

Background Papers, if any, are specified at the end of the Report

TREASURY MANAGEMENT REPORT – JULY to SEPTEMBER 2013

Contact Officer: Gary Martin (01494 732243)

RECOMMENDATION

That Cabinet note the treasury management activity in the quarter July to September 2013.

Relationship to Council Objectives

Objective 1: Efficient and effective customer focused services.

Implications

This matter is not a Key Decision.

This matter is within the Policy and Budgetary Framework.

Financial Implications

Potential for adverse financial implications if a more high risk treasury management policy is adopted.

Risk Implications

Possible risk of financial loss and damage to reputation if less risk-averse stance is taken.

Equality implications

There are no direct equality implications.

Sustainability Implications

There are no direct sustainability implications.

Report

1. In accordance with Treasury Management policy, this report sets out the activities of the Treasury Management operation for the quarter ending 30th September 2013.
2. All of the Council's investments are managed in-house. The investment criteria and parameters within which the treasury section works are set out in the Treasury Management Practices (TMP) document.
3. The table below summarises the transactions for the quarter:-

| External Loans | |
|---|-------------|
| Number of loans placed | 6 |
| Total value of loans placed | £10,000,000 |
| Average interest rate on new loans | 0.65% |
| Interest received on new loans | £10,356 |
| Average interest rate (including loans b/f) | 1.07% |
| Interest received (including loans b/f) | £41,912 |

PSR overnight balances produced a total interest figure of £1,579.

4. The average interest rate achieved for the quarter on external loans was 1.07% (2012/13 Q2: 1.74%; 2012/13 year: 1.73%).
5. There were no changes in base rate in the quarter, with the rate having remained at 0.5% since 5th March 2009.
6. The total of loans outstanding at the end of the quarter was £16,000,000. The detailed lending list is attached at **Appendix 1** and the table below summarises the spread of the portfolio:-

| Type of Investment | % of portfolio limit | £m | % |
|---------------------------|----------------------|-------------|-----|
| Cash Deposits | 100% | £12m | 75% |
| Money Market Funds | 75% | £4m | 25% |
| Gilts | 50% | 0 | 0 |
| Treasury Bills | 50% | 0 | 0 |
| Certificates of Deposit | 50% or £5m max | 0 | 0 |
| Supranational Bonds | 50% or £5m max | 0 | 0 |
| Total Portfolio | | £16m | |
| - of which: | | | |
| Non specified investments | £10m | £1m | 6% |
| Max in Building Societies | 75% | £1m | 6% |
| Forward Dealing | 25% | 0 | 0% |
| Callable Deposits | 25% | 0 | 0% |

7. The in-house treasury team are advised by external treasury management advisers. Chiltern and South Bucks have negotiated a joint contract with effect from 1st July 2013 at a total cost of £7,500 p.a. of which Chiltern's share is £3,000. The contract is held by Capita Asset Services Treasury Solutions (Sector).

Investment Strategy

8. The investment strategy for the year was updated and agreed by Cabinet on 26th March 2013. The counterparty criteria and parameters within which day to day investments are managed are kept under review due to the ongoing economic uncertainties.

The Prudential Capital Code – Prudential Indicators

9. In accordance with the Prudential Capital Code the Council reviews its Prudential Indicators on a quarterly basis. The outcome of each review is included with the quarterly Treasury Management Report. The impact of the legislation has been limited due to the Council's debt-free status.

10. Movements in the Prudential Indicators for the year 2013/14 to date are as follows:

- **Interest rate exposures**

The interest rate exposure on investments has moved as follows:

| Date | Investments as a % of total | |
|----------|-----------------------------|----------|
| | Fixed | Variable |
| 31/03/13 | 71% | 29% |
| 30/06/13 | 43% | 57% |
| 30/09/13 | 37% | 63% |
| 31/12/13 | | |

This Prudential Indicator sets an upper limit on fixed interest rate exposures of 100% and variable interest rate exposures of 100% of net outstanding principal sums. Exposures have been managed within this limit.

- **Principal sums invested for periods longer than 364 days**

The limit for non specified investments is 100% of total investments, of which up to 50% only can be greater than 364 days. The figures are as follows:

| Date | Total investments | Sums invested for longer than 364 days | % of total investments |
|----------|-------------------|--|------------------------|
| 31/03/13 | £14m | £3m | 21% |
| 30/06/13 | £14m | £1m | 7% |
| 30/09/13 | £16m | £1m | 6% |
| 31/12/13 | | | |

Sums invested have been managed within the set limit.

Contract with the Co-operative Bank

11. The contract for the Council's banking services is held by the Co-operative Bank plc for a five year period from 1st April 2011 to 31st March 2016. The Performance and Resources Overview Committee had requested a report around the approach to short term cash balances in view of current risk ratings and the contractual position.
12. The contract with the Coop states that the agreement may be terminated with immediate effect by either party giving notice in writing if the other:-
- Commits a material breach of this Agreement which, in the case of a breach capable of remedy, is not remedied within 30 days of receipt from the party alleging the breach of a notice specifying the breach and requiring its remedy: or
 - Is unable to pay its debts as they fall due or becomes or threatens to become or is at risk of becoming subject to any form of insolvency,

administration, or ceases or threatens to cease carrying on business.

- The Bank may terminate the Agreement immediately or within such a period as it may specify, if continued association with the Council would, in the Bank's sole opinion contravene the Ethical Policy or the Ecology Mission Statement of the Bank as may be notified to the Council upon request from time to time.
 - The Council may terminate the Agreement immediately, or within such period as it may specify in the circumstances set out in Clause 13 (Gifts or Rewards to Members or Officers).
13. This implies that the contract cannot be terminated under current circumstances, with the Coop giving assurances that the downgraded ratings in no way indicate any threat to the ability of the bank to service customers. They have also assured the council that regardless of the bank's eventual strategic direction current contracts would be honoured until their expiry date.
14. No fixed term investments are being placed with the Coop for the foreseeable future and short term cash flow balances are being kept to the minimum practicable.

LIBOR manipulation

15. Reference has also been made to the manipulation of LIBOR (London Inter-Bank Offered Rate) by bankers. LIBOR manipulation may have had an effect on the following transactions:
- Borrowing with express LIBOR linkages
 - LOBO (Lender Option Borrower Option) loans
 - LIBOR linked investments
 - PFI contracts if payments are expressly linked to LIBOR.

None of these methods have been used by Chiltern and it is therefore believed that the council has not been exposed to any potential LIBOR manipulation losses.