

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Overview and Scrutiny Board  
**Date of Committee** 14 September 2011  
**Report Title** Treasury Management Monitoring Report 2011/12

**Summary** This report sets out the progress of the treasury management process during 2011/12.

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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 2011/12

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

- Other Committees  .....
- Local Member(s)
- Other Elected Members  Cllr Appleton, Cllr Roodhouse, Cllr Tandy – for information
- Cabinet Members  Cllr Wright
- Chief Executive  .....
- Legal  John Galbraith
- Finance  John Betts, County Treasurer – 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  .....

## Overview and Scrutiny Board

14 September 2011

### Treasury Management Monitoring Report

#### Recommendation

That the Overview and Scrutiny Board discuss and approve the report.

## 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.
- 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 in house treasury function and partly by an external cash manager, 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 2011/12 to 31 July 2011 was as follows:

**Table 1: Investment Position at 31 July 2011**

	Invested at 31 July 2011
	£m
In-house fixed term deposits	105.8
Santander Bank (instant access call account)	10.0
<b>Total In-house</b>	<b>115.8</b>
Aviva Investors	45.9
<b>Total All Investments</b>	<b>161.7</b>

2.3 The council is currently investing according to a low risk, high quality lending list in line with the policy approved in the Treasury Management Strategy 2011/12 approved by Council on 15 February 2011. 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 2011**

	Average Interest rate year to date	Target rate: 7 day LIBID (+10% for the externally managed Aviva portfolio)	Variance
	%	%	%
In house	0.45	0.46	-0.01
Santander call account	0.80	0.46	0.34
<b>Total In house</b>	<b>0.63</b>	<b>0.46</b>	<b>0.17</b>
Aviva Investors	1.50	0.51	0.99
<b>Total All Investments</b>	<b>0.88</b>	<b>0.48</b>	<b>0.40</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 2011**

	Year to date
	£000
In house	146.0
Santander	25.8
<b>Total In house</b>	<b>171.8</b>
Aviva Investors	226.9
<b>Total All Investments</b>	<b>398.7</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 mid 2012 when rate rises are predicted.

**Table 4: Interest Rate Forecast**

	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013
Interest Rate Forecast	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%

Source: Sector Treasury Services

### 3 Borrowing

3.1 The Treasury Management Outturn Report for 2010/11 gave an overall outstanding Public Works Loans Board (PWLB) borrowing figure of £371.7m at 31 March 2011. 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 5 August 2011.

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

Amount Borrowed	Average Rate
WCC Loans totalling £20m	3.76
PWLB Average Rate to Date (10-year)	4.49
<b>Out/(Under) Performance</b>	<b>0.73</b>

3.2 The Council has out-performed the PWLB average rate to date. It still has a remaining borrowing requirement of around £10m for 2011/12.

### 4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the first quarter of 2011/12, 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 2011/12 are shown in **Appendix A**.

Report Author: Phil Triggs, Group Manager (Treasury and Pensions)

Head of Service: John Betts, County Treasurer

Strategic Director: David Carter, Strategic Director, Resources Group

Portfolio Holder(s): Cllr Wright, Portfolio Holder, Finance

Appendix A  
In year Monitoring 2011/12

PRUDENTIAL INDICATOR	2011/12		April to July 2011	Variance to Budget
<b>(1). AFFORDABILITY PRUDENTIAL INDICATORS</b>	Budget			
	£'000			
<b>Capital Expenditure</b>	£'000 124,493		£'000 124,493	£'000 0
<b>Ratio of financing costs to net revenue stream</b>	% 10.72		% 10.75	% 0.03
<b>Net borrowing requirement</b>	£'000		£'000	£'000
brought forward 1 April	371,704		371,701	-3
carried forward 31 March	401,658		401,993	335
in year borrowing requirement	29,954		30,291	337
<b>In year Capital Financing Requirement</b>	£'000 29,954		£'000 30,291	£'000 337
<b>Capital Financing Requirement as at 31 March</b>	£'000 410,903		£'000 404,425	£'000 -6,478
<b>Affordable Borrowing Limit:</b>				
<b>Updated position of Current Capital Programme (Jan 2011)</b>	£		£	£
Increase per council tax payer	6.21		8.15	1.94

PRUDENTIAL INDICATOR	2011/12		Quarter 1	Variance to Budget
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	estimate			
	£'000		£'000	£'000
<b>Authorised limit for external debt -</b>				
Borrowing	461,875		482,451	20,576
other long term liabilities	12,000		12,000	0
<b>TOTAL</b>	<b>473,875</b>		<b>494,451</b>	<b>20,576</b>
<b>Operational boundary for external debt -</b>				
Borrowing	374,896		402,043	27,147
other long term liabilities	10,000		10,000	0
<b>TOTAL</b>	<b>384,896</b>		<b>412,043</b>	<b>27,147</b>
<b>Upper limit for fixed interest rate exposure</b>				
Net principal re fixed rate borrowing / investments	100%		100%	0.00
<b>Upper limit for variable rate exposure</b>				
Net principal re variable rate borrowing / investments OR:-	25%		25%	0%
<b>Upper limit for total principal sums invested for over 364 days</b>				
(per maturity date)	£ 0		£ 0.00	0.00

Maturity structure of new fixed rate borrowing	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%		

In year Monitoring 2008-2009

PRUDENTIAL INDICATOR	2008/09		Quarter 1	Variance to Budget
(1). AFFORDABILITY PRUDENTIAL INDICATORS	Budget			
	£'000			
<b>Capital Expenditure</b>	£'000 145,605		£'000 145,605	£'000 0
<b>Ratio of financing costs to net revenue stream</b>	% 8.74		% 8.96	% 0.22
<b>Net borrowing requirement</b>	£'000		£'000	£'000
brought forward 1 April	294,002		282,685	-11,317
carried forward 31 March	337,240		335,117	-2,122
in year borrowing requirement	43,238		52,432	9,194
<b>In year Capital Financing Requirement</b>	£'000 43,248		£'000 40,397	£'000 -2,851
<b>Capital Financing Requirement as at 31 March</b>	£'000 331,157		£'000 329,025	£'000 -2,132
<b>Affordable Borrowing Limit</b>				
<b>Updated position of Current Capital Programme (Jan 08)</b>	£		£	£
Increase per council tax payer				
<b>Position as agreed at February 2008 Council</b>	13.15		14.80	1.65
Increase per council tax payer				

PRUDENTIAL INDICATOR	2008/09		Quarter 1	Variance to Budget
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	estimate			
	£'000		£'000	£'000
<b>Authorised limit for external debt -</b>				
Borrowing	431,739		429,192	-2,547
other long term liabilities	600		600	0
<b>TOTAL</b>	<b>432,339</b>		<b>429,792</b>	<b>-2,547</b>
<b>Operational boundary for external debt -</b>				
Borrowing	359,783		357,660	-2,122
other long term liabilities	500		500	0
<b>TOTAL</b>	<b>360,283</b>		<b>358,160</b>	<b>-2,122</b>
<b>Upper limit for fixed interest rate exposure</b>				
Net principal re fixed rate borrowing / investments	100%		100%	0.00
<b>Upper limit for variable rate exposure</b>				
Net principal re variable rate borrowing / investments OR:-	25%		25%	0%
<b>Upper limit for total principal sums invested for over 364 days</b>				
(per maturity date)	£ 0		£ 0.00	0.00

Maturity structure of new fixed rate borrowing during 2007/08	lower limit		
under 12 months	0%		
12 months and within 24 months	0%		
24 months and within 5 years	0%		
5 years and within 10 years	0%		
10 years and above	0%		100%