

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Overview and Scrutiny Board  
**Date of Committee** 5 October 2010  
**Report Title** Treasury Management Monitoring Report 2010/11

**Summary** This report sets out the progress of the treasury management process during 2010/11.

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**Would the recommended decision be contrary to the Budget and Policy Framework? [please identify relevant plan/budget provision]**  
 No.

- Background papers**
- CIPFA publication "Treasury Management in the Public Services: Code of Practice and Guidance notes for Local Authorities"
  - Treasury Management Strategy 2010/11

**CONSULTATION ALREADY UNDERTAKEN:-** Details to be specified

- Other Committees  .....
- Local Member(s)
- Other Elected Members  Cllr Saint, Cllr Roodhouse, Cllr Tandy
- Cabinet Members  Cllr Heatley, Cllr Wright
- Chief Executive  .....
- Legal  Sarah Duxbury, Janet Purcell
- Finance  Strategic Director, Resources – reporting officer
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....

Police  .....

Other Bodies/Individuals

**FINAL DECISION YES**

**SUGGESTED NEXT STEPS:**

Details to be specified

Further consideration by this Committee  .....

To Council  .....

To Cabinet  .....

To an O & S Committee  .....

To an Area Committee  .....

Further Consultation  .....

5 October 2010

## Treasury Management Monitoring Report

### Report of the Strategic Director, Resources

#### Recommendation

That the Overview and Scrutiny Board consider, comment on and form a view of any additional information they may require for subsequent reports.

## 1 Introduction

- 1.1 Warwickshire County Council fully complies with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management 2001.
- 1.2 Under the CIPFA Code, the Cabinet is required to receive a report on the outturn of the annual treasury management activity for the authority. Monitoring reports regarding treasury management will be an agenda item for the O&S Board throughout the year.
- 1.3 Treasury management in the context of this report is defined as:  
  
"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." (*CIPFA Code of Practice*).

## 2 Investments

- 2.1 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short term basis. This cash is invested partly by an external cash manager and partly in house, approximately on a 70/30 basis. Such investments earn investment income.
- 2.2 The Council's investment portfolio at the end of the first four months of 2010/11 to 31 July 2010 was as follows:

**Table 1: Investment Position at 31 July 2010**

	Invested at 31 July 2010
	£m
In-house fixed term deposits	37.7
Santander Bank (instant access call account)	10.0
<b>Total In-house</b>	<b>47.7</b>
Aviva Investors	45.1
<b>Total All Investments</b>	<b>92.8</b>

2.3 The council is currently investing according to a low risk, high quality lending list and is using a policy which is a very restrictive interpretation of the policy approved in the Treasury Management Strategy 2010/11 approved by Cabinet on 25 February 2010. A significant proportion of funds is placed with the UK Government Debt Management Office for a period of up to three months.

2.4 All other counterparties (banks and other institutions to which we lend) have a time limit of one year. Higher minimum ratings for overseas institutions are currently imposed but at this time there are no deposits placed outside the UK.

2.5 Performance of the Council's investments versus the benchmark is:

**Table 2: Investment Performance to 31 July 2010**

	Average Interest rate year to date	Target rate: 7 day LIBID (+10% for the externally managed Aviva portfolio)	Variance
	%	%	%
In house	0.35	0.42	-0.07
Santander call account	0.80	0.42	0.38
<b>Total In house</b>	<b>0.58</b>	<b>0.42</b>	<b>0.16</b>
Aviva Investors	1.34	0.46	0.88
<b>Total All Investments</b>	<b>0.96</b>	<b>0.44</b>	<b>0.52</b>

The London Interbank Bid Rate (**LIBID**) is the rate bid by banks on Eurocurrency deposits (i.e., the rate at which a bank is willing to borrow from other banks).

2.6 The in-house operation under-performed slightly, due to the very cautious investment approach followed by Treasury staff, whereby low risk results in a lower investment return. Investment target rates are set out in the Treasury Management Strategy.

**Table 3: Interest Earned to 31 July 2010**

	Year to date
	£000
In house	64.0
Santander	26.5
<b>Total In house</b>	<b>90.5</b>
Aviva Investors	200.5
<b>Total All Investments</b>	<b>290.5</b>

2.7 The table below details our consultant's view on interest rates. Based on this opinion, the money market will continue to be at current levels until 2011 when rate rises are predicted.

**Table 4: Interest Rate Forecast**

	Dec 2010	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012
Interest Rate Forecast	0.50%	0.75%	0.75%	1.00%	1.50%	2.25%

Source: Sector Treasury Services

### 3 Borrowing

3.1 The Treasury Management Outturn Report for 2009/10 gave an overall outstanding Public Works Loans Board (PWLB) borrowing figure of £335.8m at 31 March 2010. Since this time, the Council has taken additional loans from the Public Works Loans Board totalling £20m. The table below details our performance against average rates to 31 July 2010.

**Table 5: PWLB Average Rate versus WCC Loans to Date**

Amount Borrowed	Average Rate
WCC Loans totalling £20m	2.81
PWLB Average Rate to Date (7 year)	3.16
<b>Out/(Under) Performance</b>	<b>0.35</b>

3.2 The Council has out-performed the PWLB average rate to date. It still has a remaining borrowing requirement of around £37m for 2010/11.

### 4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the first quarter of 2010/11, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Treasury Management Strategy. Full details of the Prudential Indicators set for 2010/11 are shown in **Appendix A**.

DAVID CLARKE  
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Warwick  
August 2010

## Appendix A

PRUDENTIAL INDICATOR (1). AFFORDABILITY PRUDENTIAL INDICATORS	2010/11	2011/12	2012/13	2013/14
	estimate	estimate	estimate	estimate
<b>Capital Expenditure</b>	<b>£'000</b> 140,778	<b>£'000</b> 42,102	<b>£'000</b> 22,532	<b>£'000</b> 22,000
<b>Ratio of financing costs to net revenue stream</b>	% 11.09	% 11.60	% 11.12	% 11.09
<b>Net borrowing requirement</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
brought forward 1 April	335,751	395,019	401,615	404,610
carried forward 31 March	395,019	401,615	404,610	406,924
in year borrowing requirement	59,267	6,597	2,995	2,313
<b>In year Capital Financing Requirement</b>	<b>£'000</b> 31,251	<b>£'000</b> 6,597	<b>£'000</b> 2,995	<b>£'000</b> 2,313
<b>Capital Financing Requirement as at 31 March</b>	<b>£'000</b> 388,927	<b>£'000</b> 395,524	<b>£'000</b> 398,519	<b>£'000</b> 400,832
<b>Affordable Borrowing Limit</b>	£	£	£	£
<b>Position as agreed at February 2008 Council</b> Increase per council tax payer	9.33			
<b>Position as agreed at March 2009 Council</b> Increase per council tax payer	16.10	2.17		
<b>Position as agreed at March 2010 Council</b> Increase per council tax payer	22.46	9.50	-3.44	-5.19
<b>Updated position of Current Capital Programme</b> Increase per council tax payer	14.72	13.51	1.62	-0.37
PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2010/11	2011/12	2012/13	2013/14
	approved	estimate	estimate	estimate
<b>Authorised limit for external debt -</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	489,204	481,999	488,596	491,975
other long term liabilities	12,000	12,000	12,000	12,000
<b>TOTAL</b>	<b>501,204</b>	<b>493,999</b>	<b>500,596</b>	<b>503,975</b>
<b>Operational boundary for external debt -</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	407,670	401,665	407,163	409,979
other long term liabilities	10,000	10,000	10,000	10,000
<b>TOTAL</b>	<b>417,670</b>	<b>411,665</b>	<b>417,163</b>	<b>419,979</b>
<b>Upper limit for fixed interest rate exposure</b>				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
<b>Upper limit for variable rate exposure</b>				
Net principal re variable rate borrowing / investments	25%	25%	25%	25%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	£ £0	£ £0	£ £0	£ £0
<b>Maturity structure of new fixed rate borrowing during 2009/10</b>	upper limit	lower limit		
under 12 months	20%	0%		
12 months and within 24 months	20%	0%		
24 months and within 5 years	60%	0%		
5 years and within 10 years	100%	0%		
10 years and above	100%	0%		