
TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2008/09

1 SUMMARY

- 1.1 This is the annual report on treasury management for the financial year 1 April 2008 to 31 March 2009 (2008/09). The treasury management activities have been conducted during a year of considerable turmoil and uncertainty in the financial markets. Income from investment fell from £822,300 in 2007/09 to £743,700 in 2008/09 as a result of the fall in interest rates and reduction in average balances.

2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as “The management of the local authority’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.”
- 2.2 The Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management 2001 was adopted by this Council in December 2002 and this Council fully complies with its requirements.
- 2.3 The primary requirements of the Code, 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 February 2009 and no changes were required.
 - 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 March 2009.
 - 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 2008/09 was agreed by Council in January 2008 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, Audit and Performance Management as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

- 2.4 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 2009

- 3.1 Following the transfer of the Council's housing stock in September 2007; the Council became debt free and has remained so since then.
- 3.2 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 2008 £12.635m

Balance as at 31 March 2009 £9.568m

These balances include the interest earned as at 31 March 2009, even though the interest is not actually received until the investment matures. On the following investments, £317,000 interest had been earned as at 31 March 2009.

Ref	Borrower	£000s	Date Invested	Maturity Date	Interest Rate
1791	Bank of Ireland	3,300	03/06/2008	02/06/2009	6.16%
1796	Bank of Scotland	100	07/07/2008	07/07/2009	6.75%
1797	Bank of Scotland	1,000	08/07/2008	08/07/2009	6.70%
1799	Bank of Scotland	1,000	16/07/2008	16/07/2009	6.60%
1801	Bank of Scotland	500	07/08/2008	07/08/2009	6.50%
1808	Bank of Ireland	1,000	24/10/2008	23/10/2009	6.30%
1819	Alliance and Leicester	1,000	20/03/2009	17/04/2009	1.08%

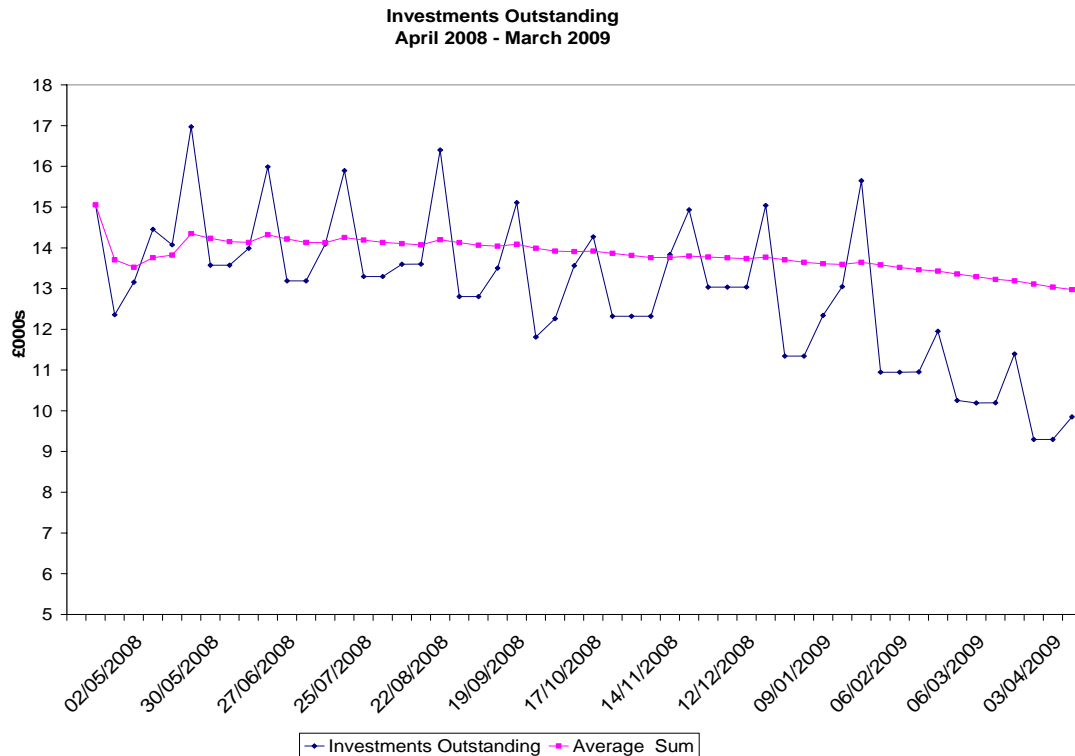
4 INVESTMENT PERFORMANCE FOR 2008/09

- 4.1 The Investment Strategy for 2008/09 was based on expectations, in January 2008, that the Bank Rate had started on a downward trend to 5.25% in quarter 1 2008 and again to 5% in quarter 2 2008. It was then expected to remain unchanged for the next two years. The effect on interest rates for the UK was therefore expected to be stable in 2008/09 at 5% based on a balance of risks around rising inflationary pressures on the one hand and falling growth rates and concerns over the impact of the credit crunch on the other hand.

- 4.2 Investments were therefore made, where appropriate, for longer periods with a view to maintaining returns in a falling interest environment. The Council budgeted for a return of 5% for the year.
- 4.3 Although Base Rate did fall to 5% in Quarter 2 of 2008, it continued its decline through the year, reaching 0.5% in March 2009.

2008/09 Base Rate Changes	
Effective Date	New Rate %
10/04/08	5.00
08/10/08	4.50
06/11/08	3.00
04/12/08	2.00
08/01/09	1.50
05/02/09	1.00
05/03/09	0.50

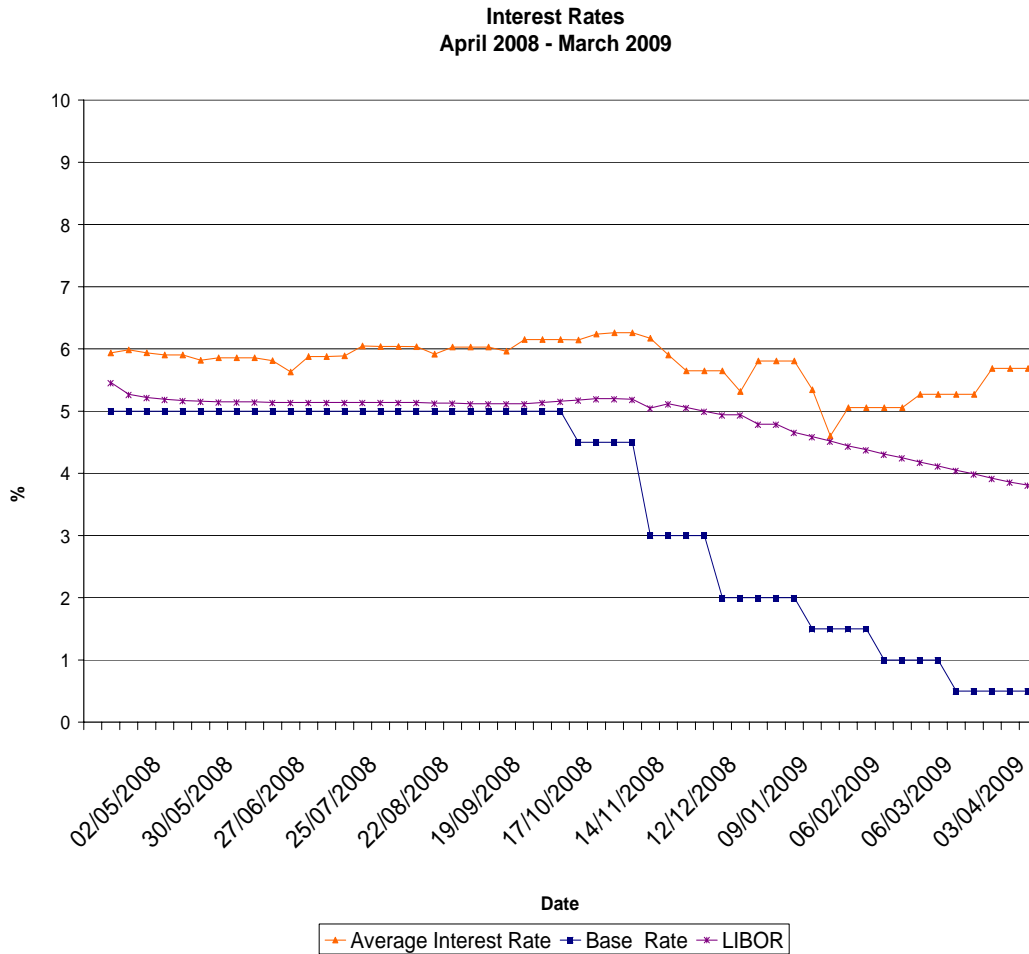
- 4.4 The Strategy was revised during the year due to the unprecedented impact of the credit crunch on the banking system and the fall in credit ratings for the institutions on the Council's counterparty list. In order to minimise the risk of losing deposits through the failure of institutions, during the second part of the year, investments were made for shorter periods of time. Although, this reduced the available returns, treasury management is a balance between risk and return and in these unusual economic times, it was felt prudent to take a more cautious approach.
- 4.5 The graph below, of total investments and the average sum invested, shows the fall in average balances over the year, which is due to the financing of the capital programme from capital receipts and the use of General Fund Balances for the revenue accounts.



4.6 Total external interest earned was £743,700, compared to £822,300 in 2007/08. The revised estimate for 2008/09 was £837,000 and the 11% under achievement was due to the falls in interest rates after the budget had been set. Performance for 2008/09 compared to 2007/08 is summarised below:

	2007/08		2008/09	
	Performance	Benchmark	Performance	Benchmark
Interest return	£822,300	n/a	£743,700	n/a
Average rate	5.85%	5.66%	5.31%	3.69%
Average balance	£13.96m	n/a	£12.98m	n/a

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



4.8 The improved performance against the benchmark of the 7-day London Interbank Bid rate is equivalent to an additional £220,000 of interest and was due to the level of longer term investments still in place when interest rates began their rapid decline. As at 31 March 2009, the average return on the outstanding investments was 4.7%.

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 2008, is shown below

PRUDENTIAL INDICATOR	2007/08	2008/09	2008/09
	£000s	£000s	£000s
	actual	original	actual outturn
Capital Expenditure			
General Fund	693	3,252	2,901
Ratio of Financing Costs to Net Revenue Stream			
General Fund	(3%)	(8%)	(6%)
Capital Financing Requirement as at 31 March			
General Fund	550	550	550
Incremental Impact of Capital Investment Decisions			
Increase/(reduction)in Council Tax (band D) per annum	(£0.42)	(£0.11)	(£0.15)

6 RESOURCE IMPLICATIONS

- 6.1 Investment income was an important source of income to the General Fund in 2008/09. Following the advice of our advisors, this has resulted in additional income of £220,000 as we have beaten the standard benchmark. The Sector contract cost £6,000 in 2008/09, which was a reduction on previous years. 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. The advice received and expert analysis received over the last year has been particularly useful as the circumstances have been so unusual and outside anyone's experience.
- 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 Council did not encounter this event last year and investment decisions were made at lower returns because a more cautious approach was taken in considering investments. The Authority is responsible for managing the investment of public funds and must be seen to be adopting a prudent approach.

8 RECOMMENDATION

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

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Background Papers:-

None

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