

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

INFORMATION

Agenda Item No

meeting date: 28 JULY 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 June 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 extremely 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 reduction in income earned on 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	-0	-0	0
External debt at 30 June 2009	649	7	656

- 4.2 During the period 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 Authority and receiving council tax direct debit income.
- 4.3 The total interest paid on the Council's external debt during the period was £47.95 compared with £2,672.99

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 June 2009 was 0.7%, which compares favourably with the average local authority seven-day notice deposit rate of 0.4%.
- 5.3 The movement in the Council's external investments can be 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	8,990	0	8,990
Repayments	-8,535	-0	-8,535
Investments at 30 June 2009	2,040	0	2,040

- 5.4 The total interest received on the Council's external investments during the period was **£3,479.71** compared with **£58,517.92** 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 replacement of 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

6.5 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			
	Jun'09	Jan'09	Long Term	Review Date	Short Term	Review Date
Nationwide	1	1	AA -	23.06.09	F1+	09.04.09
Britannia	2	2	A -	23.06.09	F2	22.05.09
Yorkshire	3	3	A -	23.06.09	F2	22.05.09
Coventry	4	4	A	23.06.09	F1	22.05.09
Chelsea	5	5	BBB +	23.06.09	F2	22.05.09
Skipton	6	6	A -	23.06.09	F2	23.06.09
Leeds	7	8	A	23.06.09	F1	23.06.09
West Bromwich	8	7	BBB -	23.06.09	F3	23.06.09
Principality	9	9	BBB +	23.06.09	F2	22.05.09
Newcastle	10	10	BBB -	23.06.09	F3	23.06.09

- 7.2 There have been several minor changes in the ratings since last reported in January 2009.

	Rating			
	Long - Term		Short - Term	
	Jan'09	Jun'09	Jan'09	Jun'09
Yorkshire	A	A -	F1	F2
Chelsea	A -	BBB +	F1	F2
West Bromwich	A -	BBB -	F2	F3
Principality	A -	BBB +	F2	F2
Newcastle	A -	BBB -	F1	F3

- 7.3 The following merger has taken place since last reported in January. It has had no effect on the approved investment institutions.

❖ 30 March 2009 Scarborough merged with Skipton.

- 7.4 The downgrading in rating of some building societies is however of concern and therefore need to be kept under scrutiny.

- 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	21.01.09	F1	21.01.09
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+	11.06.09
Royal Bank of Scotland plc (The)	AA -	19.01.09	F1+	19.01.09

All institutions have been updated since last reported.

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

	Rating			
	Long - Term		Short - Term	
	Jan'09	Jun'09	Jan'09	Jun'09
Barclays Bank plc	AA	AA-	F1 +	F1+
Bank of Scotland plc	AA	AA-	F1+	F1+
Lloyds TSB Bank plc	AA +	AA -	F1+	F1+

- 7.7 In November 2008 this Committee were asked to approve the opening a Debt Management Account Deposit Facility with the United Kingdom Debt Management Office. An application was sent to them at the end of November and they gave us their approval for us to use them in February 2009.
- 7.8 These Fitch crediting ratings, which are defined in the table below, show an indication of the current credit position. The credit situation is currently being monitored 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 remain very low, whereas the risks from placing investments remain high.

9 RECOMMENDED THAT COMMITTEE

9.1 Accept the progress report.

SENIOR ACCOUNTANT

PF28-09/TH/AC
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