

OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE
DISTRICT
COUNCIL**



REPORT TO: COUNCIL

DATE: 2 SEPTEMBER 2010

REPORT OF THE: CORPORATE DIRECTOR (s151)
PAUL CRESSWELL

TITLE OF REPORT: TREASURY MANAGEMENT ANNUAL REVIEW

WARDS AFFECTED: ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities for the financial year 2009/10 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATION(S)

2.1 It is recommended that:

- (i) Members receive this report; and
- (ii) The performance of the in-house and externally managed funds in 2009/10 be noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 The CIPFA Code of Practice on Treasury Management 2009 was adopted by this Council on 22 February 2010 and this Council fully complies with its requirements.
- 5.2 The primary requirements of the Code are as follows:
1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report and an annual review report for the previous year.
 4. 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.
 5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Overview and Scrutiny Committee.

Treasury management in this context is defined as:

"The management of the local authority's investments and 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."

- 5.3 The purpose of this report is to meet one of these requirements, namely the annual review report of treasury management activities, for the financial year 2009/10. This annual treasury report covers the following:
- The Council's treasury position as at 31 March 2010;
 - The strategy for 2009/10;
 - The economy and interest rates in 2009/10;
 - Compliance with treasury limits and prudential indicators;
 - Investment rates in 2009/10;
 - Investment outturn for 2009/10.

6.0 POLICY CONTEXT

- 6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this Code.

7.0 CONSULTATION

- 7.1 The Council uses the services of Sector Treasury Services Limited to provide treasury management information and advice.

8.0 REPORT DETAILS

Treasury Position as at 31 March 2010

- 8.1 The Council's investment position at the beginning and the end of the financial year

were as follows:

	31 March 2010 (£)	31 March 2009 (£)
Internally Managed	5,370,000	9,300,000
Externally Managed	5,000,000	5,000,000
Total	10,370,000	14,300,000

8.2 As at 31 March 2010 managed investments were lent out as follows:

	Internally Managed (£)	Externally Managed (£)
Temporary Investments	370,000	0
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	1,000,000	1,500,000
Repayable 3 months to 6 months	2,500,000	2,500,000
Repayable 6 months to 12 months	1,500,000	0
Repayable 12 months to 24 months	0	1,000,000
Total	5,370,000	5,000,000

8.3 Investments held as at 31 March 2010 were placed with the following types of institution:

Type of Institution	Internally Managed (£)	Externally Managed (£)
UK Clearing Banks	4,370,000	1,000,000
Foreign Banks	1,000,000	2,500,000
Building Societies	0	1,500,000
Total	5,370,000	5,000,000

Strategy for 2009/10

8.4 The Treasury Management Strategy for 2009/10 was submitted to members in February 2009. At that time Bank Rate was 1.5% and Sector were anticipating that the downward trend would continue with further cuts forecast to 0.5% in Q1 2009, where it was anticipated to remain until Q2 2010. It was then expected to rise gradually for the next two years to a high of 4% in Q1 2012.

8.5 The investment strategy was therefore to avoid locking into longer term deals while investment rates were down at historically low levels. For cash flow generated balances the Council sought to utilise its business reserve account and short dated deposits in order to benefit from the compounding of interest.

The Economy and Interest Rates in 2009/10

8.6 During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK had experienced for many years.

8.7 Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the

corporate and public sector.

- 8.8 It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.
- 8.9 The dominant force in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then major disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.
- 8.10 Inflation has not been a major concern of the MPC as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut VAT to 15% on 1 January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.

Compliance with Treasury Limits

- 8.11 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Management Strategy Statement.
- 8.12 The Council has no long-term borrowing and retains its status as a debt-free authority. There were no temporary borrowing transactions in the year.

Investment Rates in 2009/10

- 8.13 At the start of 2009/10, investment rates were enhanced by a substantial credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by halfway through the year. Consequently, investment rates fell markedly during the first half of the year. The summary below shows the movement of investment rates in 2009/10:

	Overnight	7 day LIBID	1 Month	3 Month	6 Month	1 Year
01 April 09	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
31 March 10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
High	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
Low	0.38%	0.38%	0.38%	0.42%	0.61%	0.96%
Average	0.40%	0.42%	0.47%	0.73%	0.94%	1.29%
Spread	0.12%	0.17%	0.51%	1.09%	1.13%	0.97%
High Date	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009
Low Date	09/09/2009	02/10/2009	18/09/2009	29/09/2009	29/09/2009	28/09/2009

Investment Outturn for 2009/10

- 8.14 The Council manages its investments with the institutions listed in the Council's approved lending list. The Council invests for a range of periods from overnight to 1 year, dependent on the Council's cash flows, its interest rate view, the interest rates on offer and durational limits set out in the approved investment strategy.
- 8.15 In addition to the internally managed investments the Council appoints a cash manager, Tradition (UK) Limited (Tradition). Tradition have an investment portfolio of £5m. The agreement between the Council and Tradition stipulates guidelines and

duration and other limits in order to contain and control risk.

- 8.16 During the year all investments were made in full compliance with this Council's treasury management policies and practices.
- 8.17 Pending the issuance of revised CIPFA and statutory investment guidance expected towards the end of the year, and in the light of continuing stresses on the world banking system, enhanced priority was given to security and liquidity in order to reduce counterparty risk to the maximum possible extent.
- 8.18 This Council viewed the markets expectation for Bank Rate as too low, and that short term rates would rise during the year. Investments were, accordingly, kept short, with a view to enabling returns to be compounded more frequently.
- 8.19 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the externally and internally managed funds and the 7-day benchmark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary Investments	1,440,236	0.55%	n/a	n/a
Fixed Term Deposits	1,250,000	2.30%	n/a	n/a
Externally Managed	1,250,000	2.32%	2.26%	0.42%

- 8.20 The interest received by the Council from investments and loans in 2009/10 totalled £266k; this compares to an original estimate of £355k.
- 8.21 The credit policy adopted in the original Treasury Management Strategy report and Annual Investment Strategy for 2009/10 approved by the Policy and Resources Committee on 5 February 2009 was subject to revision during the year after the Council agreed to adopt a more robust credit rating system to assess counterparties.
- 8.22 No institutions in which investments were made during 2009/10 had any difficulty in repaying investments and interest in full during the year.

9.0 IMPLICATIONS

- 9.1 The following implications have been identified:
- a) Financial
The results of the investment strategy affect the funding of the capital programme. The investment income return for 2009/10 was £89k lower than anticipated.
 - b) Legal
There are no additional legal implications within this report.
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

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Background Papers:

None

Background Papers are available for inspection at:

N/a