

Treasury Management Activity for 2011/12 April – September

1 Introduction

- 1.1 This Treasury Statement details the activity of the Treasury function in the current financial year up to the end of September.

2 Portfolio Position

- 2.1 Loans Outstanding as at 30th September 2011

	Amount £'000	Average Interest Rate %	Cumulative Rate %
Public Works Loans Board	1,965	8.25	8.86
Over 1 year	1,000	10.13	10.10
	<u>2,965</u>	<u>8.88</u>	<u>8.53</u>

- 2.2 Investments as at 30th September 2011

	Amount £'000	Average Interest Rate %
Managed by NHDC		
Banks	5,064	0.87
Building Societies	1,000	1.35
NHDC Total	6,064	1.33
Managed by Sterling		
Banks	2,750	1.75
Building Societies	20,250	2.40
Sterling Total	23,000	2.34
Managed by Tradition		
Banks	2,500	2.50
Building Societies	20,500	2.61
Tradition Total	23,000	2.59
TOTAL	<u>52,064</u>	<u>2.47</u>

- 2.2.1 The pie chart below shows the spread of investment balances as at 30th Sept. The figures shown are in millions whilst the figure in brackets denotes the value of the building societies total assets:

- (1) Building Societies with Assets over £4.5bn
- (2) Building Societies with Assets between £2.5bn - £4.5bn
- (3) Building Societies with Assets between £1.0bn - £2.5bn
- (4) Building Societies with Assets between £0.3bn - £1.0bn

much as £5M but is dependant on the level capital expenditure. Clearly there is a cost to the general fund of borrowing. For example, based on an interest rate of 2.2% for a loan of £5million over 5 years the annual cost to the general fund would be £110,000.

Period of Loan	PWLB Interest Rates as at 9 th Sept 2011 (Based on repayment of Principal on Maturity) %	Interest Payable on £5M pa £'000	Total Interest Payable on £5M £'000
1 Year	1.43	72	72
2 Years	1.56	78	156
5 Years	2.20	110	550

3.0 Loans Received and Loans Repaid 1st July 2011 to 30th Sept. 2011

3.1 Loans Received

No new loans were taken during the period.

3.2 Loans Repaid

Month	AMOUNT £	TERM	LENDER	RATE %
July	57,808	Annuity	PWLB	Various
Sept	21,533	Annuity	PWLB	3.125
	<u>79,341</u>			

3.2.1 The total of loan repayments during the year is expected to be £2,152,320. This is made up of the temporary loan of £2M which was borrowed to cover a shortfall in cash flow in March, and the balance is PWLB.

4 Interest Paid and Received 1st July 2011 to 30th Sept 2011

4.1 Interest Paid

4.1.1 The table below details interest paid during the 2nd quarter.

Lender	Date of Loan £	Interest Paid	Interest Rate %	Loan O/std 30/09/11 £
PWLB	Various	82,927	Various	1,965,040
LOBO	07/11/91	<u>50,764</u>	10.125	<u>1,000,000</u>
		<u>133,691</u>		<u>2,965,040</u>

4.1.2 The total interest payable during the year will be approximately £265,750. This is made up of £164,171 PWLB, £101,250 Lobo and £329 temporary loan.

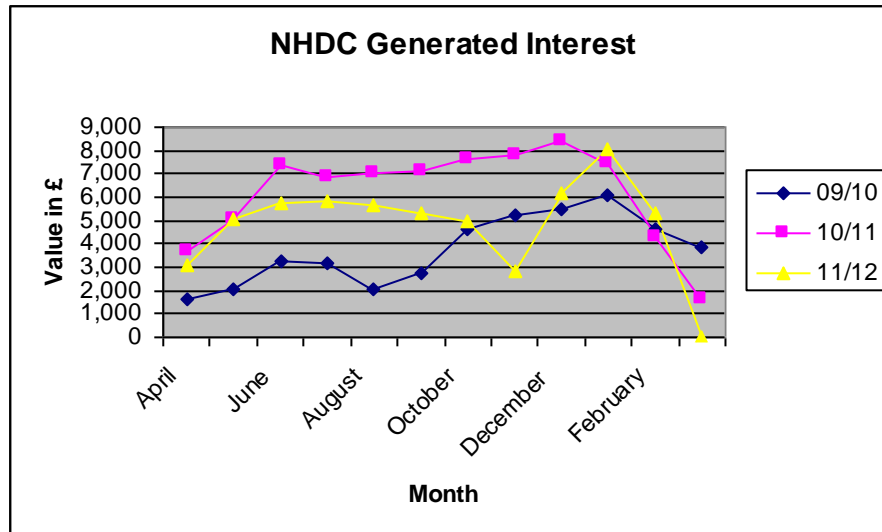
4.2 Interest Received

4.2.1 The tables below details the total interest generated from investments between 1st April 2011 and the 30th September 2011 and average interest rates.

	Interest Accrued to 30 th Sept £	Interest Rec'd Sept £	Total Interest April - Sept
NHDC	4,483	26,251	30,734
Sterling	151,704	78,329	230,033
Tradition	171,919	90,405	262,324
Total	<u>328,106</u>	<u>194,985</u>	<u>523,091</u>

(Cabinet 13/11/11)

- 4.2.2 The graph below shows the level of interest generated from NHDC deals. The level of interest generated in house has fallen dramatically since 2008/09. This is attributable to a couple of factors. Interest rates have collapsed so where as the average interest rate achieved in house in 2008/09 was 4.92% the average rate for the first six months of the year in 2011/12 was 0.95%. This is coupled with a reduction in the level of balances available to invest which means deals can only be made for very short periods of time to meet cash flow requirement and hence these deals attract low interest rates.



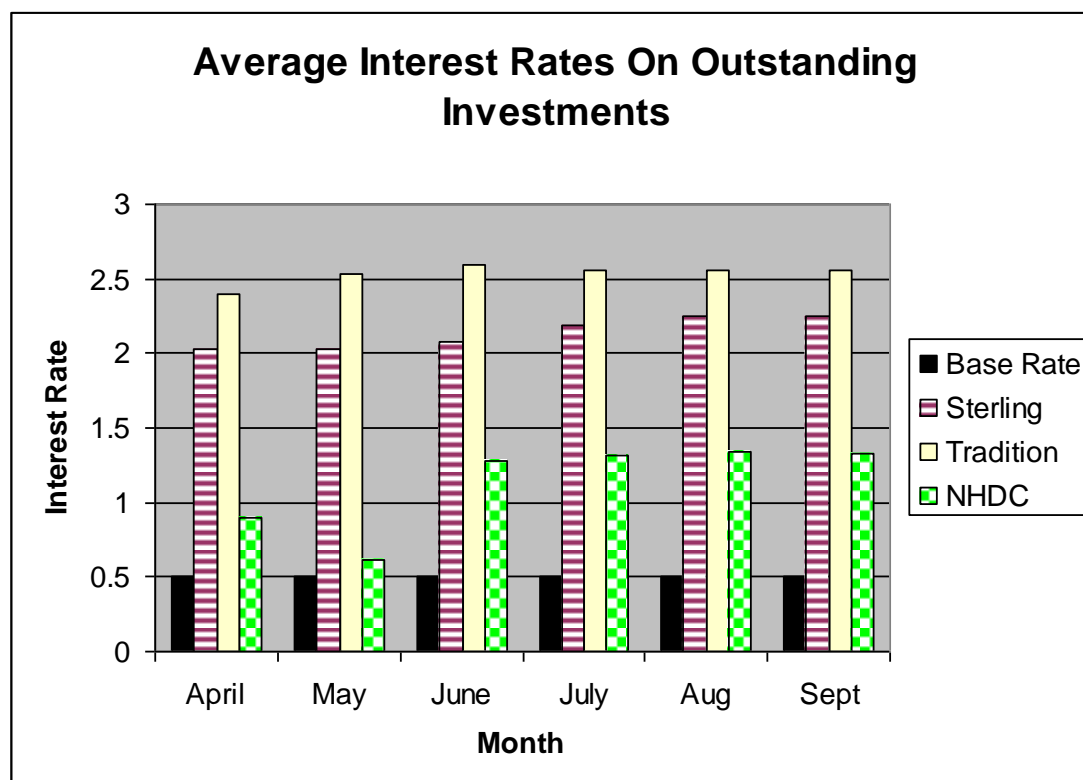
	Ave Int Rate Deals made in 1 st Qrt %	Ave Int Rate Deals made in 2 nd Qrt %
NHDC	1.01	0.86
Sterling	1.83	3.03
Tradition	2.31	1.52

- 4.2.3 Sterling compare the average interest rate achieved against the average 3 Month LIBID rate. This was 0.74%
- 4.2.4 Tradition compare the average interest rate achieved against the average 7 Day Notice rate. This was 0.38%.
- 4.2.5 NHDC manage the day to day cash flow of the Council. Investments are matched to expenditure commitments and are usually for short periods of time. Sterling and Tradition are not constrained in the same way and are able to take advantage of higher rates when they arise. Thus NHDC being restricted to very short deals to meet the cashflow demands yield lower rates than longer deals. Interest rates remained fairly constant during the second quarter. The month rate started at 0.47% but increased to 0.5% in late Sept. The 6 month rate started at 1.0% and increase in late Sept to 1.1%, The year rate stayed at 1.5% for the quarter.
- 4.2.6 The Nat West Liquidity Call Account had an average balance of £5.62M during the first quarter, receiving 0.9% interest. As can be seen from the rates in 4.2.5 this is a competitive rate for short term funds. Therefore instead of placing investments on fixed term deposits, the majority of In House cash was placed on the Call account to achieve a better rate of interest.
- 4.2.7 The total interest generated from investments is expected to be in the region of £1.097M. This is an increase of approx £10K on the figure reported in the

(Cabinet 13/11/11)

1st quarter monitoring report. The increase is due to long term investments made during the second quarter in excess of 3%.

- 4.2.8 The amount of investments outstanding for longer than 365 days at the 30th September was £6.75M. Sterling had £4.75M of investments with maturities longer than 365 days still to run with an average interest rate of 3.03%. Tradition had £2.0M with an average rate of 3.25%.
- 4.2.9 Base rate started the year at 0.5% and remained constant through the first six months. The graph below shows the average rate of interest on outstanding Investments.



- 4.2.10 As can be seen from the graph, the average rate of interest on outstanding investments for NHDC is consistently lower than that of the Cash Managers. This is because the investments made by NHDC during the year are to meet cash flow requirements and are therefore made for short periods. At present, rates in the shorter periods are lower than the longer periods. The Cash Managers have more long term investments and the turnover of investments is small in comparison to NHDC.
- 4.2.11 Tradition's average rate rose in the first quarter as maturing investments were replaced with higher interest rate deals that last longer than 364 days. The average remained constant during the second quarter as only one deal matured during the quarter.
- 4.2.12 Sterling's average rate has risen as maturing investments were replaced with new longer term deals with a higher interest rate.

5 Operational Leasing

- 5.1 No operational lease agreements were entered into during the second quarter.

6 Assessment

- 6.1 Each year treasury management is subject an audit review, for 2010/11 treasury management received a substantial to full level of assurance.

(Cabinet 13/11/11)