create and maintain suitable Treasury Management Practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
 - (4) The content of the policy statement and TMPs will predominantly follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the organisation. Such amendments will not result in the authority materially deviating from the Code's key recommendations.
 - (5) Cabinet Resources Committee will receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close in the form prescribed in the TMPs. These reports will incorporate the prudential borrowing limits and performance indicators.

9. BACKGROUND INFORMATION

9.1 Treasury Management Strategy 2009/10

- 9.1.1 The original TMS and Annual Investment Strategy were approved by the Cabinet Resources Committee on 25 March 2008. These key documents set out the timeframes and credit criteria for placing cash deposits and the parameters for undertaking any further borrowing.

- 9.1.2 Following the banking crisis in 2008, a number of amendments were made to the strategy, initially by Cabinet in October 2008 and then subsequently under delegated powers by the Leader (who at that time was also the Cabinet Member for Resources). The amendments sought to reduce risk by raising the bar on minimum counterparty ratings as the uncertainty over the financial stability of financial institutions grew.
- 9.1.3 The TMS is under constant review to reflect market conditions and the financing requirements of the Council.
- 9.1.4 The Council's Treasury Management Strategy 2010/11 was approved at Cabinet Resources Committee on 16 March 2010. The TMS 2010/11 is a continuation of the 2009/10 strategy pending the tender and appointment of Treasury Advisors. The TMS 2010/11 reflects the Council Budget 2010-2011 Forward Plan and Capital Programme.
- 9.1.5 The key changes were:
- i) The introduction of liquidity and security benchmarks, as required by CIPFA Treasury Management Code of Practice, are outlined in Annex A to the Treasury Management Strategy;
 - ii) The removal of references to Money Market Funds.; and
 - iii) The reference to the use of a minimum sovereign rating now applies only to non-UK institutions. This reflects the risk that the UK sovereign rating may be downgraded.
- 9.1.6 A revised Treasury Management Strategy will be brought to the Cabinet Resources Committee for approval on 2 September 2010.
- 9.2 Icelandic Bank Deposits**
- 9.2.1 There have been no further updates regarding Icelandic deposits since last reported to the Cabinet Resources Committee in June 2010.
- 9.2.3 The priority status of local authority deposits is still a matter for the Icelandic judicial system. Without priority status local authorities are likely to get in the region of 25-30 per cent of their deposits back rather than 100% as previously assumed.
- 9.3 Compliance**
- 9.3.1 The TMS 2010/11 was approved by this committee on 16 March 2010. The TMS 2010/11 requests regular compliance reporting to this committee to include an analysis of deposits made during the review period. This also reflects good practice and will serve to reassure this committee that all current deposits for investment are in line with agreed principles as contained within the corporate TMS.
- 9.3.2 As at 31 May 2010, the Council had 36 deposits outstanding with a total value of £250.2m. Pension Fund cash accounted for £76.79m of the total monies on deposit. All these deposits were placed with counter parties that meet the TMS credit rating criteria with the exception of the Icelandic deposits.
- 9.3.3 Four Icelandic deposits account for £27.4m, the entire value of deposits outside the TMS 2010/11 as at 31 May 2010.
- 9.3.4 Treasury management procedures are monitored and reviewed in light of new CIPFA guidance and market conditions.
- 9.3.5 A list of all deposits outstanding and counterparty credit ratings at 31 May 2010 is attached in the appendix.

9.4 Future Developments

- 9.4.1 A revised Treasury Management Strategy for 2010/11 is being developed with the aim to bring it to the Cabinet Resources Committee on 2 September 2010.
- 9.4.2 There will be a number of key strategic issues for consideration by the new Administration including:
- strategy;
 - borrowing;
 - investments; and
 - counterparty risks.
- 9.4.3 Treasury Management training was commissioned for 30 June 2010 to cover strategy issues regarding the formulation of a Treasury Management Strategy.
- 9.4.4 A further training session is being commission on 21 July 2010 to cover counter party risks.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal – SWS
CFO – AT

DEPOSITS AS AT 31 MAY 2010

Category	Deal Number	Counter Party	Deposit Date	Maturity Date	Rate of Interest	Amount Outstanding	Fitch Rating			Moody's Rating			S&P Ratings		
							S Term	L Term	Indiv	Support	S Term	L Term	Fin Stgth	S Term	L Term
							Government Backed								
							Local Authorities								
1	2000010600	DEBT MANAGEMENT OFFICE	15-Apr-10	22-Jun-10	0.25	20,000,000									
1	2000010626	DEBT MANAGEMENT OFFICE	04-May-10	01-Jun-10	0.25	21,300,000									
1	2000010634	DEBT MANAGEMENT OFFICE	10-May-10	01-Jun-10	0.25	10,000,000									
1	2000010672	DEBT MANAGEMENT OFFICE	28-May-10	02-Jun-10	0.25	18,700,000									
2	2000010668	BLACKPOOL BOROUGH COUNCIL	28-May-10	01-Jun-10	0.35	2,000,000									
2	2000010563	Brighton & Hove CC	16-Mar-10	15-Jun-10	0.45	4,000,000									
2	2000010625	DOVER DISTRICT COUNCIL	04-May-10	01-Jun-10	0.35	9,000,000									
2	2000010636	EAST DUNBARTONSHIRE CNCL	10-May-10	10-Aug-10	0.45	1,500,000									
2	2000010655	EAST DUNBARTONSHIRE CNCL	26-May-10	26-Aug-10	0.4	5,000,000									
2	2000010602	EASTLEIGH BC	16-Apr-10	16-Jul-10	0.4	5,000,000									
2	2000010647	EASTLEIGH BC	18-May-10	30-Jul-10	0.3	5,000,000									
2	2000010649	EXETER CITY COUNCIL	21-May-10	30-Jul-10	0.3	5,000,000									
2	2000010664	GLOUCESTER CITY COUNCIL	27-May-10	01-Jun-10	0.35	4,000,000									
2	2000010666	KIRKLEES COUNCIL	28-May-10	01-Jul-10	0.35	1,500,000									
2	2000010650	PLYMOUTH CITY COUNCIL	24-May-10	30-Jul-10	0.3	3,000,000									
2	2000010624	SALFORD CITY COUNCIL	04-May-10	01-Jun-10	0.35	5,000,000									
2	2000010646	SALFORD CITY COUNCIL	18-May-10	14-Jun-10	0.3	2,000,000									
2	2000010616	SOUTHEND-ON-SEA BC	26-Apr-10	05-Jul-10	0.45	5,000,000									
2	2000010622	SOUTHEND-ON-SEA BC	30-Apr-10	05-Jul-10	0.45	5,000,000									
2	2000010656	SWINDON BOROUGH COUNCIL	20-May-10	30-Jul-10	0.3	5,000,000									
2	2000010667	WEST YORKSHIRE F & R AUTH	28-May-10	15-Jun-10	0.35	1,500,000									
							Banks and Building Societies with a UK Government controlling interest								
4	2000005708	ROYAL BANK OF SCOTLAND	17-Jun-08	callable	7.57	5,000,000	F1	A-	F	1	P-1	A3	E	A-1	A-
4	2000010623	ROYAL BANK OF SCOTLAND	04-May-10	01-Jun-10	0.39	20,000,000	F1+	AA-	D/E	1	P-1	Aa3	C-	A-1	A+
4	2000010341	BANK OF SCOTLAND CORPORAT	09-Sep-09	call account	0.75	25,000,000	F1+	AA-	C	1	P-1	Aa3	D+	A-1	A+
							UK banks covered by the UK banking system support package								
5	2000010527	BARCLAYS COMMERCIAL BANK	11-Feb-10	call account	0.4	25,000,000	F1+	AA-	B	1	P-1	Aa3	C	A-1+	AA-
5	2000010643	BARCLAYS COMMERCIAL BANK	14-May-10	13-Aug-10	0.68	9,300,000	F1+	AA-	B	1	P-1	Aa3	C	A-1+	AA-
							Building Societies								
							None								
							Investments outside TMS								
							Icelandic Banks								
	2000005163	GLITNER BANK (ICELAND)	07-Nov-06	frozen	5.62	7,000,000									
	2000005218	GLITNER BANK (ICELAND)	24-Jan-07	frozen	6.11	3,000,000									
	2000005226	GLITNER BANK (ICELAND)	07-Feb-07	frozen	6.13	2,400,000									
	2000005511	LANDISBANKI ISLANDS H.F.	28-Sep-07	frozen	6.47	15,000,000									
							>£50billion up to 182 days or £25billion to £50 billion up to 90 days								
							Comments on Redemption (if known)								
							TOTAL VALUE OF INVESTMENTS								
							LESS ICELANDICS								
							TOTAL VALUE OF INVESTMENTS OUTSIDE TMS								
							LESS ICELANDICS								