



Ryedale District Council

REPORT TO: POLICY AND RESOURCES COMMITTEE

DATE: 2 OCTOBER 2008

REPORTING OFFICER: CORPORATE DIRECTOR (s151)

SUBJECT: **TREASURY MANAGEMENT ANNUAL REVIEW
2007/08 AND MONITORING REPORT 2008/09**

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities for 2007/08 and to update Members on current investments in accordance with the CIPFA Code of Practice on Treasury Management (the code).

2.0 RECOMMENDATIONS

It is recommended that

- (i) **Members receive the report;**
- (ii) **The performance of the in-house and externally managed funds in 2007/2008 is noted; and**
- (iii) **the current investments and performance in 2008/2009 be noted.**

3.0 REASONS SUPPORTING DECISION

3.1 The Council has adopted the Code. A provision of the code is that regular reports must be made to the Council relating to treasury management activities.

4.0 BACKGROUND

4.1 As outlined in paragraph 3.1 the CIPFA Code stated that Members will receive reports on its Treasury Management policies, practices and activities at regular intervals including quarterly statements, an annual strategy and an annual post year review.

5.0 INTRODUCTION

- 5.1 This report details the activities of the Treasury function for the financial year 2007/08.
- 5.2 The treasury position as at 30 June 2008 is included in the report for information.

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 REPORT

7.1 Annual Review of 2007/08

- 7.1.1 The interest received by the Council from investments and loans in 2007/08 totaled £993k; this compares very favourably to an original estimate of £700k. The improved return was due to a higher level of balances available for temporary investments than anticipated and higher interest rates.
- 7.1.2 During 2007/08 the Bank Rate increased from 5.25% by 0.25% in May 2007 and a further increase of 0.25% in July to 5.75%. In December there was a reduction of 0.25% and a further decrease of 0.25% to 5.25% in February 2008. The budget was based on an average rate of 5.00% for the year, which followed the general forecast at the time.
- 7.1.3 Whilst there has been much publicity around the 'credit crunch' the effect on the rates available has been beneficial to the Council. Whilst base rates of around 5% have been experienced liquidity demand from the Banking institutions has seen rates for one-year money as high as 6.7%.
- 7.1.4 The following table shows the relative performance of the externally and internally managed funds with the 7-day benchmark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary Investments	1,077,484	5.90%	n/a	n/a
Fixed Term Deposits	1,137,905	5.88%	n/a	n/a
Externally Managed	1,250,000	5.40%	5.34%	5.61%

The average 7-day LIBID rate for 2007/08 was 5.61%. The Council's cash manager Tradition (UK) Ltd underachieved the benchmark of the average

7-day LIBID rate for 2007/08. Tradition is permitted to invest only in fixed term deposits.

The Council's treasury advisors, Sector, have reviewed the performance of Tradition and the in-house team compared to that of investment fund managers. The current strategy of investing in fixed term deposits is justified when comparing the return on the in-house investments with those investors in the bond market, although the performance of Tradition for last year is still relatively disappointing. Ongoing monitoring and review of their performance is being carefully undertaken and should performance not improve their contract will be terminated. There are alternative cash managers and they will be evaluated against the in house team before any decision is made on who manages future investments should Tradition's contract be terminated.

7.1.4 As at 31 March 2008 managed investments totalled £14,360,000, which was lent out as follows:

	Internally Managed (£)	Externally Managed (£)
Temporary Investments	4,860,000	0
Fixed Term Deposits :		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	0	1,000,000
Repayable 3 months to 6 months	1,000,000	0
Repayable 6 months to 12 months	3,500,000	2,500,000
Repayable 12 months to 24 months	0	1,500,000
Total	9,360,000	5,000,000

This was an increase of £1,840,000 from the Council's managed investments balance as at 31 March 2007, which totalled £12,520,000.

7.1.5 Investments held as at 31 March 2008 were placed with the following types of institution:

	Internally Managed (£)	Externally Managed (£)
UK Clearing Banks	2,000,000	0
Foreign Banks	2,000,000	4,000,000
Building Societies	5,360,000	1,000,000
Total	9,360,000	5,000,000

The credit quality of counterparties is determined by reference to credit ratings published by Fitch credit rating agency and meets the minimum credit criteria specified in the Council's investment Strategy.

7.1.6 The Council has no long-term borrowing and retains its status as a debt-free authority and there were no temporary borrowing transactions in the year.

7.2 2008/09 Current Investments

7.2.1 Since the commencement of this financial year the bank base rate has decreased by 0.25% in April to its current level of 5.00%.

The following table shows the relative performance of the external and internally managed funds with a 7-day benchmark for the quarter ended 30 June 2008:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary Investments	1,065,094	5.65%	n/a	n/a
Fixed Term Deposits	1,125,000	6.07%	n/a	n/a
Externally Managed	1,250,000	5.61%	5.55%	5.14%

7.2.2 As at 30 June 2008 managed investments totalled £15,450,000 which were lent out as follows:

	Internally Managed (£)	Externally Managed (£)
Temporary Investment	5,950,000	0
Fixed Term Deposits :		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	0	0
Repayable 3 months to 6 months	0	0
Repayable 6 months to 12 months	4,500,000	4,000,000
Repayable 12 months to 24 months	0	1,000,000
Total	10,450,000	5,000,000

7.2.3 Investments held as at 30 June 2008 were placed with the following types of institution.

	Internally Managed (£)	Externally Managed (£)
UK Clearing Banks	2,000,000	1,000,000
Foreign Banks	2,950,000	4,000,000
Building Societies	5,500,000	0
Total	10,450,000	5,000,000

8.0 OPTIONS/RESULT OF OPTION APPRAISAL

- 8.1 Both the internal and external managers constantly review options for investment. The objective is to maximise income while minimising risk.

9.0 FINANCIAL IMPLICATIONS

- 9.1 The results of the investment strategy affect the funding of the Capital and Revenue Programmes.
- 9.2 Due to the continued good performance of the managed funds and the higher interest rates than predicted the investment income return for 2007/08 exceeded the budget by £293k. The extra funds are available to finance the Council's capital programme and the resources working party have considered schemes from the Council's capital programme reserve list for recommending inclusion in the programme.

10.0 RISK ASSESSMENT

- 10.1 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 risks.

11.0 CONCLUSION

- 11.1 Interest receipts for the last financial year were significantly higher than estimated. The investment strategy and market changes have provided the Council with extra resources to finance its capital programme.
- 11.2 Since the commencement of this financial year interest rates have decreased by 25 base points. The latest Bank Rate forecast from the Council's treasury advisor's for the remainder of this year indicate that there could be a further decrease of 0.25% in the 4 quarter of 2008 with a further reduction in the first quarter of 2009 to 4.50%. However, the Council has locked into investments that are well in excess of these levels, therefore the return on the Council's investments should still compare favourably with the estimated investment income included in the 2008/09 budget.

BACKGROUND PAPERS:

None

OFFICER CONTACT:

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