

Committee: Finance and Administration Committee
Date: 27th November 2008
Title: Treasury Management update
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Agenda Item

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Item for
Decision

1. Summary

- This report is the first treasury management update that members have received during the financial year.
- Previously reports have only been provided prior to the start of the financial year to agree the Treasury Management Policy/Strategy, and after the financial year end to report on transactions during the previous financial year.
- The council invests available money in accordance with the Treasury Management Strategy which was approved by Council on 19th February 2008 (minute C86 refers).
- The Council's Treasury Strategy meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through regulations issued under the Local Government Act 2003.
- Officers have been mainly placing recent investments in Banks and Building Societies based in the British Isles for no more than a 3 months period, based on advice from the Council's treasury consultants, Butlers.
- The current service provided by Butlers has been in place since January 2006. Your officers feel that now is the right to test the market to compare the service and value for money provided by Butlers against the other two major local government treasury advisors, Sector and Arlingclose.
- In order to match investments to future expenditure demands this has meant more fixed term investments than was envisaged when the Treasury Strategy was approved last February.
- This report updates members on treasury management transactions for 2008/08 up to 31st October 2008.

2. Recommendations

- It is RECOMMENDED to Council that the Approved Treasury Strategy be amended for the following:
 - An increase in the Council's maximum temporary investment in fixed term investments from £11m to £20m.

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- The maximum investment period for any temporary investment to be 3 months.
 - The Council restricts the placement of any new investments to those institutions based within the British Isles.
 - These decisions to be reviewed in February 2009 when the 2009/10 Treasury Strategy is approved.
- Members note
- the contents of the 2008/09 Treasury transactions to the end of October 2008, as set out in this report.
 - That officers will be market testing the treasury advisory service, and will invite the three companies listed in paragraph D (iii) to submit bids.

3. Background Papers

- Treasury Management Strategy 2009/10. Council 19th February 2008.

4. Impact

Communication/Consultation	There are no specific Communications/Consultation implications in this report.
Community Safety	There are no specific Community Safety implications in this report.
Equalities	There are no specific Equalities implications in this report.
Finance	The 2008/09 General Fund revenue budget for Investment Income is £377,530. There is likely to be a £190k shortfall due to the issues with the non repayment of the £2.2m investment with Landsbanki Islands. Officers are investigating the possibility of requesting Capitalisation approval for the lost interest from DCLG
Human Rights	There are no specific Human Rights implications in this report.
Legal implications	There are still legal issues to be resolved

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	with recovery of the investment from Landsbanki. Further details are set out in the Landsbanki report elsewhere on this agenda.
Sustainability	There are no specific Sustainability implications in this report.
Ward-specific impacts	There are no specific Ward-specific implications in this report.
Workforce/Workplace	There are no specific Workforce/Workplace implications in this report.

5. Situation

A. TREASURY ACTIVITY 2008/09

- I. Attached at Appendix A is a summary of all the Council's fixed term investments placed in the current financial year, together with the one investment placed in 2007/08 which continued into 2008/09.
- II. In addition the Council uses two investment accounts as bank deposit accounts. These are Allied Irish Bank Treasury (no notice) and Bank of Scotland (7 day notice).
- III. A summary of the amounts invested is as follows:

	01/04/08	31/10/08
	£000	£000
Money market lending	2,262	10,000
Allied Irish Treasury	2,427	2,242
Bank of Scotland	<u>4,009</u>	<u>1,641</u>
Total investments	<u>8,698</u>	<u>13,883</u>

O/s-with receivers-Landsbanki 2,200 *

*Plus interest of £134,929

- IV. Appendix A shows all the investments that have been placed during 2008/09 together with details of the interest rate achieved and the period of each investment.
- V. The original budget for Investment Income for 2008/09 was based on an average interest rate of 5.3% over the whole financial year, but it can be seen from Appendix A that rates achieved have been higher up until the end of October.
- VI. The interest rates achieved have been around the same as the London Inter Bank Offer Rate (LIBOR) which the rate banks lend to each other. Since late September these rates have been much higher than the Bank of England base rate, which has helped the Council achieve better rates of return on its investments.
- VII. The Council uses credit ratings provided by its treasury advisors, Butlers obtained from the 3 rating agencies, Fitch, Moody's and Standard and Poors.

In accordance the Council's treasury policy, ratings are taken in the first instance from Fitch, and only if there is no Fitch rating should another rating agency be used.

- VIII. Since the recent banking crisis, investments have been only placed in organisations based in the British Isles. As this is a narrower policy than is set out in the Treasury Policy, it is recommended that this revised policy is confirmed by Council. A further review will be carried out before the 2009/10 Treasury Strategy is approved in February 2009.
- IX. The current Treasury Strategy also sets a limit of a maximum £11m to be invested any one time for a fixed period. Because of the current financial climate, officers have been placing investments fixed to future dates where there are expenditure commitments, such as precept and grant payments, to provide better forecasting. It is recommended that the present £11m limit be increased for the rest of 2008/09 to £20m. A further review will be carried out before the 2009/10 Treasury Strategy is approved in February 2009.

B. BANK OF ENGLAND (BoE) BASE RATE

- I. On 1st April 2008 the BoE base rate was 5.25% (from 7/2/08).
- II. On 10th April 2008 it reduced to 5%.
- III. On 8th October it reduced to 4.5%.
- IV. On 6th November it reduced to 3%.
- V. The LIBOR rate usually follows closely the BoE base rate but from late September the LIBOR rate has stayed well above 6%

for 3 month investments. This has helped the Council to achieve better rates of interest on its investments.

- VI. However, from week commencing 17th November LIBOR rates have fallen, but are still well above the BoE base rate, at around 4.25%.
- VII. The market has indicated that further reductions in interest rates are expected later in this financial year.

C. INVESTMENT INCOME

- I. The Council's Investment Income General Fund Original Budget for 2008/09 was £377,530.
- II. As mentioned in Paragraph A (1X) above, officers have recently placed investments out to dates where future expenditure is known, for periods up to 6 months, to ensure better rates. However, at a meeting with local authorities earlier this month, Butlers, our treasury advisors stated that, in their opinion, authorities should, in the current climate, only be lending for up to a maximum 3 months. As this is a narrower policy than at present, it is **Recommended to Council** that this policy is introduced with immediate effect. A further review will be carried out before the 2009/10 Treasury Strategy is approved in February 2009.
- III. Although the Council has achieved better than expected returns on its investments since late September, the reduction in the BoE base rate from earlier this month will have an impact on future investments, as rates are likely fall lower than the current LIBOR rate of 4.25%.
- IV. As set out in the separate report the recovery of outstanding monies from Landsbanki is in the hands of the receivers. The impact on the Investment Income budget for 2008/09 will depend on the outcome of discussions with the Icelandic authorities, and a decision on whether to capitalise the lost interest.

D. TREASURY MANAGEMENT CONSULTANTS.

- I. The Council's current arrangement with Butlers has been in place since January 2006, and is renewable annually.
- II. In the light of recent banking events, and the fact that the current arrangement has been running for 3 years, officers are of the view that it is now appropriate to test the market in respect of the treasury management advice service.
- III. In order to comply with Standing Order KK10, for a contract with an estimated total value of between £10,000 and £50,000, three written quotations must be received.

- IV. The three main suppliers of treasury management advice to local government are:
 - o Butlers
 - o Sector
 - o Arlingclose
- V. The three companies identified in paragraph D (IV) above will be invited to submit proposals for the provision of treasury management services to the Council from January 2009.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The Bank of England Base rate falls further during 2008/09.	3	A further reduction in Investment Income for 2008/09.	A number of investments have already been placed out to February and March 2009 at higher rates.
The economy fails to pick up before 2010, leaving interest rates low for all 2009/10.	3	The income contribution from Investment Interest to the Council's General Fund budget is substantial.	Being proactive by achieving good investment rates at minimum risk during the period April to January, when Council Tax and Business Rates are highest, may offset lower rates of interest.

1 = little or no risk or impact

2 = some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = near certainty of risk occurring, catastrophic effect or failure of project.