PART A

AGENDA ITEM **10**

Report to:	Audit Committee
Date of meeting:	30 June 2010
Report of:	Head of Strategic Finance
Title:	Treasury Management Quarterly Report

1.0 SUMMARY

1.1 This report provides a brief quarterly review of the Council's Treasury Management performance for 2009/2010 and arrangements up to the present time regarding investment strategy.

2.0 RECOMMENDATIONS

2.1 That the Committee notes the report and endorses the current strategy to concentrate on the security of investments rather than seeking higher levels of performance.

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3.0 **Background**

3.1 The Committee received two reports on 13th January 2010 which detailed a Treasury Management, Investment and Practices Strategy for 2010/2011 and a quarterly report upon treasury performance for the eight months ending 30th November 2009.

3.2 This report updates the Committee on the treasury management performance for the financial year 2009/2010 and the operational strategy from 1st April up to the present date.

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

4.1 In the 2009/2010 financial year the Council held an average daily amount of £44.88 million (£50.975 million in 2008/2009) and this includes earmarked funds as well as general cash balances. The average interest achieved was 2.00% compared to a performance target of 0.6% (0.1% above the average base rate figure). An over achievement of 1.40% compared to the target (although budget assumptions had anticipated a rate of return of 2.2%).

4.2 The 2.2% could have been exceeded had the Council continued to place investments with smaller building societies. The revised strategy however had been to limit its investments to the six largest building societies (and suitably credit rated banks) and this has increased security but at the expense of yield (investment return). This is undoubtedly the correct policy as it only needs one investment of say £1m to turn ‘bad’ and all other investment returns would be wiped out.

4.3 The consequence however is that the Original Estimate on the Council’s investments of £1,013k was not achieved and the out turn shows a return of £743k (an actual 2.00% on the average size of the portfolio equates to £897k, but part of this interest needs to be credited to earmarked accounts). The under achievement of £270k on the general account is not solely due to a reduced rate of return (as a 0.02% underachievement equates to only £89k) but also relates to a reduced average size of portfolio during the year.

4.4 The Council's Treasury Management Strategy for 2010/2011 has continued to place a greater emphasis upon security of the investment portfolio and this, combined with a continuing low level of interest rates, has meant that returns on the investment portfolio will remain low.

4.5 In addition to this, the average size of the Investment Portfolio continues to fall and currently has a daily average of £36m invested. This reduction has been caused by using capital receipts to finance projects within the capital programme. One of these projects, the purchase of Woolworth's and its conversion into two separate retail units, should result in significantly greater investment returns on the commercial rent portfolio and will materialise during the second half of the year. Investment income should not therefore be looked at in isolation.

4.6 The original estimate of general investment interest for 2010/2011 is £696k and is based upon an average 1.6% rate of interest. This will not be achieved if the average size of the portfolio remains around £36m and will need to be reviewed as part of normal budget monitoring procedures.

5.0 **Treasury Management Practice for 2010/2011**

5.1 It is not the intention to formally revise the Treasury Policy for 2010/2011 but will continue to focus upon:

- Four of the top six (by size) of building societies (Nationwide, Yorkshire, Coventry and Skipton; the other two being Britannia—part of the Co-op Bank Group, and Chelsea—subject to a takeover by Yorkshire).
- Those banks having the necessary credit rating (as per our Treasury Policy Statement).
- Money Market Funds which are Triple AAA rated. Our Policy Statement permits such investments and they are highly recommended by our Treasury Fund advisers, Sector, for security of asset and liquidity (investments can be called back same day). In that respect the Council has opened an account with Henderson Liquid Assets Fund (currently has 61 local authority clients). The average rate of return is low (circa 0.6%) but does provide diversification within the Portfolio). No money has been deposited to date but it is possible that £2m might be placed in the future and will be dependent upon alternative options and the state of the financial markets.

5.2 The Portfolio is seeking to achieve security of investments (top priority) with a reasonable rate of return and will seek to avoid 'safe havens' such as the Government Debt Management Office where a return of 0.15% is currently offered.

5.3 The current Portfolio is attached at Appendix 1 and the following notes may be of assistance to the Audit Committee:

- Cater Allen is fully guaranteed by Santander
- Clydesdale Bank meet our ratings criteria. The investments we have are with the local branch (Clarendon Road) and whilst enjoying the full protection of Clydesdale nationally, our money is actually loaned at Clydesdale's risk to local businesses.
- The Nat West account has been set up on the back of the Three Rivers bank contract (as a favour to Watford, but obviously in Watford's name—nevertheless another plus point from Shared Services). It is a same day call account and offers a very reasonable rate of interest. It is backed by Government guarantee and will be increasingly used where the Council has temporary cash flow surpluses which cannot be loaned out for any length of time. In the past we have had to have recourse to overnight facilities at the Co-operative Bank (0.46% rate of interest) but Nat West provides better security and a higher yield.

5.4 Appendix 1 does indicate that a preponderance of our portfolio in 12 month money is the only realistic way in which the 1.6% target rate of interest will be achieved. There has recently been encouraging 'noises' that the Bank of England may be forced to increase base rates later in the year due to inflationary pressures. Had this view taken hold then markets would start to factor in such an increase by way of an increased return on 12 month money. Inflation figures announced on 15th June revealed that the CPI and RPI have both fallen marginally and this may encourage the Monetary Policy Committee to hold fire and keep base rate at its current level.

6.0 IMPLICATIONS

6.1 **Financial Issues**

The Head of Strategic Finance comments that all financial comments have been included within the body of the report.

6.2 **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.

6.3 **Potential Risks**

Potential Risk	**Likelihood**	**Impact**	**Overall score**
Investment with non approved body	1	4	4
Failure to achieve investment interest budget targets	2	3	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.			

6.4 **Staffing**
6.4.1 None Directly

6.5 **Accommodation**
6.5.1 None Directly

6.6 **Community Safety**
6.6.1 None Directly

6.7 **Sustainability**
6.7.1 None Directly

<u>Background Papers</u>

CIPFA Treasury Management Code of Practice
Audit Commission publication-Risk and Return
Treasury Management Policy, Practice and Strategy (reported to this Committee on 13th January 2010

<u>File Reference</u>

None