

**Report To:** Policy & Resources Committee      **Date:** 2 February 2010  
**Report By:** Chief Financial Officer                      **Report No:** FIN/02/10/AP/KJ  
**Contact Officer:** Alan Puckrin                              **Contact No:** 01475 712223  
**Subject:** TREASURY MANAGEMENT MONITORING REPORT 2009/10 -  
QUARTER 3

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## 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 31st December 2009 was £178,706,500. 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 31st December 2009 the Council had £29,615,501 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 is 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 and the Policy Limit on the maximum proportion of borrowing at variable interest rates. Exceeding these limits is not a matter for concern given the purpose of the limits and the reasons for exceeding them outlined in paragraph 4.3.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Treasury Management monitoring report for quarter 3 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:
- a. Prudential Code & CIPFA Code of Practice
  - b. Overall Debt Position
  - c. Overall Investment Position
  - d. 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.

In addition, the Council is above its Policy Limit for the maximum proportion of borrowing at variable interest rates. The limit as agreed is 35% but the actual as at the end of the quarter was 37.450%. The purpose of this limit is to ensure that the Council is not open to significant movements in borrowing costs due to changes in interest rates on significant levels of variable rate debt. As Appendix 2 shows, the Council has Market Loans that comprise large individual loans on which the interest rate is fixed unless the lender wishes to change the rate in accordance with call dates agreed in each loan agreement. The Council have been advised by its Treasury Advisers that these loans must be treated as variable rate debt when they have less than 1 year to go to their next call date, even when it is extremely unlikely that the loan rate will change at the call date. As a result, it is considered that exceeding this Policy Limit is not a matter for concern.

### 4.4 Overall Debt Position

The total debt outstanding as at 31st December 2009 was £178,706,500 (up from £168,706,631 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 31st December 2009 was 46.41 years (down from 48.83 years at last quarter) with an average interest rate of 4.24%, an increase of 0.06% from last quarter. This is mainly due to the effect of new PWLB borrowing undertaken during the quarter at a rate below the average rate but offset by increases in some Market Loan rates due to their moving from initial fixed rates to their variable rate phase (but subject to call date arrangements as above). Further analysis of the debt position is shown in Appendix 2.

#### 4.5 Overall Investment Position

As at 31st December 2009 the Council had investments of £44,615,501 as follows:

	Quarter 3 (As At 31/12/2009)	Quarter 2 (As At 30/9/2009)	Movement Between Quarters
	£	£	£
Deposit Accounts	29,615,501	17,126,860	12,488,641
Invested Externally With Third Parties Per Council Investment Strategy	15,000,000	15,000,000	0
TOTALS	44,615,501	32,126,860	12,488,641

The movement in investments in this quarter is mainly due to new borrowing undertaken from the PWLB during the quarter.

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 did not undertake any debt rescheduling during the quarter but borrowed £10,000,000 from the PWLB at 3.55% (for 10 years) to fund ongoing capital expenditure and treasury management requirements.

#### 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 1.00% in Quarter 4 of 2010, to 1.50% in Quarter 1 of 2011, and to 2.25% in Quarter 2 of 2011.

The Council have entered into 2 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.

# Appendix 1

**Table 1**

**Prudential Indicators**

	<u>Estimate For 2009/10</u>	<u>Actual For 2009/10 Quarter 3</u>	<u>Within Limits</u>
PI 7 - Authorised Limit for External Debt	£million 222.911	£million 178.706	Yes
PI 8 - Operational Limit for External Debt	212.960	178.706	Yes
PI 10 - Compliance with CIPFA code	%	%	Yes
PI 11 - Upper limit on fixed interest exposure	130.00%	83.36%	Yes
PI 12 - Upper limit on variable rate exposure	30.00%	16.64%	Yes
PI 13 Borrowing fixed rate maturing in each period	<u>Upper</u>	<u>Lower</u>	<u>Actual</u>
Under 12 months	30%	0%	13.422%
1 - 2 years	30%	0%	3.581%
2 - 5 years	30%	0%	4.629%
5 - 10 years	45%	0%	11.111%
10 years and above	100%	55%	67.257%
			<u>100.000%</u>
PI 14 - Upper limit on sums invested for periods longer than 364 days	<u>Limit For 2009/10</u>	<u>Maximum In Quarter 3</u>	<u>Within Limit</u>
	£ 20,000,000	£ 0	Yes
External Debt Compared To Capital Financing Requirement	<u>CFR Quarter 3</u>	<u>External Debt</u>	<u>Ext Debt Below CFR?</u>
	£million 182.499	£million 178.706	Yes

**Table 2**

**Council Policy Limits**

	<u>Limit per Council Policy</u>	<u>Actual For 2009/10 Quarter 3</u>	<u>Within Limit</u>
Maximum proportion of borrowing at variable interest rate	35%	37.450%	No
Maximum proportion of debt restructuring in any one year	30%	8.216%	Yes
Maximum proportion of debt repayable in any one year	20%	22.383%	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%	8.395%
European Investment Bank Loans	0.000	0.00%	0.000%
Temporary Loans	0.026	0.45%	0.015%
	<b>15.029</b>	<b>0.89%</b>	<b>8.410%</b>
<u>Borrowings over 1 year</u>			
Public Works Loan Board Loans	60.777	4.34%	34.009%
European Investment Bank Loans	0.000	0.00%	0.000%
Money Market Loans	102.900	4.66%	57.581%
	<b>163.677</b>	<b>4.54%</b>	<b>91.590%</b>
	<b>178.706</b>	<b>4.24%</b>	<b>100.000%</b>

Total Debt Outstanding 31st December 2009

**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	0.45%	0.015%
Market Loans *	66.900	4.72%	37.436%
	<b>66.926</b>	<b>4.72%</b>	<b>37.451%</b>
<u>Fixed Rate Loans</u>			
Public Works Loan Board Loans	75.780	3.66%	42.404%
Market Loans *	36.000	4.55%	20.145%
	<b>111.780</b>	<b>3.95%</b>	<b>62.549%</b>
	<b>178.706</b>	<b>4.24%</b>	<b>100.000%</b>

Total Debt Outstanding 31st December 2009

\* - 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 31st December 2009**

	Annual Rate	Amount £	Deposit Type	Maturity Date
<b>Investments</b>				
Bank of Scotland	3.26%	5,000,000	Fixed	06-Jan-10
Bank of Scotland *	1.35%	5,000,000	Fixed	07-Jun-10
Bank of Scotland *	1.35%	5,000,000	Fixed	11-Jun-10
		<b>15,000,000</b>		
<b>Deposit Accounts</b>				
Bank of Scotland	0.50%	8,782,100	Call	
Bank of Scotland	0.51%	42,432	7-Day Notice	
Clydesdale Bank *	0.75%	6,502,671	Call	
Santander #	0.80%	9,286,325	Call	
Santander # *	0.90%	5,001,973	30-Day Notice	
		<b>29,615,501</b>		

\* - Investment entered into since last quarterly report.

# - Santander is the new name for Abbey (from 11/1/10).