

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

INFORMATION

Agenda Item No

meeting date: 24 NOVEMBER 2009
title: TREASURY MANAGEMENT MONITORING 2009/10
submitted by: DIRECTOR OF RESOURCES
principal author: TRUDY HOLDERNESS

1 PURPOSE

- 1.1 To provide you with a progress report of our treasury management activities for period 1 April 2009 to 30 September 2009.

2 BACKGROUND

- 2.1 You have previously approved a treasury management policy in accordance with CIPFA's code of practice on treasury management for Local Authorities.
- 2.2 In accordance with this policy committee should receive a quarterly report on its treasury management operations.

3 INFORMATION

- 3.1 Nationally, bank base interest rates have remained static at 0.5% in the period.
- 3.2 This low interest rate has had no immediate effect on the interest payable on the Council's long-term loan debt from Public Works Loan Board, which is mainly at fixed interest rates. However, it has resulted in a dramatic decrease in income from our temporary investments.

4 BORROWING REQUIREMENTS

- 4.1 The movements of the Council's external debt for the period can be summarised as follows:

	PWLB £000	Other £000	Total £000
External Debt at 1 April 2009	649	7	656
Repayments	-35	-0	- 35
External debt at 30 September 2009	614	7	621

- 4.2 In April a temporary loan of £500,000 was taken out from Broadland District Council for a period of 7 days at 0.5% interest. This was due to a shortfall in cash balances between paying precepts to Lancashire County Council, Police and Fire Authorities and receiving council tax direct debit income. No further temporary loans have been required since, although cash balances remain low.
- 4.3 The total interest paid on the Council's external debt during the period was £15,215.21 compared with £19,502.77 in the previous year.

5 INVESTMENTS

- 5.1 In accordance with the treasury management policy, surplus funds are temporarily invested via the money market at the best rate of interest available with the minimisation of risk to the capital sum.
- 5.2 The average interest we received on all external investments for the period 1 April 2009 to 30 September 2009 was 0.62%, which compares favourably with the average local authority seven-day notice deposit rate of 0.35%.
- 5.3 The movement in the Council's external investments are shown in Appendix 1, summarised as follows:

	Banks/ Building Societies £000	Other Local Authorities £000	Total £000
Investments at 1 April 2009	1,585	0	1,585
Transactions – Investments	24,470	0	24,470
Repayments	-21,905	-0	-21,905
Investments at 30 September 2009	4,150	0	4,150

- 5.4 The total interest received on the Council's external investments during the period was £7,202.42 compared with £127,217.56 in the previous year.

6 PRUDENTIAL INDICATORS

- 6.1 Since April 2004 the Prudential Code for Capital Finance in Local Authorities (the Code) regulates the Council's ability to undertake new capital investment.
- 6.2 The introduction of the prudential code saw the limits previously imposed replaced with four new prudential indicators.
- ❖ Upper limits on variable rate exposure. This indicator identifies a maximum limit for variable interest rates based upon the debt provision net of investments.
 - ❖ Upper limits on fixed rate exposure. Similar to the previous indicators, this covers a maximum limit on fixed interest rates
 - ❖ Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.
 - ❖ Total principal funds invested for a period longer than 364 days. These limits are set to reduce the need for early sale of an investment and are based on the availability of investments after each year-end
- 6.3 In accordance with this Code the Council agreed to monitor these indicators, which were approved by this committee in March 2009.

6.4 The limits set on interest rate exposures for 2009/10 were as follows:

	Upper Limit £000	Current Actual £000
Maximum Principal Sums Borrowed >364 days	9,448	657
Limits on Fixed Interest Rates	9,448	1,157
Limits on Variable Interest Rates	1,890	0

6.5 The upper and lower limits for the maturity structure of its borrowings for 2009/10 were as follows:

	Upper Limit %	Lower Limit %	Current Actual %
Under 12 months	20	0	10.83
12 Months and Within 24 Months	20	0	10.83
24 Months and Within 5 Years	30	0	32.48
5 Years and Within 10 Years	30	0	23.95
10 Years and Above	90	0	21.91

6.6 The total principal funds invested for a period longer than 364 days was set at nil. No investments have been made in the period for longer than 364 days.

7 APPROVED ORGANISATIONS

7.1 We currently limit investments to the top 10 building societies, these are:

Name	Current Ranking	Previous Ranking	Fitch Rating			
			Long Term	Review Date	Short Term	Review Date
	Aug'09	Jun'09				
Nationwide	1	1	AA -	23.06.09	F1+	09.04.09
Britannia	-	2	-	-	-	-
Yorkshire	2	3	A -	23.06.09	F2	22.05.09
Coventry	3	4	A	23.06.09	F1	22.05.09
Chelsea	4	5	BBB +	23.06.09	F2	22.05.09
Skipton	5	6	A -	23.06.09	F2	23.06.09
Leeds	6	7	A	23.06.09	F1	23.06.09
Principality	7	9	BBB +	23.06.09	F2	22.05.09
West Bromwich	8	8	BBB -	23.06.09	F3	23.06.09
Newcastle	9	10	BBB -	23.06.09	F3	23.06.09

- 7.2 Britannia Building Society is no longer being listed, due to its merger with Co-operative Financial Services on 1 August 2009. It is now known as Britannia, part of the Co-operative Financial Services.
- 7.3 This has reduced the approved investment institutions to 9.
- 7.4 The BBB rating of some building societies is of major concern. We have therefore not placed any investments with these institutions since previously reported.
- 7.5 The current Fitch IBCA long-term and short-term credit rating on the banks we use are as follows:

	Fitch Rating			
	Long-Term	Review Date	Short-Term	Review Date
Abbey National plc *	AA -	26.06.09	F1+	26.06.09
Alliance & Leicester Commercial Bank plc *	AA -	26.06.09	F1+	26.06.09
Barclays Bank plc *	AA -	09.04.09	F1+	09.04.09
Bank of Scotland plc *	AA -	09.03.09	F1+	09.03.09
Bradford & Bingley Bank plc *	A -	06.04.09	F1+	06.04.09
Cheltenham & Gloucester Bank plc	Not listed part of Lloyds TSB Group			
Co-operative Bank (The)	A -	13.08.09	F2	13.08.09
HSBC Bank plc *	AA	09.04.09	F1+	09.04.09
Lloyds TSB Bank plc *	AA -	09.03.09	F1+	09.03.09
National Westminster Bank plc *	AA -	19.01.09	F1+	19.01.09
Northern Rock Plc	A -	11.06.09	F1+	19.08.09
Royal Bank of Scotland plc (The) *	AA -	19.01.09	F1+	19.01.09

* Not updated since last reported.

- 7.6 There have been a few minor changes in the ratings since last reported in July 2009, which are as follows:

	Rating			
	Long-Term		Short-Term	
	Jun'09	Sept'09	Jun'09	Sept'09
Co-operative Bank (The)	A	A-	F1	F2
Northern Rock Plc *	A -	A -	F1+	F1+

* Reviewed only – no change to rating

- 7.7 In February 2009 this Council received approval from the United Kingdom Debt Management Office to open a Debt Management Account Deposit Facility. To date no investments have been placed with them.
- 7.8 These Fitch crediting ratings, which are defined in the table below, only show an indication of the current credit position. They are being monitored on a regular basis and any significant changes will be reported to this committee.

Fitch Rating Definitions	
International Long-Term Credit Ratings	
Long-term credit rating can be used as a benchmark measure of probability of default.	
AAA	Highest credit quality. 'AAA' denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectation of low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than in the case for higher ratings.
BBB	Moderate default risk. 'BBB' National Ratings denote a moderate default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment than is the case for financial commitments denoted by a higher rated category
.International Short-Term Credit ratings	
Short-term rating has a time horizon of less than 13 months for most obligations and thus places greater emphasis on the liquidity necessary to meet financial commitments	
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment grade.

8 CONCLUSION

8.1 The extraordinary downturn in the global economy has had a dramatic effect on the income we receive from investments. Interest rates continue to remain very low, whereas the risks from placing investments remain high.

8.2 The low level of interest rates have been reflected in the most recent budget forecast, with anticipated interest receipts falling from the original estimate for 2009/10 of £125,000 to a much lower £15,000.

9 RECOMMENDED THAT COMMITTEE

9.1 Accept the progress report.

SENIOR ACCOUNTANT

PF57-09/TH/AC
9 November 2009

Temporary Investments - 2009/10

Date Invested	Temporary Investment Number	Borrower	Amount Invested	Interest Rate	Date Repaid	Principal Repaid	Interest Paid/ Due	Fitch Ratings at time of investment	
								Long-Term	Short-Term
Investments outstanding @ 1 April 2009									
16-Feb-09	125	Skipton BS	560,000	1.84%	21-Apr-09	-560,000	-1,806.73	A-	F2
				1.84%	08/09 Debtor		1,242.13		
16-Mar-09	129	Britannia Bs	400,000	1.00%	14-Apr-09	-400,000	-317.81	A-	F2
				1.00%	08/09 Debtor		175.34		
23-Mar-09	130	HSBC	125,000	0.25%	01-Apr-09	-125,000	-7.71	AA	F1+
				0.25%	08/09 Debtor		7.71		
31-Mar-09	123	Skipton BS	500,000	0.65%	21-Apr-09	-500,000	-186.99	A-	F2
				0.65%	08/09 Debtor		8.90		
			1,585,000						
Investments - 2009/10									
Apr									
1-Apr-09	1	Skipton Bs	250,000	0.62%	21-Apr-09	-250,000	-84.93	A-	F2
7-Apr-09	2	HSBC	200,000	0.25%	14-Apr-09	-200,000	-9.59	AA	F1+
9-Apr-09	3	Alliance & Leicester PLC	200,000	0.62%	21-Apr-09	-200,000	-40.77	AA-	F1+
15-Apr-09	4	Alliance & Leicester PLC	570,000	0.61%	21-Apr-09	-570,000	-57.16	AA-	F1+
17-Apr-09	5	HSBC	250,000	0.30%	21-Apr-09	-250,000	-8.22	AA	F1+
30-Apr-09	6	Abbey National Bank Plc	1,100,000	0.78%	29-May-09	-1,100,000	-681.70	AA-	F1+
30-Apr-09	7	Skipton Bs	500,000	0.45%	05-May-09	-500,000	-30.82	A-	F2
30-Apr-09	8	Skipton Bs	400,000	0.62%	21-May-09	-400,000	-142.68	A-	F2
30-Apr-09	9	Skipton Bs	250,000	0.60%	22-May-09	-250,000	-90.41	A-	F2
1-May-09	10	Alliance & Leicester PLC	150,000	0.70%	29-May-09	-150,000	-80.55	AA-	F1+
			3,870,000						
May									
8-May-09	11	Skipton Bs	150,000	0.64%	29-May-09	-150,000	-55.23	A-	F2
13-May-09	12	Skipton Bs	200,000	0.59%	29-May-09	-200,000	-51.73	A-	F2
15-May-09	13	Alliance & Leicester PLC	350,000	0.58%	29-May-09	-350,000	-77.86	AA-	F1+
15-May-09	14	HSBC	300,000	0.25%	18-May-09	-300,000	-6.16	AA	F1+

Date Invested	Temporary Investment Number	Borrower	Amount Invested	Interest Rate	Date Repaid	Principal Repaid	Interest Paid/ Due	Fitch Ratings at time of investment	
								Long-Term	Short-Term
21-May-09	15	Alliance & Leicester PLC	250,000	0.55%	29-May-09	-250,000	-30.14	AA-	F1+
22-May-09	16	HSBC	100,000	0.25%	26-May-09	-100,000	-2.74	AA	F1+
28-May-09	17	HSBC	680,000	0.25%	29-May-09	-680,000	-4.66	AA	F1+
			2,030,000						
June									
1-Jun-09	18	HSBC	400,000	0.25%	03-Jun-09	-400,000	-5.48	AA	F1+
1-Jun-09	19	Skipton Bs	400,000	0.55%	18-Jun-09	-400,000	-102.47	A-	F2
1-Jun-09	20	Skipton Bs	400,000	0.90%	02-Jul-09	-400,000	-305.75	A-	F2
1-Jun-09	21	Alliance & Leicester PLC	1,150,000	0.70%	06-Jul-09	-1,150,000	-771.92	AA-	F1+
5-Jun-09	22	HSBC	90,000	0.25%	01-Jul-09	-90,000	-16.03	AA	F1+
12-Jun-09	23	Skipton BS	250,000	0.52%	22-Jun-09	-250,000	-35.62	A-	F2
15-Jun-09	24	Abbey	400,000	0.58%	06-Jul-09	-400,000	-133.48	AA-	F1+
			3,090,000						
July									
29-Jun-09	25	Skipton BS	700,000	0.53%	06-Jul-09	-700,000	-71.15	A-	F2
30-Jun-09	26	Nation Wide	1,000,000	0.60%	11-Aug-09	-1,000,000	-690.41	AA-	F1+
30-Jun-09	27	Britannia BS	700,000	0.43%	06-Jul-09	-700,000	-49.48	A-	F2
30-Jun-09	28	Abbey	400,000	0.56%	20-Jul-09	-400,000	-122.74	AA-	F1+
30-Jun-09	29	HSBC	350,000	0.25%	01-Jul-09		-2.39	AA	F1+
				0.25%	13-Jul-09	-150,000	-28.77	AA	F1+
				0.25%	21-Jul-09	-100,000	-10.97	AA	F1+
				0.25%	10-Aug-09	-100,000	-13.70	AA	F1+
1-Jul-09	30	Skipton BS	200,000	0.55%	17-Jul-09		-48.22	A-	F2
				0.85%	11-Aug-09	-200,000	-116.44	A-	F2
3-Jul-09	31	Skipton BS	100,000	0.52%	22-Jul-09	-100,000	-27.07	A-	F2
10-Jul-09	32	Skipton BS	300,000	0.55%	22-Jul-09	-300,000	-54.25	A-	F2
15-Jul-09	33	Skipton BS	400,000	0.60%	03-Aug-09	-400,000	-124.93	A-	F2
28-Jul-09	34	Skipton BS	650,000	0.59%	11-Aug-09	-650,000	-147.10	A-	F2
31-Jul-09	35	Abbey	1,100,000	0.39%	11-Aug-09	-1,100,000	-129.29	AA-	F1+
31-Jul-09	36	Abbey	400,000	0.50%	19-Aug-09	-400,000	-104.11	AA-	F1+
31-Jul-09	37	Britannia Bs	500,000	0.40%	14-Aug-09		-76.71	A-	F2
				0.40%	17-Aug-09	-500,000	-16.44	A-	F2

Date Invested	Temporary Investment Number	Borrower	Amount Invested	Interest Rate	Date Repaid	Principal Repaid	Interest Paid/ Due	Fitch Ratings at time of investment	
								Long-Term	Short-Term
31-Jul-09	38	Britannia Bs	500,000	0.50%	17-Sep-09	-500,000	-328.77	A-	F2
			7,300,000						
Aug									
7-Aug-09	39	HSBC	150,000	0.25%	14-Aug-09	-150,000	-7.18	AA	F1+
17-Aug-09	40	HSBC	200,000	0.20%	21-Aug-09		-4.38	AA	F1+
				0.20%	24-Aug-09	-200,000	-1.65	AA	F1+
17-Aug-09	37a	Britannia Bs	500,000	0.40%	17-Sep-09	-500,000	-169.86	A-	F2
28-Aug-09	41	Skipton BS	750,000	0.65%	17-Sep-09	-750,000	-267.12	A-	F2
			1,600,000						
Sept									
1-Sep-09	42	Abbey	1,200,000	0.52%	17-Sep-09	-1,200,000	-273.53	AA-	F1+
1-Sep-09	43	Skipton BS	350,000	0.60%	21-Sep-09	-350,000	-115.07	A-	F2
1-Sep-09	44	Skipton BS	400,000	0.72%	09/10 Debtor		-236.71	A-	F2
3-Sep-09	45	HSBC	400,000	0.25%	03-Sep-09	-400,000	-5.48	AA	F1+
1-Sep-09	46	HSBC	250,000	0.25%	22-Sep-09	-150,000	-21.58	AA	F1+
					09/10 Debtor		-20.55		
4-Sep-09	47	HSBC	130,000	0.25%	14-Sep-09	-130,000	-8.90	AA	F1+
11-Aug-09	48	HSBC	200,000	0.25%	14-Aug-09	-200,000	-4.11	AA	F1+
14-Sep-09	49	Abbey	250,000	0.50%	09/10 Debtor		-58.22	AA-	F1+
15-Sep-09	50	Yorkshire BS	300,000	0.50%	09/10 Debtor		-65.75	A-	F2
25-Sep-09	51	HSBC	100,000	0.25%	09/10 Debtor		-4.11	AA	F1+
			3,580,000						
Oct									
28-Sep-09	52	Abbey	650,000	0.50%	09/10 Debtor		-26.71	AA-	F1+
30-Sep-09	53	Skipton BS	1,100,000	0.67%	09/10 Debtor		-20.19	A-	F2
30-Sep-09	54	Yorkshire BS	900,000	0.50%	09/10 Debtor		-12.33	A-	F2
30-Sep-09	55	Abbey	350,000	0.50%	09/10 Debtor		-4.79	AA-	F1+
			3,000,000						
		Investments @ 30.09.09	24,470,000			-	-7,202.42		
						21,905,000			

Date Invested	Temporary Investment Number	Borrower	Amount Invested	Interest Rate	Date Repaid	Principal Repaid	Interest Paid/ Due	Fitch Ratings at time of investment	
								Long-Term	Short-Term
Investments outstanding @ 30 September 2009									
1-Sep-09	44	Skipton BS	400,000	0.72%					
1-Sep-09	46	HSBC	100,000	0.25%					
14-Sep-09	49	Abbey	250,000	0.50%					
15-Sep-09	50	Yorkshire BS	300,000	0.50%					
25-Sep-09	51	HSBC	100,000	0.25%					
28-Sep-09	52	Abbey	650,000	0.50%					
30-Sep-09	53	Skipton BS	1,100,000	0.67%					
30-Sep-09	54	Yorkshire BS	900,000	0.50%					
30-Sep-09	55	Abbey	350,000	0.50%					
			4,150,000						