

---

<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>17 November 2009</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/66/09/AP/KJ</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>TREASURY MANAGEMENT MONITORING REPORT 2009/10 - QUARTER 2</b>		

---

## 1.0 PURPOSE

- 1.1 The purpose of this report is to summarise the Council's treasury management position and activities during the period as required under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".

## 2.0 SUMMARY

- 2.1 The total debt outstanding as at 30<sup>th</sup> September 2009 was £168,706,631. The operational limit for external debt as approved by the Policy & Resources Committee in March 2009 is £212,960,000. The Council is therefore well within its operational limit.
- 2.2 As at 30<sup>th</sup> September 2009 the Council had £17,126,860 invested in deposit accounts and a further £15,000,000 invested externally with third parties as per the Council's Investment Strategy.
- 2.3 The Council are within the limits set for the Prudential Indicators and Council Policy Limits reported to the Committee except for the Policy Limit on the maximum proportion of debt repayable in any one year. The Council's limit, to reduce refinancing risk, is now 20% (reduced from 30% from 2009/10) but the Council have debt repayable in 2071/72 of 21.339% and 23.710% in 2077/78. Given that the refinancing of this debt is so far away, exceeding the limit is not a matter for concern.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Treasury Management monitoring report for quarter 2 of 2009/10 be noted.

Alan Puckrin  
Chief Financial Officer

## 4.0 BACKGROUND

- 4.1 A quarterly report on the Council's treasury management position and activities is required to be submitted to Committee under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".
- 4.2 The Council's position can be split into 4 main areas for consideration:
- Prudential Code & CIPFA Code of Practice
  - Overall Debt Position
  - Overall Investment Position
  - Debt Rescheduling and Borrowing During The Period.

In addition, it is proposed to consider the prospects for interest rates.

- 4.3 Prudential Code & CIPFA Code of Practice  
Appendix 1 shows Prudential Indicators and indicators forming part of the Council's Treasury Policy as agreed by the Policy & Resources Committee in March 2009.

The Council's Policy Limit for the maximum proportion of debt repayable in any one year has been reduced from 30% to 20% for 2009/10. This limit is intended to ensure that the Council spreads the maturity of its debt to reduce refinancing risks. Appendix 1 shows that the Council is above the limit but this is in relation to two years only (2071/72 and 2077/78) and so far away as not to be a matter for concern.

- 4.4 Overall Debt Position  
The total debt outstanding as at 30<sup>th</sup> September 2009 was £168,706,631 (down from £189,907,389 at last quarter). The operational limit for external debt as approved by the Policy & Resources Committee in March 2009 is £212,960,000. The Council is therefore well within its operational limit.

The average length of the debt outstanding as at 30<sup>th</sup> September 2009 was 48.83 years (up from 43.60 years at last quarter) with an average interest rate of 4.18%, an increase of 0.42% from last quarter. This is largely due to the repayment of short-term lower-rate temporary borrowing that had been undertaken as part of debt restructuring in previous quarters. Further analysis of the debt position is shown in Appendix 2.

- 4.5 Overall Investment Position  
As at 30<sup>th</sup> September 2009 the Council had investments of £32,126,860 as follows:

	Quarter 2 (As At 30/9/2009)	Quarter 1 (As At 30/6/2009)	Movement Between Quarters
	£	£	£
Deposit Accounts	17,126,860	17,943,405	(816,545)
Invested Externally With Third Parties Per Council Investment Strategy	15,000,000	35,000,000	(20,000,000)
TOTALS	32,126,860	52,943,405	(20,816,545)

The movement in investments in this quarter is mainly due to the repayment of temporary borrowing out of investments that matured in this quarter. The temporary borrowing was undertaken in previous quarters as part of debt restructuring and as previously reported to Committee.

Further details of the Council's investments are given in Appendix 3.

All lending by the Council is undertaken in accordance with the Council's Treasury Policy and Treasury Management Practices.

#### 4.6 Debt Rescheduling and Borrowing During The Period

Any borrowing undertaken by the Council is in accordance with the Council's Treasury Policy and Treasury Management Practices and from known and reputable lenders.

The Council has not undertaken any borrowing or debt restructuring during the quarter.

#### 4.7 Prospects For Interest Rates

The Bank Rate set by the Bank of England was reduced to 0.50% on 5<sup>th</sup> March 2009 and has remained at that level.

The Council's Treasury Advisers expect that the Bank Rate will remain at 0.50% until Quarter 2 of 2010 and will then increase to 0.75% in Quarter 3 of 2010, to 1.25% in Quarter 4 of 2010, to 1.75% in Quarter 1 of 2011, and to 2.50% in Quarter 2 of 2011.

The Council have not entered into any further fixed term deposits during this quarter. Details of the Council's investments are shown in Appendix 3.

It is proposed to continue to monitor and review the interest rates that are available in the market for investments (including deposit accounts) and take appropriate action in line with the Council's Treasury Policy and Treasury Management Practices.

#### 4.8 Movements in Financial Markets/Banking Sector

This quarter has seen some continued relative stability in financial markets with few significant movements in the banking sector and the wider economy (including with interest rates, as indicated above).

Members should note that Officers continue to monitor market news and movements on bank credit ratings and take advice from the Council's Treasury Advisers as to the implications for the Council of particular market moves, changes in credit ratings, or banking news. None of the movements or news has as yet required the Council to move funds or led to any changes in Treasury Policy but additional caution is, understandably, being adopted.

### **5.0 IMPLICATIONS**

#### 5.1 Legal

None. Any borrowing or lending is done under the Council's legal powers.

#### 5.2 Financial

The Council utilises Treasury Management as part of the overall Financial Strategy and Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

#### 5.3 Human Resources

None.

#### 5.4 Equalities

None.

### **6.0 CONSULTATIONS**

6.1 None.

### **7.0 LIST OF BACKGROUND PAPERS**

7.1 Inverclyde Council – Treasury Management Strategy 2009/10.

**Table 1**

**Prudential Indicators**

	<u>Estimate For 2009/10</u>	<u>Actual For 2009/10 Quarter 2</u>	<u>Within Limits</u>
PI 7 - Authorised Limit for External Debt	£million 222.911	£million 168.707	Yes
PI 8 - Operational Limit for External Debt	212.960	168.707	Yes
PI 10 - Compliance with CIPFA code	%	%	Yes
PI 11 - Upper limit on fixed interest exposure	130.00%	89.17%	Yes
PI 12 - Upper limit on variable rate exposure	30.00%	10.83%	Yes
PI 13 Borrowing fixed rate maturing in each period	<u>Upper</u>	<u>Lower</u>	<u>Actual</u>
Under 12 months	30%	0%	12.320%
1 - 2 years	30%	0%	0.003%
2 - 5 years	30%	0%	7.410%
5 - 10 years	45%	0%	2.111%
10 years and above	100%	55%	78.156%
			<u>100.000%</u>
PI 14 - Upper limit on sums invested for periods longer than 364 days	<u>Limit For 2009/10</u> £ 20,000,000	<u>Maximum In Quarter 2</u> £ 0	<u>Within Limit</u>  Yes

**Table 2**

**Council Policy Limits**

	<u>Limit per Council Policy</u>	<u>Actual For 2009/10 Quarter 2</u>	<u>Within Limit</u>
Maximum proportion of borrowing at variable interest rates	35%	27.815%	Yes
Maximum proportion of debt restructuring in any one year	30%	8.216%	Yes
Maximum proportion of debt repayable in any one year	20%	23.710%	No

**Table 1**

**Debt Outstanding - Analysis By Time**

	£ Million	Average Interest Rate	Proportion of Debt
<u>Borrowings up to 1 year</u>			
Public Works Loan Board Loans	15.003	0.89%	8.893%
European Investment Bank Loans	0.000	0.00%	0.000%
Temporary Loans	0.026	0.40%	0.015%
	<b>15.029</b>	<b>0.89%</b>	<b>8.908%</b>
<u>Borrowings over 1 year</u>			
Public Works Loan Board Loans	50.778	4.50%	30.098%
European Investment Bank Loans	0.000	0.00%	0.000%
Money Market Loans	102.900	4.50%	60.994%
	<b>153.678</b>	<b>4.50%</b>	<b>91.092%</b>
<b>Total Debt Outstanding 30th September 2009</b>	<b>168.707</b>	<b>4.18%</b>	<b>100.000%</b>

**Table 2**

**Debt Outstanding - Analysis By Fixed/Variable**

	£ Million	Average Interest Rate	Proportion of Debt
<u>Variable Rate Loans</u>			
Public Works Loan Board Loans	0.000	0.00%	0.000%
European Investment Bank Loans	0.000	0.00%	0.000%
Temporary Loans	0.026	0.40%	0.015%
Market Loans *	46.900	4.55%	27.800%
	<b>46.926</b>	<b>4.55%</b>	<b>27.815%</b>
<u>Fixed Rate Loans</u>			
Public Works Loan Board Loans	65.781	3.68%	38.991%
Market Loans *	56.000	4.45%	33.194%
	<b>121.781</b>	<b>4.03%</b>	<b>72.185%</b>
<b>Total Debt Outstanding 30th September 2009</b>	<b>168.707</b>	<b>4.18%</b>	<b>100.000%</b>

\* - Market Loans are shown as variable when they have less than 1 year to go until their next call date.

**Table 1**

**Investments and Deposit Accounts Balances As At 30th September 2009**

	<u>Annual Rate</u>	<u>Amount</u>	<u>Deposit Type</u>	<u>Maturity Date</u>
<u>Investments</u>				
Bank of Scotland	4.00%	£ 10,000,000	Fixed	07-Dec-09
Bank of Scotland	3.26%	5,000,000	Fixed	06-Jan-10
		<u>15,000,000</u>		
<u>Deposit Accounts</u>				
Bank of Scotland	0.50%	7,334,300	Call	
Abbey #	0.60%	9,750,182	Call	
Bank of Scotland ##	0.51%	42,378	7-Day Notice	
		<u>17,126,860</u>		

\* - Investment entered into since last quarterly report.

# - Account has tiered rates. Rate shown is for the balance in the account.

## - The rate on this account varies on a weekly basis.