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## TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2010/11

### 1 SUMMARY

- 1.1 This is the annual report on treasury management for the financial year 1 April 2010 to 31 March 2011 (2010/11). The treasury management activities have been conducted during a year where interest rates have remained static and there has continued to be uncertainty in the financial markets. Income from investment fell from £209,300 in 2009/10 to £105,800 in 2010/11.

### 2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as “the management of the local authority’s investments, 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.”
- 2.2 For 2010/11, the primary requirements of the original Code of Practice, together with how the Council complies, are as follows:-
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities. This is contained within the Financial Regulations of the Council’s Constitution. The Financial Regulations are reviewed annually – the last review was in January 2011 to incorporate new requirements of the revised code.
  - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives. The Practices were last reviewed and updated in December 2010.
  - The Council should receive an Annual Treasury Management Strategy Report (including the Annual Investment Strategy Report) for the year ahead and an Annual Review Report of the previous year. The Strategy for 2010/11 was agreed by Council in January 2010 and this report is the Annual Review Report.
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. All Executive decisions on borrowing, investment or financing are delegated to the Head of Finance as the Chief Finance Officer and this delegation is documented in the Financial Regulations.
- 2.3 The Council uses the services of treasury management advisors, Sector Treasury Services, to provide advice and expert analysis.

### 3 TREASURY POSITION AS AT 31 MARCH 2011

- 3.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:-

Balance as at 31 March 2010           £4.824m

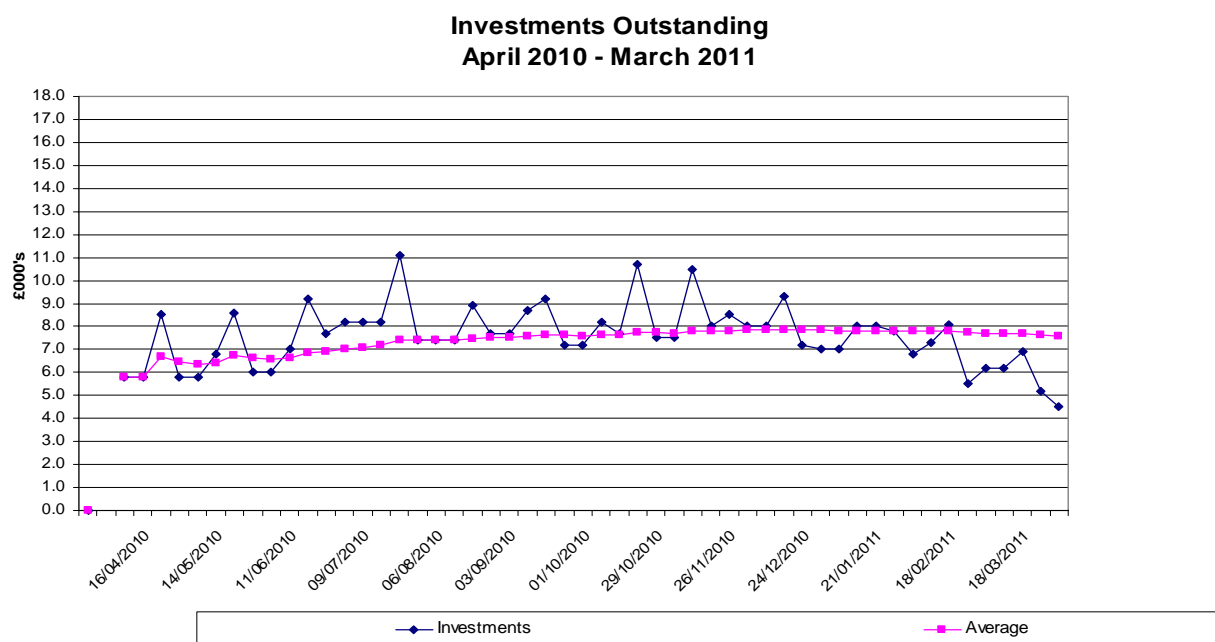
Balance as at 31 March 2011           £3.837m

These balances include the interest earned as at 31 March 2011, even though the interest is not actually received until the investment matures. On the following outstanding investments, £37,000 interest had been earned as at 31 March 2011.

Ref	Borrower	£000s	Date Invested	Maturity Date	Interest Rate
1833	Lloyds TSB	1,000	21/06/10	21/06/11	1.80%
1834	Lloyds TSB	1,800	02/09/10	02/09/11	1.90%
1837	Lloyds TSB	1,000	25/1/11	25/1/12	1.95%

### 4 INVESTMENT PERFORMANCE FOR 2010/11

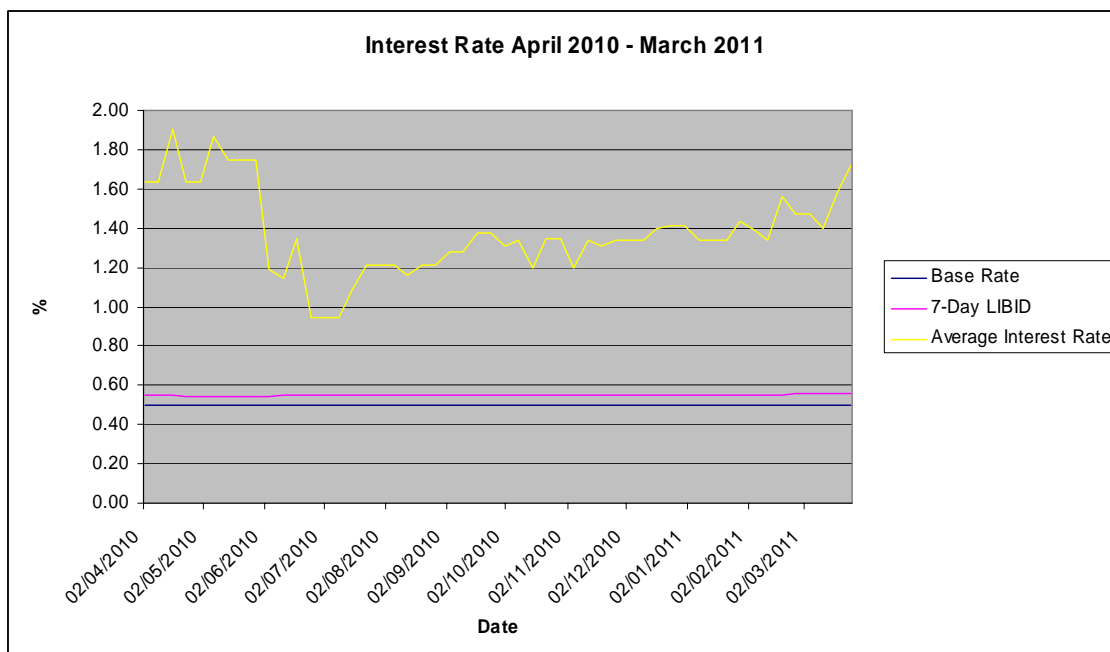
- 4.1 The Investment Strategy for 2010/11 was based on expectations that the bank rate would remain at 0.5%, which proved to be the case. As forecast, the bank rate did not rise during 2010/11. Current forecasts are for the bank rate to climb by 0.25% between December 2011 and March 2012 to reach 0.75%.
- 4.2 The majority of investments have been made for cashflow requirements but, where the market has given slightly higher rates in anticipation at the time of future rate increases, the opportunity was taken to benefit from these.
- 4.3 The graph below, of total investments and the average sum invested, shows an increase in average balances from £5.8m to £7.5m at the end of the year. This happened despite the drop in sum invested from £5.8m to £4.5m. The reason for this was the placing of two large investments totalling £2.8m in the middle of the year, both being placed on a 1 year fixed term.



4.4 Total external interest earned was £105,800, compared to £209,300 in 2009/10. The revised estimate for 2010/11 was £91,000 and so this represents a 16% improvement on estimated. During the year we started using Money Market funds which offer slightly above average rates for instant access, as well as sourcing higher than expected rates on the three long term deposits placed. Performance for 2010/11 compared to 2009/10 is summarised below based on investments held during the year:-

	2009/10		2010/11	
	Performance	Benchmark	Performance	Benchmark
Interest return	£209,300	n/a	£105,800	n/a
Average rate	3.53%	0.42%	1.31%	0.43%
Average balance	£9.52m	n/a	£7.56m	n/a

The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Bid rate):-



4.5 The improved performance against the benchmark of the 7-day London Interbank Bid rate is equivalent to an additional £64,200. This was due to placing three 1 year investments at rates between 1.80% and 1.95%. In addition the Authority started using Money Market Funds which provide rates on average 0.25% above base rate.

**5 COMPLIANCE WITH TREASURY LIMITS**

5.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators, compared to the estimates made in January 2010, is shown below:-

PRUDENTIAL INDICATOR	2009/10	2010/11	2010/11
	actual	original	actual outturn
Capital Expenditure £000s	1,141	1,593	1,753
Ratio of Financing Costs to Net Revenue Stream	(2%)	(2%)	(0.7%)
Capital Financing Requirement as at 31 March £000s	0	0	(19)
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £	(0.22)	0.13	0.06

**6 RESOURCE IMPLICATIONS**

- 6.1 Investment income used to be an important source of income to the General Fund but that is no longer the case and is unlikely to recover in the medium term. The Sector contract costs £6,000 per year. This represents good value for money for the Authority as we have achieved better returns than we might have. The advice service frees up officer time from researching the money markets and means that investment decisions are made in a timely fashion.
- 6.2 All interest received is accounted for within the General Fund. The Authority had no borrowings during the year, so no interest was paid out.

**7 RISK IMPLICATIONS**

- 7.1 The Treasury Management Strategy discusses in detail the risks involved in making investments and in particular the risk that a building society or bank may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must be seen to be adopting a prudent approach. No institutions in which investments were made during 2010/11 had any difficulty in repaying investments and interest in full during the year.

**8 RECOMMENDATION**

- 8.1 It is proposed that Council **RESOLVES** to note the contents of this Annual Report.

Yvonne Woodward

Head of Finance

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**Background Papers:-**

None.

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