

<b>REPORT TO COUNCIL</b>		Report No. 10
<b>Date of Meeting</b>	26 <sup>th</sup> February 2008	
<b>Title of Report</b>	<b>Annual Treasury Management &amp; Investment Strategy 2008/09</b>	
<b>Portfolio</b>	<b>Leaders Responsibilities</b>	
Link to Corporate Priorities	All	
Key Decision	Yes	
Executive Workplan Ref	A21	
Public Report	Yes	

### Summary of Report

This report sets out the objectives of the Treasury Management & Investment Strategy & policies in force, to enable their achievement.

### Officer Recommendations

#### That the Executive:

- 1) **Note and adopt, the Annual Treasury Management & Investment Strategy.**
- 2) **Recommend the Annual Treasury Management & Investment Strategy to Council for approval.**

Other than those implications agreed with the relevant Officers and referred to below, there are no other implications associated with this report.

Financial Implications	Legal Implications	Community & Environmental Implications	Human Resources Implications	Equality & Diversity Implications
Yes	Yes	No	No	No

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## **1. Introduction**

- 1.1 The Local Government Act 2003 & supporting regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy, as required by Investment Guidance issued subsequent to the Act. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

## **2. Background**

- 2.1 The strategy for 2008/09 the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector. The strategy covers:

<b>Section</b>	<b>Issue</b>
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|----|--|
| 3. | Treasury limits in force which will limit the treasury risk and activities of the Council; |
| 4. | Prudential indicators;   |
| 5. | The current treasury position;   |
| 6. | Prospects for interest rates;  |
| 7. | The borrowing strategy;  |
| 8. | Debt rescheduling;   |
| 9. | The investment strategy;   |

- 2.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are limited to a level, which is affordable within the projected income of the Council for the foreseeable future.

## **3. Treasury Limits for 2008/09**

- 3.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.
- 3.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.
- 3.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

- 3.4 The limits will be set as part of the Prudential Indicators (PI's) report to Exec/Council, at the same meetings Executive 7<sup>th</sup> February 2008 and Council 26<sup>th</sup> February 2008.

#### 4. Prudential Indicators 2008/09

- 4.1 The Council's PI's for 2008/09 mentioned in 3.4 above, will be reported to and should be agreed by, Council on the 26<sup>th</sup> February 2008.
- 4.2 Given the state of markets at the time of writing, returns for cash based money market investments continue to outperform fund manager's performance. This was a key reason for liquidating investments from our fund managers so that we could concentrate treasury effort on cash investments.
- 4.3 Due to the impending formation of the Wiltshire Unitary authority, there are no changes sought to the Prudential Indicators

#### 5. Current Treasury Position

- 5.1 Detailed reports of 2007/08 Treasury management performance are provided quarterly to the Treasury Management and Investment Strategy working group. The Council's treasury portfolio position at 28/01/2008 was as follows:

**Table 1: Borrowing & Lending Position, January 2008.**

	Source	£000's	£000's	Average Rate %
<b>Borrowing</b>				
Fixed Rate	PWLB Market	0		
	Total	4,000	4,000	4.20
Variable Rate	PWLB Market	0		
	Total	0	0	0.00
Other Long Term Liabilities	PFI		9,310	-
<b>Total Debt</b>			<b>13,310</b>	
<b>Investments</b>				
Fund Managers	Invesco & Investec	0		-
In-house		43532		-
<b>Total Investments</b>			<b>43,532</b>	

#### 6. Other Long Term Liabilities

- 6.1 The amount shown in the table above is an indication of the outstanding sum on the PFI agreement with Jarvis for Monkton Park Offices which elapses in 2025.

#### 7. Prospects for Interest Rates

- 7.1 Sector Treasury Services is the treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix A draws together

a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

**Table 2: Sector interest rate forecast**

	January 2008	March 2008	June 2008	September 2008	December 2008
Bank Base Rate	5.50%	5.25%	5.00%	5.00%	5.00%
5yr PWLB	4.70%	4.70%	4.65%	4.55%	4.55%
10yr PWLB	4.60%	4.60%	4.55%	4.55%	4.55%
50yr PWLB	4.50%	4.50%	4.45%	4.45%	4.45%

7.2 Bank Rate was cut from 5.75% to 5.5% on 6<sup>th</sup> December 2007. Sector's current interest rate view is that there is more than a strong possibility that Bank Rate will fall this quarter then will fall to 5.00% in Q3 2008 and then held during the remainder of this calendar year.

## **8. Borrowing Strategy**

8.1 The Council agreed as part of its 2007-08 Budget to enter into prudential borrowing to fund its capital expenditure programme over the next three years. The £15.370 million borrowing requirement was agreed by officers to be sourced as follows:

- £ 4.00 million Lender Option Borrower Option (LOBO) (arranged with Bayerische Landesbank on a 60 year term with a call (interest rate review) every 5 years at a fixed rate for the first 5 years of 4.2%)

£11.37 million from the PWLB ( a 46 year fixed maturity rate loan was to be arranged)

8.2 However with movements in rates and the announcement of unitary, the value of borrowing and investing over a long term period diminished. Therefore only the £4M LOBO was instigated..

8.3 All borrowing decisions taken will be supported by the TM&IS working group, approved by the Executive and reported to Council.

## **9. Debt Rescheduling**

9.1 The Council has only relatively recently moved from its debt free status into borrowing. As such, it is not necessary to re-schedule its debt profile at this time.

9.2 Debt profiles have been reviewed during the budget as a minimum standard.

## **10. Annual Investment Strategy**

### **Investment Policy**

10.1 The Council has set its Investment Policy with regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

10.2 The Council's investment priorities are:

- (a) the security of capital and,
- (b) the liquidity of its investments.

10.3 The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

10.4 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

### Specified Investments

10.5 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable

Sources	Security / Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility*	Government Backed	In-house
Term deposits – UK Government & Local Authorities	High security although LA's not credit rated	In-house
Term deposits – Banks & Building Societies	Short-term F1, Long-term A	In-house & Fund Managers
Callable deposits	Short-term F1+, Long-term AA-	In-house
Certificates of Deposits issued by Banks & Building Societies	Short-term F1+, Long-term A	Fund Managers
Bonds issued by multilateral development banks	Long term AAA	Fund Managers
Money Market Funds	Short-term F1+, Long-term AA-	In-house
UK Government Gilt's	Government Backed	Fund Managers
Bond Funds	AA-	Fund Managers
Gilt Funds	AA-	Fund Managers
Treasury Bills	Government Backed	Fund Managers

\* This facility is currently only available for investments up to 6 months

\*\* The Council is free to determine its own criteria and as such the Section 151 Officer has delegated authority to add/delete from the Counterparty list as appropriate.

### Non-Specified Investments

10.6 A maximum of 80% will be held in aggregate in non-specified investments.

Source	Security / Minimum Credit Criteria	Use	Max % of Total	Max Term
Term deposits – UK Government & Local Authorities	Government Backed although LA's not credit rated	In-house & Fund Managers	20%	<= 5
Callable deposits	Short-term F1+, Long-term AA-	In-house	15%	<= 5
Certificates of deposits issued by Banks & Building Societies	Short-term F1+, Long-term AA-	Fund Managers	10%	<= 5
UK Government Gilts	Long term AAA	Fund Managers	60%*	<=10

Bonds issued by multilateral development banks	Long term AAA	Fund Managers	60%*	<=10
Bonds issued by an institution guaranteed by the UK Government	Long term AAA Government Backed	Fund Managers	60%*	<=10
Sovereign Bond Issues (non UK)	Long term AAA	Fund Managers	60%*	<=10

\* 60% for all Gilts/Bonds maturity > 1year

- 10.7 The Council's external fund managers, whilst they remain in the Councils employ, will comply with the Annual Investment Strategy. The agreement between the Council and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.
- 10.8 The Council uses Fitch ratings to derive its Counterparty criteria. Where a Counterparty does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings will be monitored on a monthly basis. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

### Investment Strategy

- 10.9 With the move away from our Fund Managers, coupled with new borrowing, in-house funds peaked at c. £48 million during 2007/08. The vast majority of these funds are a core balance that have been used initially early in 2007-08 for investments between 2-3 years and latterly with Building Societies for periods up to 1 year, and PI 11 restricting up to 85% of total balances (subject to Council approval).
- 10.10 Investments will, accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates i.e. rates for investments up to 12 months.
- 10.11 The following investments of £28.1million have been committed into 2008/09 & beyond:

Counterparty	Amount £ millions	Maturity Date	Rate %
Norwich and Peterborough B S (Fixed Rate)	2.0	06/05/2008	6.31
Progressive B S (Fixed Rate)	2.5	06/05/2008	6.30
Eire Building Society (Fixed Rate)	1.4	04/06/2008	6.03
Landesbankii Iceland (Fixed Rate)	3.0	04/06/2008	6.00
Market Harborough (3 month LIBOR)	2.0	04/06/2008	6.72
Leek United B S (3 month LIBOR)	2.0	31/07/2008	6.36
Saffrons B S (3 month LIBOR)	1.5	15/09/2008	6.59
Kent Reliance (3 month LIBOR)	2.0	28/01/2009	5.68
Royal Bank of Scotland (Callable Structured Deposit)	2.7	26/04/2009	5.95
HSBC (Callable Structured Deposit)	2.0	01/05/2009	6.00
National Australia Bank	3.0	01/02/2010	6.41
National Australia Bank	4.0	07/03/2010	5.99

- 10.12 The balance of funds currently held are deposits with maturities within 2007-08 and cash holdings in Business Reserve Accounts which are instant access.
- 10.13 Interest rate outlook: Sector is forecasting that the Bank base rate has peaked and expect further reductions to 5.25% in Q1 2008 and a further fall to 5.00% in Q2 2008 and

no change for the remainder of the year. The turmoil in the Financial Markets has made it difficult to predict the direction rates will go.

10.14 The future strategy must be considered in the light of One Council for Wiltshire and that deposits other than already arranged should not be placed beyond 31<sup>st</sup> March 2009

10.15 The Council had identified the following trigger points for investments as follows:

<< 5.60% >> for 1-year lending

<< 5.60% >> for 2 year lending

<< 5.60% >> for 3 year lending

<< 5.50% >> for 4 year lending

<< 5.50% >> for 5 year lending

10.16 The 'trigger points' are unlikely to be reached in 2008-09 but should be kept under review and discussed with Sector so that investments can be made at the appropriate time.

10.17 An overall investment return of c 5% of balances has been budgeted in the revenue estimates for 2008/09.

10.18 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.

## 11. End of Year Investment Report

11.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

<b>Appendices:</b>	<ul style="list-style-type: none"> <li>• None.</li> </ul>
<b>Background documents Used in the preparation of this Report:</b>	<ul style="list-style-type: none"> <li>• Sector Reports &amp; advice</li> <li>• CIPFA Treasury Management in Public Services Code of Practice &amp; Cross Sectoral Guidance Notes</li> <li>• CIPFA The Prudential Code</li> <li>• Statutory Instrument 2003 No. 3146 - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003</li> <li>• Local Government Act 2003</li> <li>• ODPM</li> </ul>

### Previous Decisions Connected with this Report

Report	Committee & Date	Minute Reference
<b>Annual Report on Treasury Management 2004-05</b>	Executive 13 October 2005	10
<b>Annual Report on Treasury Management 2005-06</b>	Executive 18 January 2007	E140
<b>2007-2010 Prudential Indicators</b>	Council 30 January 2007	C81