

Report to: Audit Committee

Date: 8th March 2013

Report of: Deputy Chief Executive

Report No:

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Report Title: Treasury Management 3rd Quarter Monitoring Report for 2012/13

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Non Confidential:**

(***Non-Confidential***) This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

Purpose:

The report provides the Audit Committee with an update of the Treasury Management activities during the third quarter of 2012/13. This report was considered by the Executive Cabinet Member – Leader’s Portfolio on 4th February 2013.

Recommendations:

That Audit Committee are asked to note the contents of the report.

Background Docs:

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1. OVERALL STRATEGY

The overall objective of the Authority's Cash Management Strategy is to minimise costs and maximise returns, bearing in mind a prudent level of current and future risk. CIPFA's definition of Treasury Management is:

"The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

The sources of long term borrowing available to the Authority are the Public Works Loan Board (PWLB) and the Money Markets.

2. BORROWING

The External Borrowing at the 31st December 2012 is summarized below:

	Variable Rate	Fixed Rate	Total
	£000	£000	£000
Market Loans	52,250	38,000	90,250
Other (Mortgages)	0	1	1
Total Long Term Borrowing	52,250	38,001	90,251
Add Temporary Borrowing	15		15
Total Borrowing	52,265	38,001	90,266

Appendix 1 now shows the Maturity profile from 2012/13 to 2058/59 in the form required from the start of the 2012/13 financial year. The profile shows when the lender can exercise an option to increase the interest rate rather than the actual length of the loan. **No new borrowing was taken during the quarter.**

The Council approved the Upper and Lower Limits for the Net Debt as a % of Gross Debt in February 2012. The Upper Limit was set at 90% and the Lower Limit at -50% (i.e. that investments would not be greater than 1.5 times the borrowing). On the 15th, 16th and 17th of October the lower limit was breached as seen on the graph in Appendix 4. The purpose of the indicator was to prevent Councils borrowing for onward lending but if we had actually increased our borrowing on these dates (at a cost to the Council) for onward lending then we would have stayed within the approved limits. This indicator will not apply in future years as it fails to meet its intended objective.

3. LENDING

Members are aware that the Authority has strict guidelines governing which institutions it is prepared to lend money. The current counterparty list based on the criteria approved by Council on 22nd February 2012 is attached at Appendix 2 and details of investments outstanding at 31st December 2012 are attached at Appendix 3. No investments were made over the investment limits during the period under review.

Up to 31st December 2012 the Council had received twelve distributions amounting to £3.02 million in relation to the £ 4 million deposited with Heritable Bank. The latest estimate is that at least 88% of the deposit will be repaid.

Up to 31st December 2012 the Council had received three distributions amounting to £1.06 million in relation to the £ 2 million deposited with Landsbanki. The latest estimate is that approximately 100% of the deposit will be repaid.

4. **BASE RATE**

Base rate was 0.50% on 1st April 2012 and remains unchanged at 31st December 2012.

5. **BACKGROUND PRUDENTIAL INDICATORS**

Under the terms of the Local Government Act 2003 and Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Authority set its Prudential Indicators for 2012/13 on 23rd February 2011.

There are ten indicators; four relating to capital expenditure and affordability, two relating to capital expenditure and external debt and four relating to treasury management. The two indicators relating to external debt and the four relating to treasury management are covered by this report.

Prudential Indicators for 2012/13 and future years were approved at the Council meeting on the 22nd February 2012.

6. **PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND EXTERNAL DEBT**

Authorised limit for external debt

This indicator limits total long term and short term debt and the estimate for 2012/13 was **£254.8m**. The long and short term debt outstanding at 31st December 2012 is **£ 90.3m**. This indicator has not been exceeded during the year.

Operational boundary for external debt

This indicator is similar to the above but limits long term debt only and the estimate for 2012/13 was **£90.3m**. The long term debt outstanding at 31st December 2012 is **£ 90.3m**. This indicator has not been exceeded during the year.

7. **PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT**

Limits on fixed and variable interest rate exposures

This indicator is to ensure that there is a balance of fixed and variable interest borrowing. The estimate for 2012/13 was for a maximum fixed interest rate exposure of **96%** of borrowing. At the 31st December 2012 **42%** of borrowing was at a fixed interest rate. The estimate for 2012/13 was for a maximum variable interest rate exposure of **90%** of borrowing. At the 31st December 2012 **58%** of borrowing was at a variable interest rate.

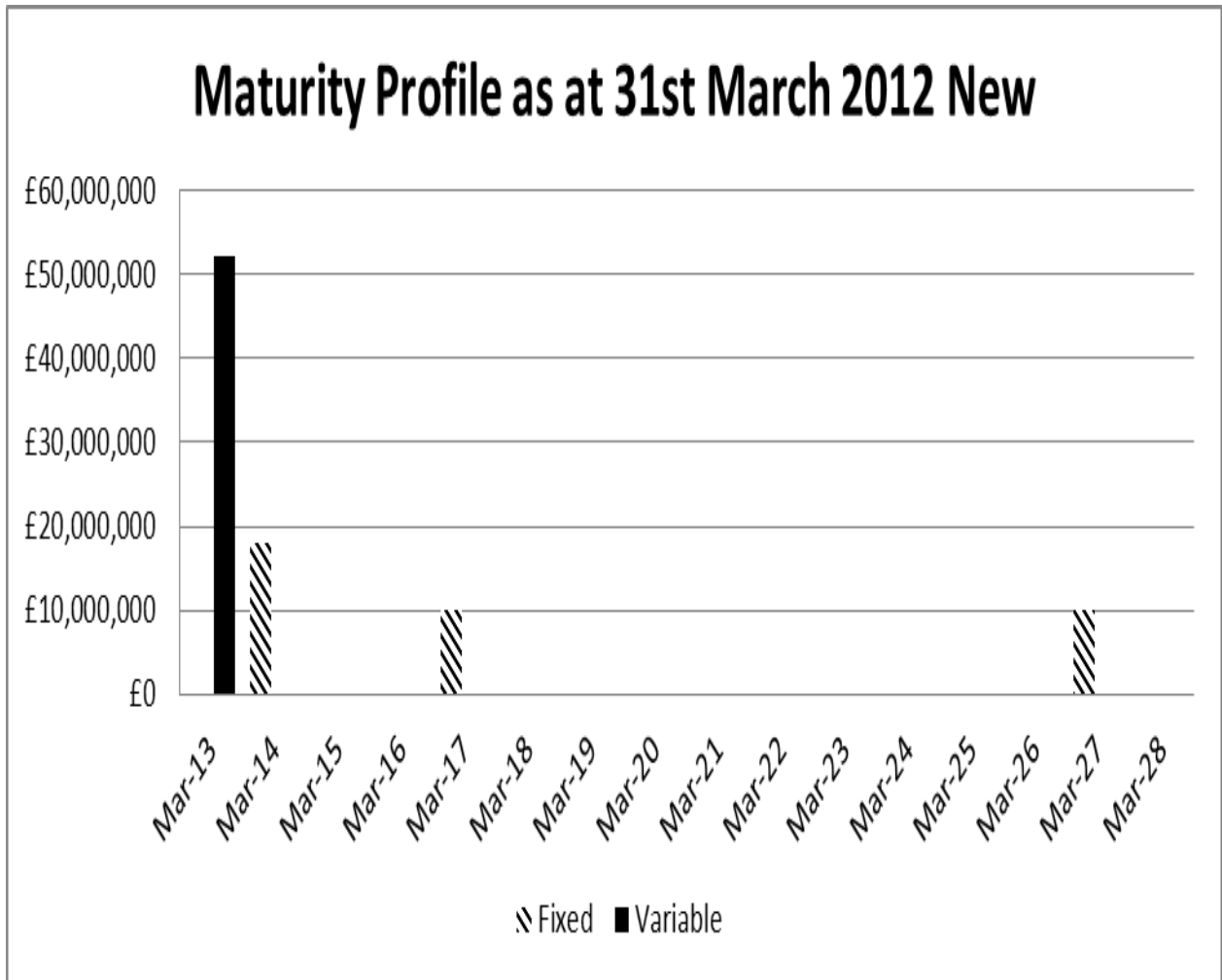
Maturity structure of borrowing

This indicator ensures that there is a spread of principal repayments on fixed interest borrowing.

Maturity Structure of fixed interest rate borrowing 2012/13			
	Lower Limit	Upper Limit	31st December 2012
Under 12 months	0%	40%	-
12 months to 2 years	0%	20%	-
2 years to 5 years	0%	20%	-
5 years to 10 years	0%	20%	-
10 years to 20 years	0%	20%	-
20 years to 30 years	0%	20%	-
30 years to 40 years	0%	30%	-
40 years to 50 years	0%	50%	47%
50 years and above	0%	100%	53%

Total principal sums invested for periods longer than 364 days

This indicator limits investments made beyond 364 days to £15m. At the 31st December 2012 there were no investments with a period longer than 364 days outstanding. This indicator has not been exceeded during the year.



Counterparty List

Bolton Council operates an Investment Policy which was approved by the Council on the 22nd February 2012, states with which organisations the Authority will invest short and long term surplus cash balances, the maximum exposure limits with any one borrower and the latest approved credit ratings applied to such organisations. The Current Counterparty list based upon the approved policy is:

Name	Fitch's				Moody's			S & P		Time Limit	Money Limit
	Short Tem	Long Tem	Individual	Support	Short Tem	Long Tem	Fin Strength	Short Tem	Long Tem		
<u>United Kingdom</u> (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA		
Bank of Scotland	F1	A		1	P-1	A2	D+	A-1	A	1 year	£ 15 m
Barclays Bank	F1	A	a	1	P-1	A2	C-	A-1	A+	1 year	£ 4 m
Bolton at Home										90 days	£ 3 m
Co-operative Bank	F2	BBB+	bbb+	3	P-2	A3	C-			1 year	£ 4 m
<i>Credit Suisse International</i>	<i>F1+</i>	<i>AA-</i>		<i>1</i>	<i>P-1</i>	<i>A1</i>		<i>A-1</i>	<i>A+</i>	<i>1 year</i>	<i>£ 4 m</i>
UK Debt Management Office (which is an Executive Agency of HM Treasury)										No Limit	No Limit
HSBC Bank	F1+	AA-	a+	1	P-1	Aa3	C	A-1+	AA-	3 years	£ 6 m
Lloyds TSB Bank	F1	A	bbb	1	P-1	A2	C-	A-1	A	1 year	£ 15 m
Local Authorities											£ 10 m
<i>MBNA Europe Bank</i>	<i>F1</i>	<i>A</i>		<i>1</i>						<i>1 year</i>	<i>£ 4 m</i>
Money Market Funds											£ 10 m
Nationwide Building Society	F1	A+	a+	1	P-1	A2	C	A-1	A+	1 year	£ 4 m
National Westminster Bank	F1	A		1	P-2	A3	D+	A-1	A	1 year	£ 15 m
Royal Bank of Scotland	F1	A	bbb	1	P-2	A3	D+	A-1	A	1 year	£ 15 m
Santander UK	F1	A	a	1	P-1	A2	C-	A-1	A	1 year	£ 4 m
<i>Standard Chartered Bank</i>	<i>F1+</i>	<i>AA-</i>	<i>aa-</i>	<i>1</i>	<i>P-1</i>	<i>A1</i>	<i>B-</i>	<i>A-1+</i>	<i>AA-</i>	<i>1 year</i>	<i>£ 4 m</i>
<i>Sumitomo Mitsui Banking Corporation Europe Limited</i>	<i>F1</i>	<i>A-</i>		<i>1</i>	<i>P-1</i>	<i>Aa3</i>	<i>C</i>	<i>A-1</i>	<i>A+</i>	<i>1 year</i>	<i>£ 4 m</i>

Counterparties in Italics do not normally borrow from Local Authorities

INVESTMENTS AS AT 31st December 2012

REPAYMENT DATE	AMOUNT £	BORROWER		INTEREST RATE (%)	DATE RAISED
	100,000	GOLDMAN SACHS MMF	Cash	0.40600	15/04/2011
	100,000	MORGAN STANLEY MMF	Cash	0.43850	27/02/2012
	100,000	SCOTTISH WIDOWS MMF	Cash	0.35520	12/03/2012
		ORBS GLOBAL TREASURY FUND MMF	Cash	0.34000	15/06/2012
	100,000	DEUTSCHE BANK MMF	Cash	0.37630	04/07/2008
	10,000,000	IGNIS MMF	Cash	0.50820	17/09/2012
	6,000,000	NAT WEST BANK	Cash	0.80000	01/12/2011
	6,000,000	ROYAL BANK OF SCOTLAND	Cash	0.80000	27/05/2010
09/12/2012	3,000,000	GLASGOW CITY COUNCIL	Short Term	0.55000	10/12/2012
15/11/2013	5,000,000	EASTLEIGH BOROUGH COUNCIL	Short Term	0.45000	16/11/2012
15/11/2013	10,000,000	PETERBOROUGH CITY COUNCIL	Short Term	0.45000	15/11/2012
25/10/2013	10,000,000	BIRMINGHAM CITY COUNCIL	Short Term	0.45000	26/10/2012
18/10/2013	5,000,000	NORTH LANARKSHIRE COUNCIL	Short Term	0.45000	19/10/2012
24/09/2013	1,000,000	LLOYDS TSB	Short Term	2.70000	25/09/2012
27/08/2013	1,500,000	CO-OPERATIVE BANK	Short Term	2.75000	28/08/2012
21/08/2013	4,000,000	NAT WEST BANK	Short Term	2.25000	22/08/2012
22/07/2013	1,000,000	BASSETLAW COUNCIL	Short Term	0.65000	23/07/2012
04/07/2013	5,000,000	LLOYDS TSB	Short Term	3.00000	17/07/2012
07/06/2013	2,000,000	NATIONWIDE BUILDING SOCIETY	Short Term	1.75000	08/06/2012
22/05/2013	4,000,000	ROYAL BANK OF SCOTLAND	Short Term	2.25000	23/05/2012
17/05/2013	4,000,000	BANK OF SCOTLAND	Short Term	2.85000	18/05/2012
04/04/2013	5,000,000	NAT WEST BANK	Short Term	2.25000	05/04/2012
18/03/2013	7,000,000	LANCASHIRE COUNTY COUNCIL	Short Term	0.85000	30/04/2012
08/03/2013	5,000,000	ROYAL BANK OF SCOTLAND	Short Term	1.81000	08/03/2012
04/03/2013	5,000,000	HSBC	Short Term	0.51200	05/03/2012
15/02/2013	3,000,000	LANCASHIRE COUNTY COUNCIL	Short Term	0.95000	15/03/2012
13/02/2013	2,000,000	NATIONWIDE BUILDING SOCIETY	Short Term	0.83000	13/08/2012
08/02/2013	2,000,000	CO-OPERATIVE BANK	Short Term	2.43750	08/02/2012
31/01/2013	4,000,000	LLOYDS TSB	Short Term	2.50000	02/02/2012
31/01/2013	6,000,000	BANK OF SCOTLAND	Short Term	2.50000	02/02/2012
02/01/2013	5,000,000	OLDHAM COUNCIL	Short Term	0.95000	04/01/2012
	121,900,000				

Cash Equivalent £22,400,000

Short Term Investments £99,500,000

The Weighted Average Life is 0.39 years, i.e. about 20 weeks.

Net Debt as a % of Gross Debt

