

Wiltshire Council

Cabinet

25 January 2011

Subject: Interim Report on Treasury Management Strategy 2010-11

**Cabinet Member: Councillor Fleur de Rhé-Philippe
Finance, Performance and Risk**

Key Decision: No

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy (AIS) for 2010-11.

In addition to an Annual Report, the policy requires this interim report reviewing the Treasury Management Strategy (TMS), which covers the period 1 April to 30 September 2010.

Proposal

The Cabinet is asked to note the contents of this report in line with the Treasury Management Strategy.

Reason for Proposals

The report is a requirement of the Council's Treasury Management Strategy.

**Michael Hudson
Interim Chief Finance Officer**

Wiltshire Council

Cabinet

25 January 2011

Subject: Interim Report on Treasury Management Strategy 2010-11

**Cabinet Member: Councillor Fleur de Rhé-Philippe
Finance, Performance and Risk**

Key Decision: No

Background & Purpose of Report

1. The Council adopted a Treasury Management Strategy for 2010-11 at its meeting on 23 February 2010, incorporating Prudential Indicators (Prls), Treasury Management Indicators (Trls) and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The Council agreed that in addition to an Annual Treasury Report reviewing the year as a whole, an interim report would be submitted to Cabinet reviewing the Treasury Management Strategy. This is an interim report covering the period from 1 April to 30 September 2010.

Main Considerations for the Cabinet

3. This report reviews management actions in relation to:
 - a) the Prls and Trls originally set for the year and the position at 30 September 2010;
 - b) other treasury management actions during the period; and
 - c) the agreed Annual Investment Strategy.
4. As there have been no major variations from the expected strategy in the period under review, members are not required to make any decisions as a result of this report.

Review of Prudential and Treasury Management Indicators and Treasury Management Strategy for 2010-11

5. The following is a review of the position on the key prudential and treasury indicators for the six months to 30 September 2010.

6. A full listing of the indicators required by the CIPFA Prudential Code, Treasury Management Code and Treasury Management Guidance Notes are given in Appendix 1.

Key Prudential Indicators

Pr1 2 – Ratio of Financing Costs to Net Revenue Stream

	2009-10 Actual Outturn	2010-11 Original Estimate	2010-11 Revised Estimate
Financing Costs as a percentage of net revenue budget	5.2%	5.6%	5.4%

7. The revised estimate for 2010-11 is marginally lower than the original due to a reduction in minimum revenue provision (MRP) estimate. It is 0.2% higher than the 2009-10 actual, mainly due to a decrease in the level of expected income from investments as a result of the effect of a sustained fall in interest rates.

Pr1 4 – Net Borrowing compared to Capital Financing Requirement (CFR)

	2009-10 Actual Outturn £ million	2010-11 Original Estimate £ million	2010-11 Revised Estimate £ million
Capital Financing Requirement	299.5	299.0	345.0
Net Borrowing	142.6	157.3	140.2
Unused Capital Financing Requirement	156.9	141.7	204.8

8. Pr1 4 measures the so called “Golden Rule” which ensures that over the medium term net borrowing is only for capital purposes.
9. The main reason for the difference in the 2010-11 revised and original estimates is the movement in the capital financing requirement, additional borrowing taken out since the original estimate was formulated and revision of the anticipated short term investments likely to be held at the end of 2010-11.

Key Treasury Management Indicators within the Prudential Code

10. The Operational Boundary and Authorised Limit detailed below are control limits and do not compare with actual borrowing figures as capital funding requirements are not automatically taken as loans and may be funded from cash balances.

Trl 1 – Authorised Limit for External Debt

Authorised Limit	2010-11 £ million	2011-12 £ million	2012-13 £ million
Borrowing	375.0	419.9	414.2
Other Long Term Liabilities	0.2	0.2	£0.2
TOTAL	375.2	420.1	414.4

11. The External Debt limit includes a margin above the Operational Boundary to allow for any unusual or unpredicted cash movements. The limit has not been exceeded in the reporting period.

Trl 2 – Operational Boundary for External Debt

Operational Boundary	2010-11 £ million	2011-12 £ million	2012-13 £ million
Borrowing	326.1	365.1	360.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	326.3	365.3	360.4

12. The Operational Boundary is set at a limit that facilitates the funding of the Council's entire financing requirement through loans, if this was the most cost effective approach. The limit was set to anticipate expected expenditure and has not been exceeded during the reporting period (maximum borrowing during the period was £205.2 million).

Trl 3 – External Debt

	31/03/10 Actual £ million	30/09/10 Actual £ million	31/03/11 Expected £ million
Borrowing	205.2	205.2	225.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	205.4	205.4	225.4

13. Trl 3 shows the gross External Debt outstanding, both long-term loans and temporary borrowing. No long term loans were repaid in first half of 2010-11. The figure for actual borrowing at 31 March 2010 is stated at the amount that reflects actual outstanding external borrowing at the end of 2009-10 (i.e. excluding accounting adjustments, such as accrued interest and effective interest rates).
14. The increase of £20 million in borrowing between the end of September 2010 and the expected position at the end of the current financial year is the anticipated additional borrowing to improve the present debt profile and obtain attractive interest rates ahead of the physical need to borrow.

Key Treasury Management Indicators within the Treasury Management Code

Trl 6 – Principal Sums invested for periods of longer than 364 days

15. This Prl is now covered by the Annual Investment Strategy for 2010-11, which set a limit of £30 million. During the first six months of 2010-11 no cost effective investments have been identified. The Authority however holds a number of on-call deposit accounts and three money market funds, which offer both an attractive interest rate, some of which track the bank rate, and instant access for flexibility of cash management.

Trl 7 - Local Prudential Indicator

16. In addition to the main maturity indicators it was agreed no more than 15% of long term loans should fall due for repayment within any one financial year. The maximum in any one year is currently 6.3% (£13 million) in both 2052-53 and 2053-54. A summary maturity profile is shown in Appendix 2.

Other Debt Management Issues

Debt Rescheduling

17. No opportunities to reschedule PWLB debt have been identified during the period, mainly because of the premiums payable for early repayment of debt.

Cash Surpluses and Deficits

Short Term Surpluses and Deficits

18. Any short term cash surpluses or deficits have been managed through temporary deposits or loans, respectively. Temporary deposits outstanding at 30 September 2010 amounted to £86.6 million, including outstanding Icelandic bank deposits at the current estimated recoverable amount, as detailed in Appendix 3.
19. In terms of the position in respect of the £12 million investment caught up in the collapse of the Icelandic banks, Heritable (£9 million) and Landsbanki (£3 million), the Council has so far received in excess of £4 million from Heritable (about 45p in the £) and nothing yet from Landsbanki.
20. Repayments from the Council's investment in Landsbanki are currently subject to the outcome of legal proceedings in relation to priority status, for which a hearing date has yet to be fixed. Latest indications are that a hearing date will be set for sometime in January/February 2011. Any repayments are not then expected to commence until later in 2011, dependent on appeals and it is anticipated that the total repayment will be phased over several years, with the final repayment expected in 2018.

Longer Term Cash Balances

21. Interest rate movements in the period have not provided any opportunities for an increased return by longer term investment of the more permanent cash surpluses, such as the PFI Sinking Fund. Funds have been invested 'short' during the period, in the light of the continuing uncertainty of the current financial climate.

Investment Strategy

22. All investments have been conducted within the agreed Annual Investment Strategy and made only to authorised lenders within the Council's high credit rating policy.
23. Our treasury advisers provide a weekly credit rating document and updates on any changes in ratings between one weekly credit rating document and the next. Ratings are monitored and any changes reflected in a revised lending list and any action considered appropriate is taken. The advisers also provide details of credit default swap spreads, which indicate default risk, if any. These are also taken into account in preparing and updating the Council's lending list.

Environmental and Climate Change Considerations

24. a) to d) None have been identified as arising directly from this report.

Equalities Impact of the Proposal

25. None have been identified as arising directly from this report

Risk Assessment and Financial Implications

26. All investment has been at fixed rates during the period. The Council's current average interest rate on long term debt is 4.286%, which, according to the latest available information, remains one of the lowest rates amongst UK local authorities.

Legal Implications

27. None have been identified as arising directly from this report.

Options Considered

28. In order to provide further flexibility and liquidity a third Money Market Fund has been opened so that the Council can take advantage of an 'instant access account', whilst obtaining a higher return than that gained from placing the cash on fixed short term, or overnight (with HSBC), deposit.
29. Interest rates are expected to remain low for the short to medium term, with current indications that there will not be a rise in the Bank Rate until December

2011. Consequently, longer term investments have been considered as an enhancement to the Council's investment portfolio, resulting in the placing of funds, at an extremely competitive interest rate, with Lloyds Bank for 12 months.

30. During the period covered by this report PWLB rates, which are expected to rise steadily over the next three years, were monitored for opportunities to take out loans in advance of need. As there was no immediate necessity to borrow, rates were regularly scrutinised, however, no loans were taken out in this period.

Conclusion

31. The Cabinet is asked to note the contents of this report in line with the Treasury Management Strategy.

Michael Hudson
Interim Chief Finance Officer

Report Author:

Keith Stephens, Principal Accountant – Treasury and VAT, Tel: 01225 713603, email: keith.stephens@wiltshire.gov.uk

Background Papers

The following unpublished documents have been relied on in the preparation of this Report: NONE

Appendices

- Appendix 1 Prudential and Treasury Indicators for 2010-11, 2011-12 & 2012-13
Appendix 2 Summary of Long Term Borrowing 1 April 2010 – 30 September 2010
Appendix 3 Summary of Temporary Loans and Deposits 1 April – 30 September 2010

Prudential and Treasury Indicators for 2010-11, 2011-12 & 2012-13**Prudential Indicators****Prl 1 – Capital Expenditure**

1. The table below shows the revised figures for capital expenditure based on the current capital approved budget.

	2009-10 Actual Outturn	2010-11 Original Estimate	2010-11 Revised Estimate	2010-11 Actual To date 30/09/10
	£ million	£ million	£ million	£ million
Capital Expenditure	107.2	137.0	124.2	45.8

2. The revised estimate for 2010-11 is lower than the original estimate due to the re-profiling and slippage of projects since the previous estimate was formulated.
3. The Capital Programme is monitored closely throughout the year and progress on the programme is reported to the Cabinet. The position at the end of October 2010 is reported elsewhere on the agenda.

Prl 2 – Ratio of Financing Costs to Net Revenue Stream

	2009-10 Actual Outturn	2010-11 Original Estimate	2010-11 Revised Estimate
Financing Costs as a percentage of net revenue budget	5.2%	5.6%	5.4%

The revised estimate for 2010-11 is marginally lower than the original due to a reduction in minimum revenue provision (MRP) estimate. It is 0.2% higher than the 2009-10 actual, mainly due to a decrease in the level of expected income from investments as a result of the effect of a sustained fall in interest rates.

Prl 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

4. This indicator is only relevant at budget setting time and for 2010-11 was calculated as being £3.23.

Prudential and Treasury Indicators for 2010-11, 2011-12 & 2012-13

Prl 4 – Net Borrowing compared to Capital Financing Requirement (CFR)

	2009-10 Actual Outturn £ million	2010-11 Original Estimate £ million	2010-11 Revised Estimate £ million
Capital Financing Requirement	299.5	299.0	345.0
Net Borrowing	142.6	157.3	140.2
Unused Capital Financing Requirement	156.9	141.7	204.8

5. Prl 4 measures the so called “Golden Rule” which ensures that over the medium term net borrowing is only for capital purposes.
6. The main reason for the difference in the 2010-11 revised and original estimates is the movement in the capital financing requirement, additional borrowing taken out since the original estimate was formulated and revision of the anticipated short term investments likely to be held at the end of 2010-11.

Prl 5 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

7. All actions have been compliant with the CIPFA Code of Practice.

Treasury Management Indicators within the Prudential Code

8. The Operational Boundary and Authorised Limit detailed below are control limits and do not compare with actual borrowing figures as capital funding requirements are not automatically taken as loans and may be funded from cash balances.

Trl 1 – Authorised Limit for External Debt

Authorised Limit	2010-11 £ million	2011-12 £ million	2012-13 £ million
Borrowing	375.0	419.9	414.2
Other Long Term Liabilities	0.2	0.2	£0.2
TOTAL	375.2	420.1	414.4

9. The External Debt limit includes a margin above the Operational Boundary to allow for any unusual or unpredicted cash movements. The limit has not been exceeded in the reporting period.

Prudential and Treasury Indicators for 2010-11, 2011-12 & 2012-13

Trl 2 – Operational Boundary for External Debt

Operational Boundary	2010-11 £ million	2011-12 £ million	2012-13 £ million
Borrowing	326.1	365.1	360.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	326.3	365.3	360.4

10. The Operational Boundary is set at a limit that facilitates the funding of the Council's entire financing requirement through loans, if this was the most cost effective approach. The limit was set to anticipate expected expenditure and has not been exceeded during the reporting period (maximum borrowing during the period was £205.2 million).

Trl 3 – External Debt

	31/03/10 Actual £ million	30/09/10 Actual £ million	31/03/11 Expected £ million
Borrowing	205.2	205.2	225.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	205.4	205.4	225.4

11. Trl 3 shows the gross External Debt outstanding, both long-term loans and temporary borrowing. No long term loans were repaid in first half of 2010-11. The figure for actual borrowing at 31 March 2010 is stated at the amount that reflects actual outstanding external borrowing at the end of 2009-10 (i.e. excluding accounting adjustments, such as accrued interest and effective interest rates).
12. The increase of £20 million in borrowing between the end of September 2010 and the expected position at the end of the current financial year is the anticipated additional borrowing to improve the present debt profile and obtain attractive interest rates ahead of the physical need to borrow.

Treasury Management Indicators within the Treasury Management Code

Trl 4a – Upper Limit on Fixed Interest Rate Exposures

The Council's upper limit for fixed interest rate exposure for the period 2010-11 to 2012-13 is 100% of net outstanding principal sums.
--

Trl 4b – Upper Limit on Variable Interest Rate Exposures

The Council's upper limit for variable interest rate exposure is 20% for 2010-11, 20% for 2011-12 and 25% for 2012-13 of net outstanding principal sums.

Prudential and Treasury Indicators for 2010-11, 2011-12 & 2012-13

13. Options for borrowing during the period were considered, however, (mainly) due to the premium incurred on the early repayment of debt and the desire to maintain the Council's relatively low average borrowing rate, no new borrowing has been taken.

Trl 5 – Upper & Lower Limits on the Maturity Structure of Borrowing

Limits on the Maturity Structure of Borrowing	Upper Limit	Lower Limit	Position at 30/09/10
Maturing Period:			
- under 12 months	15%	0%	0%
- 12 months and within 24 months	15%	0%	0%
- 2 years and within 5 years	45%	0%	2%
- 5 years and within 10 years	75%	0%	1%
- 10 years and above	100%	0%	97%

14. The table above shows that the actual maturity structure is within the agreed limits.
15. No long term borrowing has been taken during the period. If interest rates are favourable and an opportunity exists to take further borrowing this year we will look to match borrowing with this maturity structure.

Trl 6 – Principal Sums invested for periods of longer than 364 days

16. This Prl is now covered by the Annual Investment Strategy for 2010-11, which set a limit of £30 million. During the first six months of 2010-11 no cost effective investments have been identified. The Authority however holds a number of on-call deposit accounts and three money market funds, which offer both an attractive interest rate, some of which track the bank rate, and instant access for flexibility of cash management.

Trl 7 - Local Prudential Indicator

17. In addition to the main maturity indicators it was agreed no more than 15% of long term loans should fall due for repayment within any one financial year. The maximum in any one year is currently 6.3% (£13 million) in both 2052-53 and 2053-54. A summary maturity profile is shown in Appendix 1.

SUMMARY OF LONG TERM BORROWING 1 APRIL 2010 – 30 SEPTEMBER 2010

Loans Raised During the Period

Date Raised	Lender	Amount (£m)	Type	Interest rate (%)	Maturity date	No. of years
No Loans were raised during the period						
Total		0.000				

Average period to maturity (years) 0.00

Average interest rate (%) 0.00

* Loans taken to restructure debt

** Loans taken for purchases instead of leasing

Maturity Profile at 30 September 2010

Year	Amount (£m)	%age	Average rate (%)
1 to 5 years	2.073	1.0	4.096
6 to 15 years	10.015	4.9	3.978
16 to 25 years	37.623	18.3	4.554
26 to 50 years	139.500	68.0	4.430
Over 50 years	16.000	7.8	4.120
Totals	205.211	100.0	4.325

Average period to maturity (years) 35.84

SUMMARY OF TEMPORARY LOANS AND DEPOSITS 1 APRIL – 30 SEPTEMBER 2010

Deposits Outstanding at 30 September 2010

Borrower	Amount £m	Terms	Interest Rate
HSBC Bank PLC - Treasury	2.600	No fixed maturity date	0.20
Overseas Chinese Banking Corporation	8.000	Fixed to 02-Nov-10	0.56
Nationwide Building Society	6.000	Fixed to 03-Nov-10	0.65
Barclays Bank	5.000	Fixed to 03-Nov-10	0.60
Lloyds TSB Bank	5.000	Fixed to 11-Aug-11	2.05
Santander UK	3.200	Fixed to 14-Dec-10	0.98
Bank Of Scotland	2.762	No fixed maturity date	0.75
Santander UK	10.996	No fixed maturity date	0.80
Clydesdale Bank	14.410	No fixed maturity date	0.80
Svenska Handelsbanken AB	7.982	No fixed maturity date	0.75
Black Rock Money Market Fund	0.719	No fixed maturity date	0.54
JP Morgan Money Market Funds	9.031	No fixed maturity date	0.45
Prime Rate Money Market Fund	5.000	No fixed maturity date	0.81
Heritable Bank	1.197	Est Recoverable Amount	6.00
Heritable Bank	0.799	Est Recoverable Amount	6.00
Heritable Bank	1.197	Est Recoverable Amount	6.00
Heritable Bank	0.400	Est Recoverable Amount	5.42
Landsbanki	2.290	Est Recoverable Amount	6.10
Total	86.582		

Outstanding deposits with Icelandic Banks are shown at the estimated recoverable amount, which takes account of estimated impairments and, in the case of Heritable, any repayments received to date. The interest rates are the original rates.

Transactions During the Period

Type	Balance 1 Apr 10 £m	Raised		Repaid		Balance 30 Sep 10 £m	Interest Variance * High/Low(%)
		Value £m	No.	Value £m	No.		
Temporary loans							
- General	0.000	0.000	0	0.000	0	0.000	
Total	0.000	0.000	0	0.000	0	0.000	
Temporary deposits							
- General	7.447	94.200	19	68.564	15	33.083	2.05/0.30
- HSBC Overnight	32.883	244.825	78	247.425	80	30.283	0.20/0.20
- Call Accounts	17.071	71.949	42	68.683	22	20.337	0.80/0.75
- Money Market Funds	5.200	148.329	34	150.650	29	2.879	0.81/0.36
Total	62.601	559.303	173	535.322	146	86.582	

* Interest variance is the highest/lowest interest rate for transactions during the period.

* In terms of general deposits, the high of 2.05% was obtained on a 12 month deposit.

General deposits include impaired Icelandic investments less any repayments that have been received, to date.