

POLICY & RESOURCES CABINET BOARD

24th JUNE 2010

DIRECTORATE OF FINANCE & CORPORATE SERVICES

**REPORT OF THE HEAD OF FINANCIAL SERVICES
– HYWEL JENKINS**

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PART 1 - Doc.Code: PRB-240610-REP-FS-HJ

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ITEM 1

TREASURY MANAGEMENT

1. Purpose of Report

To inform Members of treasury management activity for 2010/11.

2. Background and Interest Rates

The Council's Treasury Management Policy was approved by Council on the 3rd March 2010 and supplemented by further information in relation to the Treasury Management Budget and Scrutiny arrangements at the Policy & Resources meeting of the 1st April 2010.

Bank base rates continue to be at an all time low of 0.5% (since 5th March 2009) and detailed below are the changes in the bank base rate since April 2008.

| Effective Date | Bank Rate |
|-----------------------|------------------|
| 10 April 2008 | 5.00% |
| 08 October 2008 | 4.50% |
| 06 November 2008 | 3.50% |
| 04 December 2008 | 2.00% |
| 08 January 2009 | 1.50% |
| 05 February 2009 | 1.00% |
| 05 March 2009 to date | 0.50% |

The following table provides examples of external borrowing costs to the Council as provided by the Public Works Loans Board as at 11th June 2010. Members should note though that in line with the Council's agreed policy, no new borrowing has been arranged during the financial year.

| | Equal Instalments of Principal | | Annuity | | Maturity | |
|------------------|--------------------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|
| | Current 11Jun10 | Previous 28 Apr 10 | Current 11Jun10 | Previous 28 Apr 10 | Current 11Jun10 | Previous 28 Apr 10 |
| | % | % | % | % | % | % |
| 5 to 5.5 years | 1.61 | 1.94 | 1.63 | 1.97 | 2.64 | 3.04 |
| 10 to 10.5 years | 2.64 | 3.04 | 2.72 | 3.13 | 3.81 | 4.18 |
| 20 to 20.5 years | 3.81 | 4.18 | 3.97 | 4.33 | 4.35 | 4.59 |
| 35 to 35.5 years | 4.31 | 4.57 | 4.37 | 4.60 | 4.41 | 4.59 |
| 49.5 to 50 years | 4.39 | 4.60 | 4.41 | 4.59 | 4.40 | 4.57 |

3. Treasury Management Budget

The following table sets out the treasury management budget for 2010/11 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income. The net general fund budget totals £15.351m.

| | 2010-11 Budget £'000 |
|-------------------------|-------------------------------------|
| Debt Charges | |
| Total | 18,360 |
| - HRA | <u>2,349</u> |
| - General Fund | 16,011 |
| Investment Income | |
| Total | -860 |
| - HRA | -100 |
| - Other | <u>-100</u> |
| - General Fund | -660 |
| Net General Fund | 15,351 |

3.1 Debt Charges

No new loans have been arranged and this is in line with the Treasury Management Strategy for 2010/11. However, as the closing balance for funding capital expenditure and the capital financing requirement as at 31st March 2010 drives the budget impact in the following year and this work is being progressed for the Statement of Accounts. Any changes impacting on the budget will be reported back to the Policy & Resources Cabinet Board by 30th September 2010 as part of the Annual Treasury Outturn Report.

3.2 Investment Income

In line with the Council's Investment Strategy, the total budgeted income from investment income totals £869,000. Investments to date with approved institutions have generated an income return for 2010/11 of £576,000, but this sum will increase as and when future investments are made during the remainder of the financial year. Members should note that all investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks or building societies including Barclays, Lloyds Group, Nationwide, Bank Santander, Clydesdale and RBS.

4. Member Training

Training for Members on the responsibilities arising from Treasury Management function was provided by the Council's Treasury Advisors – Sector on the 14th June 2010. Many thanks to all that attended the training at Neath Civic including members of the Cabinet, Policy and Resources Scrutiny and Audit Committees.

The training covered the following areas:

- Legislation
- Strategic Considerations arising from the Balance Sheet, Budget pressures, Security of the capital and the profiling of capital and revenue spend.
- Treasury Management Code of Practice which requires the Council to approve its strategy at the Council budget setting meeting and to continually review during the financial year and update as appropriate.
- Key Treasury Management Documents
- Risk Management which includes the need to consider credit ratings, credit worthiness, approving a counterparty list with whom the Council can invest, credit default swap spreads that are traded on the market as a type of insurance derivative whose value is based on the perceived "market information and credit worthiness of the institution". The training also highlighted the Sovereign Credit Default spreads for various countries including the UK.

In order to assist and to focus scrutiny of the Treasury Management Strategy and arrangements within the Council the following issues and questions were suggested to officers and members to visit on a regular basis:

Investments

- Risk appetite – has anything changed?
- Key Risk factors and mitigating controls?
- Comparison with other local Authorities – or other comparator – actual return and level of risk.
- Why not use other instruments?
- Why not use other counterparties?
- What information is forwarded to scrutiny?
- Link to Treasury Management strategy statement.
- Use of counterparty list.
- Have the investment limits been complied with?
- Have the specified / non specified investments been complied with and does the strategy need updating?
- Have group limits been complied with?
- Use of fund managers?

Debt / Borrowing

- How much needs to be borrowed?
- Which type of external borrowing (PWLB or market)?
- How long to borrow for?
- What is the view on interest rates?
- Does the Council have a bench mark/trigger rate for determining when it will enter into new borrowing?
- Should the borrowing be on a fixed or variable interest rate basis?
- Are there any extraordinary issues?
- What is the 3 year forward looking position for borrowing requirement?

List of Background Papers

Treasury Management files

PWLB Notice 084/10

Ward Affected

All

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