

COMMITTEE: Audit Committee	DATE: 15th December 2009	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources		TITLE: Treasury Activity for Period Ending 30th November 2009		
ORIGINATING OFFICER(S): Alan Finch		Ward(s) affected: N/A		

1. SUMMARY

- 1.1 This report advises the Committee of Treasury Management activity for the year up to 30th November 2009.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year.

2. RECOMMENDATIONS

- 2.1 Members are recommended to note the contents of this report.

3. BACKGROUND

3.1 This report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year.

4. TREASURY ACTIVITY FOR PERIOD 1ST APRIL to 30th November 2009.

4.1 The following sections of the report set out:

- The current credit criteria being operated by the Council.
- The treasury strategy for the current financial year and the progress in implementing this.
- The transactions undertaken in the period and the investment portfolio outstanding as at 30th November 2009.

5 CREDIT CRITERIA

5.1 The following credit criteria for investment counterparties were established by the Council in February 2009 as part of the budget setting exercise.

Table 1 – Credit Rating Requirements

	UK Institutions up to £25m	UK Institutions up to £10m	Overseas Institutions up to £10m
Short Term	F1+	F1+	F1+
Long Term	AA-	AA-	AA-
Individual	B	BC	AB
Support	2	3	2

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings are monitored on a monthly basis and the Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service.

5.2 In response to the recent instability in capital markets and the banking sector the Corporate Director of Resources has restricted the investment list to institutions which have guaranteed support from national governments who are assessed by the rating agencies as having the financial capacity to provide such support.

Table 2 – Lending List

Institution	County of Incorporation	Active in Market
Australia and New Zealand Banking Group Ltd	Australia	N
Commonwealth Bank of Australia	Australia	N
National Australia Bank Ltd	Australia	Y
Westpac Banking Corporation	Australia	N
Dexia Bank Belgium	Belgium	Y
Oversea-Chinese Banking Corporation Ltd	China	N
United Overseas Bank Ltd	China	N
DBS Bank Ltd	Singapore	N
Abbey National Plc (Santander)	UK	Y
Bank of Scotland Plc	UK	Y
Barclays Bank Plc	UK	Y
HSBC Bank Plc	UK	N
Lloyds TSB Bank Plc	UK	Y
National Westminster Bank	UK	Y
Nationwide Building Society	UK	Y
Royal Bank of Scotland	UK	Y

6. INVESTMENT STRATEGY

6.4 The Council's treasury management advisor, Sector's interest rate projections are that base rate will remain static at 0.5% for the current financial year with no movement in rates until an increase of 0.5% in September 2010. Against this macro-economic perspective Sector has developed a strategy which delivers enhanced performance through maximising the investment term of the portfolio. This will enable the portfolio to obtain exposure to the higher rates associated with investment in the longer terms. Restricting the maximum term to one year will also enable investments to mature before the anticipated increase in rates in 2010.

6.5 Sector has calculated that the Council will have an effective investment balance of £100million for 2009/10. The investment strategy within the constraints of the Councils credit criteria and liquidity requirement is as set out below.

Table 3 -Investment Strategy

Projection			Actual Deal			
Term	Amount £M	Rate %	Counterparty	Maturity	Amount £M	Rate
Overnight	15	0.75%	Abbey National plc	Call	5.045	
			Clydesdale Bank plc	Call	0.488	
			Alliance & Leicester	Call	5.109	
			Bank of Scotland plc	Call	6.463	

			SUB TOTAL		17.105	
1 Month	5	0.70%				
2 Months	10	1.30%				
3 Months	30	1.30%				
6 Months	5	1.60%	Nationwide	1 st Dec 2009	5.0	1.45%
			The Royal Bank of Scotland	15 th Dec 2009	5.0	1.26%
			Cater Allen (Santander)	29 th Dec 2009	5.0	2.30%
			Nationwide	15 th Jan 2010	5.0	1.21%
			Lloyds TSB	17 th Feb 2010	5.0	1.25%
			Nationwide	15 th Apr 2010	5.0	0.80%
9 Months	10	1.70%	Cater Allen (Santander)	1 st Mar 2010	5.0	2.60%
			Barclays Bank plc	11 th Feb 2010	5.0	1.80%
			Nationwide	30 th July 2010	5.0	0.99%
12 Months	25	2.00%	Cater Allen (Santander)	14 th May 2010	5.0	3.00%
			Barclays Bank plc	27 th Apr 2010	10.0	2.15%
			SUB TOTAL		60.0	
	£ 100		TOTAL		£ 77.105	

6.6 The deals effected in the period and those brought forward from 2008-9 are as set out in appendix 1. These deals comply with the counterparty credit criteria as set out in table 2.

6.7 The Council's bankers, the Co-operative Bank plc, are used as depositors of the last resort for investment of additional funds received after the treasury transactions have been completed and the money markets closed.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1. The comments of the Corporate Director Resources have been incorporated into the report.

8 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

8.1 The Committee is asked to note the information in the report concerning the Councils treasury transactions undertaken by the Corporate Director of resources under delegated powers.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 10.1 There are no Sustainable Action for A Greener Environment implications.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 Any form of investment inevitably involves a degree of risk.
- 11.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. This diversification relates to both asset classes and management styles.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Directorate Submissions

*Name and telephone number of holder
And address where open to inspection*

*Ian Talbot Ext. 4733
Mulberry Place, 4th Floor.*

Investment Transactions 2009-10

	Investments made before 1 April 2009 £m	Raised £m	Realised £m	Investments Outstanding 30th November 2009 £m
Australia and New Zealand Banking Group Ltd				
Commonwealth Bank of Australia				
National Australia Bank Ltd	12	65	(77)	
National Australia Bank Ltd				
Westpac Banking Corporation				
Alliance & Leicester	5		(5)	
Abbey National plc	25		(25)	
Bank of Scotland plc	17		(17)	
Barclays Bank plc		25	(10)	15
HSBC Bank plc				
Lloyds TSB Bank plc		5		5
National Westminster Bank				
Royal Bank of Scotland		20	(15)	5
Nationwide	5	60	(45)	20
DBS Bank Ltd				
Oversea-Chinese Banking Corporation Ltd				
United Overseas Bank Ltd				
Dexia Bank Belgium - London Branch	10	75	(85)	
Co-Operative Bank		5	(5)	
Cater Allen (Santander)		15		(15)
Total	74	270	(284)	60