# TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2009/10

## 1 SUMMARY

1.1 This is the annual report on treasury management for the financial year 1 April 2009 to 31 March 2010 (2009/10). The treasury management activities have been conducted during a year of low interest rates and some uncertainty in the financial markets. Income from investment fell from £743,700 in 2008/09 to £209,300 in 2009/10.

## 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 The Chartered Institute of Public Finance and Accountancy's revised Code of Practice on Treasury Management 2009 was adopted by this Council in January 2010. A report on compliance with the new code for 2010/11 will be made to Audit Committee later this year.

2.3 For 2009/10, the primary requirements of the original 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 January 2010 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 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 2009/10 was agreed by Council in January 2009 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.

2.4 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 2010**

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 2009 £9.568m

Balance as at 31 March 2010 £4.824m

These balances include the interest earned as at 31 March 2010, even though the interest is not actually received until the investment matures. On the following investments, £24,000 interest had been earned as at 31 March 2010.

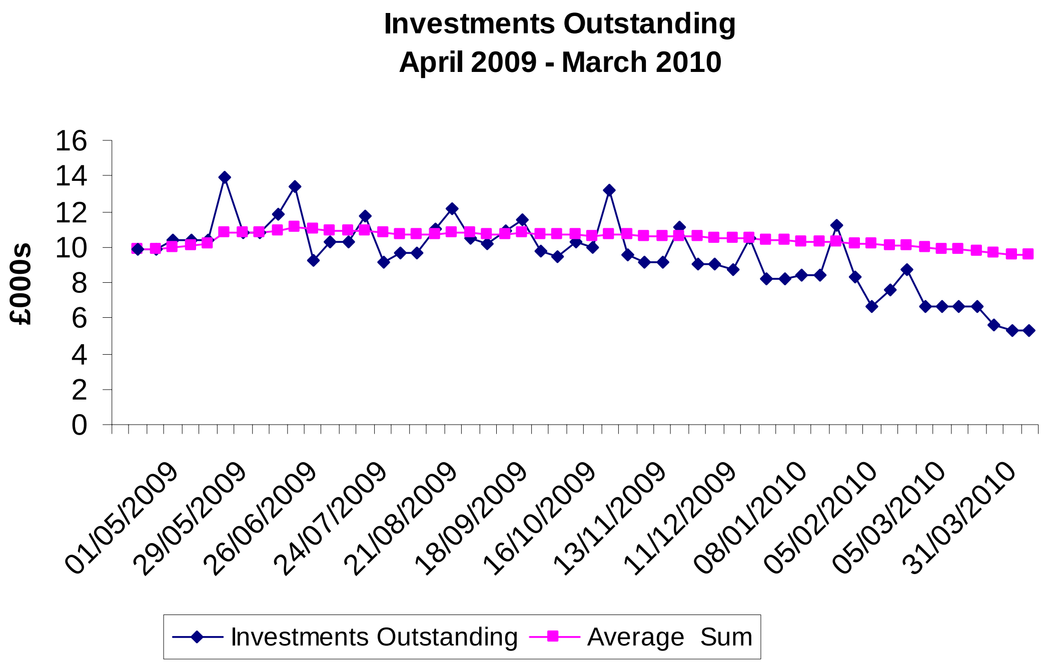
| Ref | Borrower | £000s | Date Invested | Maturity Date | Interest Rate |
|---|---|---|---|---|---|
| 1824 | Clydesdale Bank | 1,000 | 22/06/09 | 21/06/10 | 1.82% |
| 1829 | Cater Allen | 1,000 | 02/12/09 | 02/06/10 | 1.4% |
| 1831 | Lloyds TSB | 1,000 | 25/1/10 | 25/1/11 | 1.82% |
| 1832 | Lloyds TSB | 1,800 | 02/03/10 | 02/09/10 | 1.35% |

**4 INVESTMENT PERFORMANCE FOR 2009/10**

4.1 The Investment Strategy for 2009/10 was based on expectations that the bank rate would remain at 0.5% for the whole financial year, which proved to be the case. In January 2009, the bank rate was then expected to rise gently from early 2010 to reach 4% at the beginning of 2012. The latest Bank of England rate set last week is still at 0.5%.

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 also taken to benefit from these.

4.3 The graph below, of total investments and the average sum invested, shows the fall in average balances towards the end of 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.

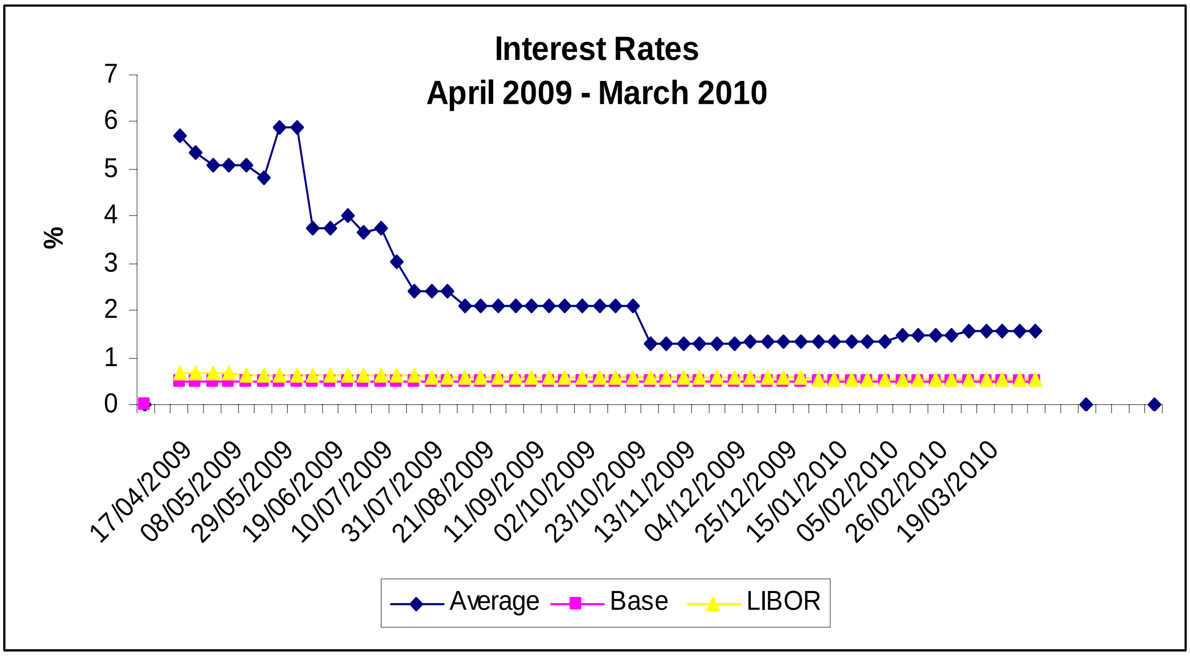



4.4 Total external interest earned was £209,300, compared to £743,700 in 2008/09. The revised estimate for 2009/10 was £254,000 and the 17.6% under achievement was due to budgeting for a base rate rise which did not materialise. Performance for 2009/10 compared to 2008/09 is summarised below based on investments held during the year:

| | **2008/09** | | **2009/10** | |
|---|---|---|---|---|
| | **Performance** | **Benchmark** | **Performance** | **Benchmark** |
| Interest return | £743,700 | n/a | £209,300 | n/a |
| Average rate | 5.31% | 3.69% | 3.53% | 0.42% |
| Average balance | £12.98m | n/a | £9.52m | n/a |

The performance is higher than the benchmark due to some investments placed in 2008/9 which earned an average of 6.3%.

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 £147,000 of interest and was due to the level of longer term investments still in place from before interest rates began their decline. As at 31 March 2010, the average return on the outstanding investments was 1.48% compared to 4.7% as at 31 March 2009.

## 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 2009, is shown below

| **PRUDENTIAL INDICATOR** | **2008/09** | **2009/10** | **2009/10** |
|---|---|---|---|
| | actual | original | actual outturn |
| | | | |
| Capital Expenditure £000s | 2,901 | 1,412 | 1,141 |
| Ratio of Financing Costs to Net Revenue Stream | (8%) | (3%) | (2%) |
| Capital Financing Requirement as at 31 March £000s | 430 | 0 | 0 |
| Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £ | (0.42) | (0.11) | (0.22) |

## 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 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. The advice and expert analysis received over the last two years 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. 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. No institutions, in which investments were made during 2009/10, 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.

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**Background Papers:-**

None.

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