

ITEM

ITEM

Executive – 10 September 2009

Treasury Management Update 2009/10

Report of: Head of Financial Services

Statutory Powers: S.151 Local Government Act 1972

Financial Implications: None directly related to this report but budgeted investment income for 2009/10 is £930,000.

Purpose: To update the Executive of the performance of the Treasury Management activity and Strategy for 2009/10. Consideration of this item relates to CP6 – “Improve core service performance in a cost effective way”.

Recommendation:

- 1. That the Executive notes the Treasury Management activity to date during 2009/10.**
- 2. Approves the Banking Group counterparty limit of £2.5m.**

1 Introduction and Background

- 1.1 Following the banking crisis in 2008 the Executive approved the Treasury Management Strategy on 22nd January 2009 and also requested quarterly updates on our activities. A report was made to the Executive on 28th May 2009 which made further amendments to our strategy. That report was also submitted to Scrutiny on 2nd July 2009 which resolved to endorse the amendments.
- 1.2 The strategy is very low risk with its primary aim to protect the capital of our investments. In practical terms this means that there are few counterparties in which we can invest and we receive a low rate of interest. The current list of counterparties is shown in Appendix A.
- 1.3 CIPFA intends to issue a new Treasury Management Code and Guidance notes later this year after which we can revise our own policies and practices. It will then be opportune to provide training to the Scrutiny Committee so that they can scrutinise and consider these recommendations in detail.

2 The Current Treasury Position

2.1 Our investment position at the end of July was as follows:

	Principal £	Interest %
Short Fixed	12,530,000	0.35
Long Fixed	12,500,000	6.08
Heritable Bank	1,048,000	-
Total	26,078,000	

2.2 The following is a list of our fixed investments at 31st July 2009 and by the time this report is considered the investment in the Nationwide Building Society will have been repaid:

	Fixed to	£	Interest rate
Nationwide BS	01.09.09	2,500,000	6.09%
Chelsea BS	30.07.10	5,000,000	6.18%
Skipton BS	01.09.10	2,500,000	5.78%
Coventry BS	23.07.11	2,500,000	6.15%

2.3 The fixed investments shown above are providing a certain amount of budget protection for this year and next because they were made when interest rates were somewhat higher than they are now. If we had not made the long term fixed investments shown above we would have a further shortfall of £630,000 in investment income.

2.4 For the current year we are forecasting a budget shortfall of £185,000 on our investment income. The average rate received on our short term investments so far this financial year is only 0.33% and reflects the impact of a bank base rate of 0.5% and our low risk investment strategy with a large proportion of our money being invested in the Government Debt Management Account.

3 Heritable Bank

3.1 A first interim dividend of £202,000 was received in July 2009 from the Administrators. The creditor progress report issued in April 2009 outlined that the estimated return to creditors would be 80p in the £ by the end of 2013. However, it is anticipated that the return may be higher as the official figure has been calculated on a prudent basis and there has been a significant improvement in the banking sector recently. The Administrators are running the bank as a going concern to avoid a 'fire sale' of its assets and it has been indicated that a further dividend of approximately 10p in the £ (some £125,000) is likely to be made before the end of the calendar year.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

5 Update to the Treasury Management Strategy 2009/2010

5.1 We currently have a limit of £2.5million for investments in individual counterparties. However, banks can be part of larger groups, for example The Royal Bank of Scotland is in the same group as National Westminster. In this instance our policy could allow us to have more than £2.5million invested within the group. This puts our money at more risk because the whole group could go bankrupt. It is therefore recommended that the £2.5million investment limit is extended to cover the whole group of banks where they have merged.

6 Risk Assessment

Opportunities/Benefits	
Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.	
<i>Issues/Obstacles/Threats</i>	<i>Control measures / Mitigation</i>
<ul style="list-style-type: none">• risk of failure of counterparty• advancing monies to the wrong counterparty• failure to make advance when contracted to do so• liquidity constraints affecting interest rate performance• volatility of interest rates / inflation• day to day management fault resulting in overdrawn above agreed limits	The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an annual Treasury Management Strategy and Investment Strategy in accordance with ODPM guidelines. The Council employs a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported monthly to SMT and quarterly to the Executive.

7 Conclusion

- 7.1 The investment strategy for 2009/10 enables the Council to comply with the latest CIPFA objective for Treasury Management, namely *'It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy'*.

John Foxworthy
Head of Financial Services

Executive
10 September 2009

Background papers: Treasury Management Strategy 2009/10

South Hams District Council current lending list

Abbey plc
Bank of Scotland Plc
HSBC Bank plc
Lloyds TSB Bank
National Westminster Bank
Northern Rock
Royal Bank of Scotland plc (The)
Government UK Debt Management Facility
Local Authorities (as defined under Section 23 of the Local Government Act 2003)
AAA rated Money Market Funds