

# FINANCE PORTFOLIO DECISION SCHEDULE



Friday 10<sup>th</sup> November, 2006

at 10am

in Committee Room "A"

Councillor Payne, Cabinet Member responsible for Finance will consider the following items.

1. **KEY DECISIONS**

No items

2. **OTHER ITEMS REQUIRING DECISION**

2.1 Treasury Management Strategy Review – *Chief Financial Officer*

3. **ITEMS FOR INFORMATION/DISCUSSION**

3.1 Chief Executive's Departmental Plan 2006/07 – 2<sup>nd</sup> Quarter Monitoring Report  
– *Chief Financial Officer and Chief Solicitor*

4. **REPORTS FROM OVERVIEW OF SCRUTINY FORUMS**

No items

# FINANCE PORTFOLIO

## 10<sup>th</sup> November, 2006



**Report of:** Chief Financial Officer

**Subject:** TREASURY MANAGEMENT STRATEGY  
REVIEW

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### SUMMARY

#### 1.0 PURPOSE OF REPORT

To provide a review of Treasury Management for 2006/2007.

#### 2.0 SUMMARY OF CONTENTS

The report provides details to enable the Treasury Management Strategy for 2006/2007 to be reviewed.

#### 3.0 RELEVANCE TO PORTFOLIO MEMBER

Delegated powers do not apply to this item.

#### 4.0 TYPE OF DECISION

Non-key Decision.

#### 5.0 DECISION MAKING ROUTE

To Portfolio Holder.

#### 6.0 DECISION(S) REQUIRED

Approval of Treasury Strategy.

**Report of:** Chief Financial Officer

**Subject:** TREASURY MANAGEMENT STRATEGY  
REVIEW

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**1. PURPOSE OF REPORT**

- 1.1 To provide a review of the Treasury Management Strategy for 2006/2007.

**2. BACKGROUND**

- 2.1 The current Investment and Borrowing strategy was approved by Council on 16<sup>th</sup> February, 2006 and reported to the Finance Portfolio on 13<sup>th</sup> March, 2006.

- 2.2 The CIPFA Code of Practice for Treasury Management recommends as best practice, interim reporting of treasury management activities. This report provides details of treasury management events for the year to date and recommends changes to the strategy as appropriate to reflect the prospects for short and long term interest rates. The review covers the following areas:

- Prospect for Interest Rates
- Borrowing Strategy
- Investment Strategy
- Prudential Code Monitoring

**3. PROSPECT FOR INTEREST RATES**

- 3.1 The original strategy report provided an overview of interest rate forecasts from three major independent forecasters for base rates and longer term Public Works Loan Board (PWLB). Although it was noted that there was an unusual degree of uncertainty, the general consensus was that short term rates were unlikely to change significantly during the financial year. Since the report there has been a growing consensus of opinion of the likely prospect for interest rates, with an expectation of a 0.25% rise in November.

**Short Term Interest Rate Forecasts**

	Q/E3 2006	Q/E4 2006	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008
Sector Forecast	4.75%	5.00%	5.00%	5.00%	4.75%	4.75%	4.75%	4.50%
UBS Forecast	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%		
Capital Economics Forecast	4.75%	5.00%	5.00%	5.00%	4.75%	4.50%		

- 3.2 Although not reflected in the forecasts shown above, as at late October the market was already pricing in a further 0.25% rise in 2007, resulting in potentially very attractive rates for investments for periods of one year or more.
- 3.3 The forecasts for long term rates are for them to eventually increase.

**Long Term Interest Rate Forecasts (50 year PWLB)**

	Q/E3 2006	Q/E4 2006	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008
Sector Forecast	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.50%	4.50%
UBS Forecast	4.65%	4.75%	4.85%	4.95%	4.95%	4.85%		
Capital Economics Forecast	4.25%	4.25%	4.25%	4.35%	4.35%	4.35%		

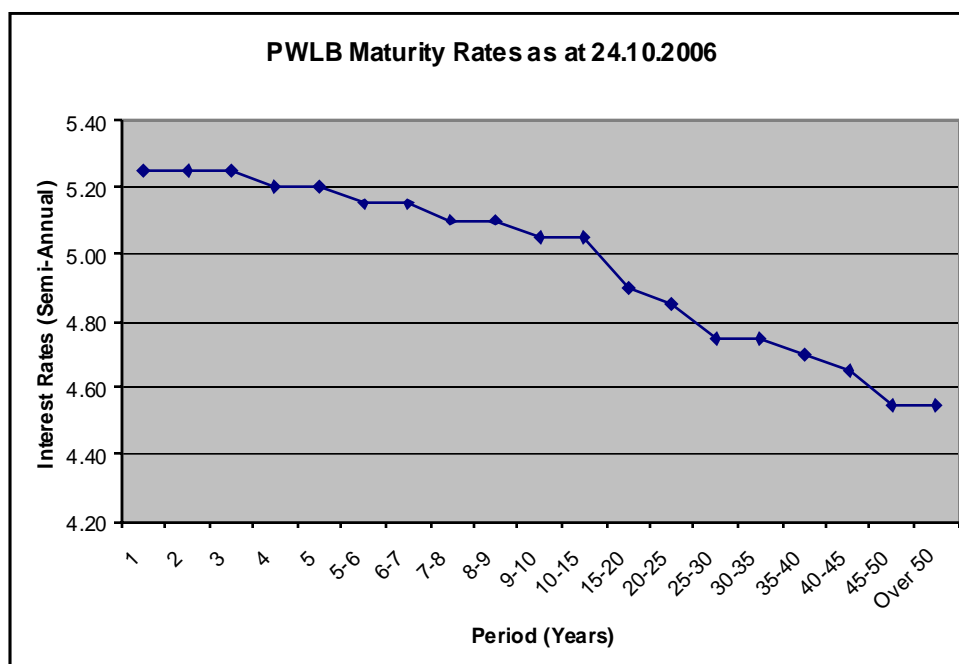
**4 BORROWING STRATEGY**

- 4.1 The current position is shown as follows:

Market Loans	£5m
PWLB	£78.9m

- 4.2 The average interest rate of PWLB debt is now 4.49%, which compares very favourable against a national average of 6.21%. A debt rescheduling exercise recently undertaken in relation to the market loan has reduced the interest rate payable from 7.57% to 5.3%. The Council's average rate of borrowing for all external debt following the rescheduling is 4.67%.

- 4.3 Following the strategic borrowing undertaken in 2005/2006, the original strategy report highlighted there was unlikely to be a need for any long term borrowing, but the position would be kept under review in the light of additional prudential borrowing allocations. Although it still looks unlikely any additional borrowing will be required in relation to the current years Capital Programme, it may be beneficial to undertake further borrowing later in the year to fund the 2009/2010 capital programme if long term rates look set to increase. It is therefore recommended that the Chief Financial Officer (CFO) be given authority to undertake further borrowing if it will secure lower rates of borrowing.
- 4.4 Because of the current shape of the yield curve as shown below, i.e. interest rates lower for longer maturity periods, there are opportunities for some PWLB debt rescheduling, to benefit from discounts on existing loans and also by lowering the average rate of external debt by replacing these with loans for longer periods.



- 4.5 The CFO has been given delegated authority to undertake debt rescheduling and will consider this for applicable loans if a discount can be achieved and the replacement loan is at a rate of 4.2% or less and the period exceeds the original loan period.
- 4.6 Previous long term borrowing has been with the Public Works Loan Board (PWLB). It is recommended that future long term borrowing should include the potential for market loans at the discretion of the CFO.

## 5 INVESTMENT STRATEGY

- 5.1 The Council's investment strategy is to maximise the amount of interest receivable, while ensuring the availability of liquid funds and the security of amounts invested.
- 5.2 The introduction of the Prudential Code has enabled the Council to be more strategic in terms of its long term borrowing, by pre funding capital expenditure to benefit from the availability of historically low borrowing rates. As a result, there is a need to temporarily invest the cash until it is required. A key objective is to maximise the return on this cash, until the time it is required to fund capital expenditure.
- 5.3 Currently the Counterparty list has a maximum period of 2 years for the most secure investments. It is recommended that this be increased to 3 years for the institutions with the highest credit rating (over AA+). This will enable the Council to benefit from higher rates of interest available with deposits offered by the major banks, while ensuring a maturity profile that reflects the need for capital expenditure and liquidity. The proposed limit for debt held for 3 years is £10m.
- 5.4 The Council will also continue to maximise the opportunities provided by forward investment deals, whereby the Authority agrees to invest at a fixed date in the future, at a fixed interest rate and maturity period. These investments enable the Authority to secure its investment returns for a longer period and take advantage of current favourable investment returns.

## 6 PRUDENTIAL CODE MONITORING

- 6.1 The Council is required to set a number of Prudential Indicators which were approved by the full Council on 16<sup>th</sup> February, 2006. Progress and compliance against the key indicators for Treasury Management is shown below:

Prudential indicator	Original Limit £000	Revised Limit (including rephased b/f) £000	Projected Outturn £000
Capital Expenditure Finance from Borrowing	10,010	18,216	13,016
Capital Financing Requirement (CFR)	81,123	87,236	82,036
Approved Limit for External Debt	105,000	105,000	93,400 (peak level)
Operational Limit for External Debt	95,000	95,000	93,400 (peak level)

- 6.2 The revisions to Capital Expenditure Financed from Borrowing and CFR reflect approved expenditure rephased and additional allocations approved by full Council during the year.

## **7. RECOMMENDATIONS**

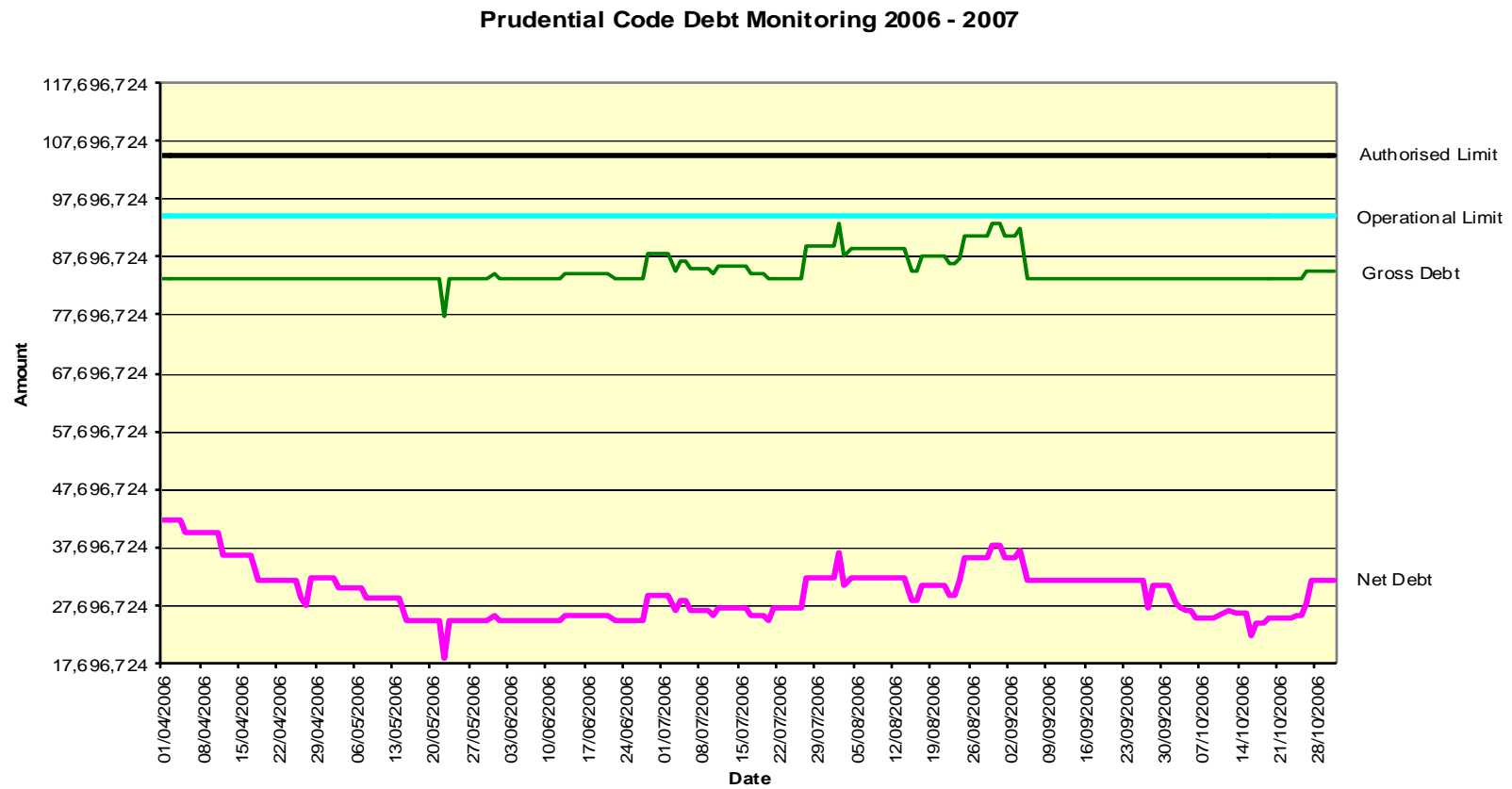
- 7.1 It is recommended that the Portfolio Holder:
- i) Notes the report
  - ii) Approves the Borrowing and Investment strategies outlined above.
  - iii) Approves the extension of investment periods as set out in Appendix A

**Increase in Periods for Investments**

Name	Current Period Limit	Recommended Period Limit	Recommended Limit £M
Bank of Scotland	2 years	3 years	7.5
Barclays Bank	2 years	3 years	7.5
Halifax/BoS Group	2 years	3 years	7.5
Natwest/RBS Group	2 years	3 years	7.5
HSBC	2 years	3 years	6.0
Lloyds TSB	2 years	3 years	6.0
Royal Bank of Scotland	2 years	3 years	6.0
Halifax	2 years	3 years	6.0
Natwest	2 years	3 years	6.0



## APPENDIX B



## **FINANCE PORTFOLIO**

Report to Portfolio Holder

10<sup>th</sup> November 2006



**Report of:** Chief Financial Officer and Chief Solicitor

**Subject:** CHIEF EXECUTIVE'S DEPARTMENTAL PLAN  
2006/07 – 2ND QUARTER MONITORING  
REPORT

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### **SUMMARY**

#### **1. PURPOSE OF REPORT**

To inform the Portfolio Holder of the progress made against the Chief Executive's Departmental Plan 2006/07 in the six months to 30 September 2006.

#### **2. SUMMARY OF CONTENTS**

The progress against the actions contained in the Chief Executive's Departmental Plan 2006/07 and the second quarter outturns of key performance indicators.

#### **3. RELEVANCE TO PORTFOLIO MEMBER**

The Portfolio Member has responsibility for performance management issues in relation to finance and legal services.

#### **4. TYPE OF DECISION**

Non-key.

#### **5. DECISION MAKING ROUTE**

Portfolio Holder meeting 10<sup>th</sup> November 2006.

#### **6. DECISION REQUIRED**

Achievement on actions and indicators be noted

**Report of:** Chief Financial Officer and Chief Solicitor

**Subject:** CHIEF EXECUTIVE'S DEPARTMENTAL PLAN  
2006/07 – 2ND QUARTER MONITORING  
REPORT

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### **PURPOSE OF REPORT**

1. To inform the Portfolio Holder of the progress made against the key actions identified in the Chief Executive's Departmental Plan 2006/07 and the progress of key performance indicators for the period up to 30 September 2006.

### **BACKGROUND**

2. The Performance Management Portfolio Holder agreed the Chief Executive's Departmental Plan in May 2006.
3. The Chief Executives Department is split into four divisions, with Finance and Legal Services reporting to the Performance Management Portfolio Holder. Issues relating to the Corporate Strategy and Human Resources Divisions are reported separately to the Performance Management Portfolio Holder.
4. The Chief Executive's Departmental Plan 2006/07 sets out the key tasks and issues within an Action Plan to show what is to be achieved by the department in the coming year. The plan also describes how the department contributes to the Organisational Development Improvement Priorities as laid out in the 2006/07 Corporate Plan. It provides a framework for managing the competing priorities, communicating the purpose and challenges facing the department and monitoring progress against overall Council aims.
5. The Council recently introduced an electronic Performance Management Database for collecting and analysing corporate performance. In 2006/07 the database will collect performance information detailed in the Corporate Plan and the five Departmental Plans. The aim is that the database will eventually collect performance information for all levels of the Council, including individual service/operational plans in each department.
6. Each Division has also produced a Divisional Plan, detailing the key tasks and issues facing each division in the coming year. Each plan contains an action plan, detailing how each individual division intends

to contribute to the Organisational Development Priorities contained in the Corporate Plan, as well as the key tasks and priorities contained in the Chief Executives Departmental Plan. Divisional Chief Officers will have the lead responsibility for managing performance of issues and tasks identified in their divisional plans. Where appropriate, issues can be escalated for consideration by CEMT.

## SECOND QUARTER PERFORMANCE

7. This section looks in detail at how the Finance Division and Legal Services Division have performed in relation to the key actions and performance indicators that were included in the Chief Executives Departmental Plan 2006/07.
8. On a quarterly basis officers from across the department are asked, via the Performance Management database, to provide an update on progress against every action contained in the Departmental Plan and, where appropriate, every Performance Indicator.
9. Officers are asked to provide a short commentary explaining progress made to date, and asked to traffic light each action based on whether or not the action will be, or has been, completed by the target date set out in the Departmental Plan. The traffic light system has been slightly adjusted in 2006/07, following a review of the system used previously. The traffic light system is now: -

Red	- Action/PI not expected to meet target
Amber	- Action/PI expected to be meet target
Green	- Action/PI target achieved

10. Within the Finance and Legal Services Divisions there were a total of 88 actions identified in the 2006/07 Departmental Plan. Table 1, below, summarises the progress made, to the 30 June 2006, towards achieving these actions and PIs.

Table 1 – Finance/Legal Services progress summary

	Finance		Legal Services	
	Actions	PIs	Actions	PIs
Green	45	n/a	0	n/a
Amber	24	n/a	9	n/a
Red	10	n/a	0	n/a
Total	79	n/a	9	n/a

11. A total of 45 actions, or 51%, have already been completed, and a further 33 (37%) are on target to be completed by the target date.

However, 10 actions have been highlighted as not being on target. More information on these actions can be found in the relevant section below.

12. There were 0 Performance Indicators included in the 2006/07 Departmental Plan that were the responsibility of either the Finance or Legal Services Divisions. Suitable PIs are being identified and will be included in the third quarter analysis.

### Finance Division

13. The Plan contained 79 actions that were the responsibility of the Finance Division. As at 30 September, 45 actions (57%) had been completed, and 24 (30%) were on target to be completed by the target date stated in the plan. However, 10 actions had either not been completed by the due date, or are no longer on target to be completed on time. Table 2 below details these actions, together with a comment explaining why the deadline will not be met and any appropriate remedial action.

Table 2: Finance Actions not completed on target/not on target

Ref	Action	Milestone	Comment
CED 318	Medium Term Insurance Strategy agreed by Members	Oct 06	Tenders received and cover placed, however delays in the production of report to Members.
CED 220	Provide training for Members and Senior Officers	Jul 06	Substantial training has been organised and completed in the use of the Corporate Risk Register and delivered by Paul Hamilton during September 06. However, further general training needs to be scheduled for Members and Officers.
CED 206	Undertake quarterly SRR review for departmental risks for reporting to Finance and Performance Management PFI	Quarterly from Jul 06	This was completed by most responsible officers and reminders sent to those with risks outstanding
CED 252	Examine relevant areas in CED within departments	May 06	Actions have commenced but are progressing more slowly than anticipated
CED 255	Complete interim stationery/furniture procurement exercise	Apr 06	Stationery exercise completed. Interim arrangement extended until Feb 07. Furniture exercise planned start date 1 Nov 06. Darlington BC leading on process – work pressures at DBC responsible for initial delay of commencement
CED 256	Review “contracts”, aggregate expenditure, introduce control measures, commence procurement exercises	Jun 06	Some review work completed and Procurement exercises underway both within the Council and in collaboration with Tees Valley Authorities and NEPO
CED 257	Complete food procurement exercise via	Sep 06	Delays experienced by both NECE and Royal Bank of Scotland in meeting the

Ref	Action	Milestone	Comment
	purchase cards		initial timescales assigned. Work speeding up now and food is now being procured via the first 2 Pcard suppliers. Program to expand and develop over coming months.
CED 261	E procurement implementation via FMS	Oct 06	E procurement series on FMS has been delayed / re-prioritised – to be replaced with job costing. Therefore it is essential that the e-procurement elements of main integra system needs to be developed (ordering / invoicing etc.) also e-tendering.
CED 215	Implement EDRMS Project Phase 1	Jul 06	Although Planning, Legal and ESCR are all in the live environment there have been a number of fundamental operational problems with the reliability and security of the system which the supplier and NI are currently addressing.
CED 216	Implement EDRMS/FMS integration	Jun 06	Problems encountered with EDRMS are hindering the successful implementation of this aspect of the project

14. In the six months to 30 September, the Finance Division completed a number of actions, including: -

- Council have agreed with Housing Hartlepool future cash collection arrangements, including continuing cash receipting in 2006/07 and new payment cards to be introduced.
- New card payment arrangements to be introduced in November 06 allowing the public to pay at post offices, Paypoint outlets and the Civic Centre.
- Integrated Asset Management Plan/Capital Strategy was approved by Cabinet in July.

### Legal Services Division

15. The Plan contained 9 actions that were the responsibility of the Legal Services Division. As at 30 September all 9 were on target to be completed by the target date stated in the plan. Therefore there are no actions that are currently highlighted as no longer being on target to be completed on time.

16. Within the first quarter the Legal Services Division completed a number of actions, including: -

- The Anti-money Laundering Policy has been prepared
- Ethical framework training has been provided through the Council's Monitoring Officer

**Recommendations**

17. It is recommended that achievement of key actions and second quarter outturns of performance indicators are noted.