

AGENDA

ITEM 12

**Report to:** Audit Committee  
**Date of meeting:** 13th January 2010  
**Report of:** Interim Head of Finance  
**Title:** Treasury Management Performance Report

1.0 **SUMMARY**

1.1 This report provides a review of the Council's Treasury Management performance for the eight months ending 30th November 2009/2010.

2.0 **RECOMMENDATIONS**

2.1 That the Committee notes the Treasury Management Performance for the eight months ending 30th November 2009

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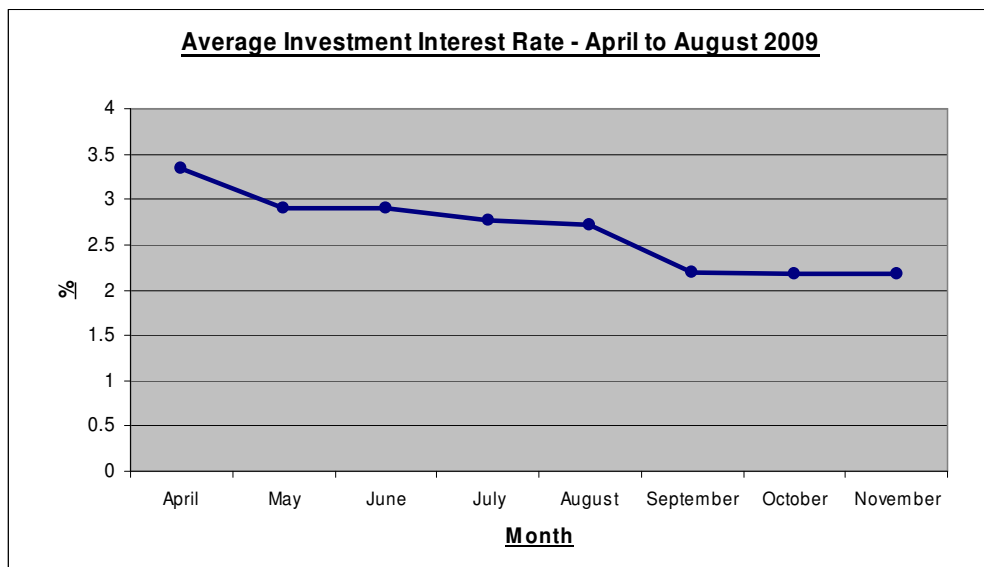
3.0 **Background**

3.1 At its meeting of 30<sup>th</sup> September 2009 The Committee received a report outlining its Treasury Management performance up to 31<sup>st</sup> August 2009. This report provides an update on the next three months performance.

4.0 **Treasury Management Performance for 2009/2010**

4.1 **Average Investment Rates**

The Council's Treasury Management Policy requires that the performance of the investment portfolio be reported to Members. For the eight month period ended 30<sup>th</sup> November 2009 the average interest rate was 2.17% and the amount of interest earned and accrued for the period, net of interest paid on internal funds totalled approximately £800k. The forecast outturn for the 2009/10 is currently £855k some £158k down on the original budget of £1.013 million. This compared to a performance target of 0.1% above the average base rate figure, which was 0.5% for the period. This significant over achievement as advised previously is due to the timely investment of a number of investments of 12 months maturing in October 2008 at the highest point of the interest rate curve (6.5%). A track on average interest rate for the period is shown below :

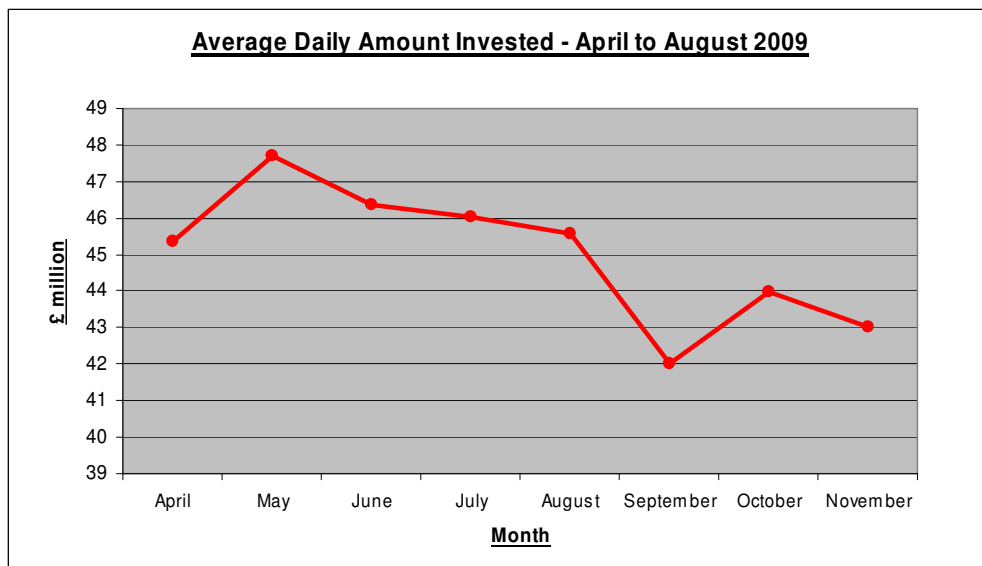


The average interest rate earned on investments continues to fall with all the higher rated investments falling out in September and October. The highest rated investment now stands at just 3%.

#### 4.2

### Amounts Invested

At 30<sup>th</sup> November 2009 the total amount held in Investments totalled £41 million with a further £3 million held in overnight deposits at the Co-Op bank for cash flow purposes. The Councils investment portfolio is shown in detail in Appendix A. The average daily amount invested for the eight month period ending 30<sup>th</sup> November 2009 was £42.7 million. There were 4 new deals and 6 maturities in November compared to 12 and 7 respectively for the previous month. The average duration of these new deals was 70 days. The average interest rate on these new deals was 0.70 %. A track of average daily amounts invested for the period can be shown as follows :



#### 4.3

### Counterparties

At Audit Committee on 30<sup>th</sup> September 2009 Members were advised that officers were looking to increase the size of the Counterparty list from the top six building societies to the top ten building societies by asset size. This change in operational policy has enabled the council to benefit from higher investment rates offered by building societies whilst at the same time limiting the exposure risk. The current strategy aims to achieve a mix of investments held by building societies and banks of 50/50. At the 31<sup>st</sup> August this stood at 40/60 between banks and building societies respectively and has now moved to 47/53 as at 30<sup>th</sup> November 2009.

#### 4.4

### Forecast Of Base Rates

The Council receives information on bank base rate interest rate forecasts and other Treasury Management information and advice from its appointed Treasury Management advisors Sector. A number of sources give predictions on interest

rates as follows :

|                          | Dec 09 | Mar 10 | Sept 10 | Dec 10 | Mar 11 | Dec 11 |
|--------------------------|--------|--------|---------|--------|--------|--------|
| <b>Sector</b>            | 0.5%   | 0.5%   | 0.75%   | 1.00%  | 1.5%   | 3.25%  |
| <b>UBS</b>               | 0.5%   | 0.5%   | 0.5%    | 0.5%   | 0.5%   | 0.5%   |
| <b>Capital Economics</b> | 0.5%   | 0.5%   | 0.5%    | 0.5%   | 0.5%   | 0.5%   |

From the predictions above Members will note that bank base rates are not expected to rise until September 2010 at the earliest and consequently the return that Members can expect on their investments will in turn remain static. This will ultimately effect the Councils revenue budget which will be discussed later

## 5.0 Treasury Management Practice for 2009/2010

In line with the Councils agreed Treasury Management Strategy and operational strategy the Council continues to

- Be mindful to ensure security over interest
- Make no further investments with Irish banks
- Make no investments with institutions outside the EU
- Work towards a 50/50 split of investments in banks and building societies
- The Council remains open to the use of the Government Debt Management Office due to the restrictive nature of its counterparties but as previously advised the use of this facility will be kept to a minimum wherever possible due to the low investment returns currently around 0.2%.
- The Council will continue to invest in banks that meet its minimum credit ratings
- In view of the current prediction on interest rates the Council will continue to place some of its money for longer term (up to 364 days) to benefit from higher rated returns. Currently approximately 44% of its investments are long term, timed to mature when interest rates are predicted to rise. This level of long term investment is justified given a General Fund Working Balance of £1.7 million and Earmarked and General Reserves of approximately £10.3 million which it is not envisaged will be required to be drawn on in the short term.
- The Council continues to be debt free and is likely to remain so for the foreseeable future. Whilst the current strategy allows temporary borrowing no such borrowing was undertaken in the first eight months of this financial year.

6.0

### **Conclusions**

The current market for investments is stable but with base rates continuing to stay low ,investment returns remain low. The Council has benefited from fixed rate deals placed last year at interest rates of 6% but these investments have now matured and recent returns are no where near this figure. The interest earned on new deals continues to vary with the high street banks and larger building societies offering rates on 3 month deals as low as 0.4% with some of the smaller building societies, who need to be more competitive offering up to 1.9%. Officers continue to work within the current Treasury Management Strategy.

7.0

### **IMPLICATIONS**

7.1

#### **Financial Issues**

The investment interest budget for 2009/10 was set at £1,013,000 net of payments to internally held funds such as Section 106 and Charter Place. Through the Council's budget monitoring report, The Finance Digest, this has been steadily revised downwards and the current forecast outturn shows an investment interest figure of £855k.

7.2

#### **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are statutory limitations governing cash fund investments and all proposals within this report ensure continued compliance.

7.3

#### **Potential Risks**

| <b>Potential Risk</b>   | <b>Likelihood</b> | <b>Impact</b> | <b>Overall score</b> |
|---|-------------------|---------------|----------------------|
| Investment with non approved body   | 2                 | 3             | 6                    |
| Failure to achieve investment interest budget targets   | 3                 | 2             | 6                    |
| Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register. |                   |               |                      |

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|       |                         |
|-------|-------------------------|
| 7.4   | <b>Staffing</b>         |
| 7.4.1 | None Directly           |
| 7.5   | <b>Accommodation</b>    |
| 7.5.1 | None Directly           |
| 7.6   | <b>Community Safety</b> |
| 7.6.1 | None Directly           |
| 7.7   | <b>Sustainability</b>   |
| 7.7.1 | None Directly           |

Background Papers

CIPFA Treasury Management Code of Practice  
Audit Commission publication-Risk and Return  
Treasury Management Policy, Practice and Strategy (reported to this Committee on  
19<sup>th</sup> January 2009

File Reference

None