



REPORT TO: POLICY & RESOURCES COMMITTEE

DATE: 4 DECEMBER 2008

REPORTING OFFICER: CORPORATE DIRECTOR (s151)
Paul Cresswell

SUBJECT: TREASURY MANAGEMENT MONITORING REPORT

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities for 2008/09 and to update Members on current investments in accordance with the CIPFA Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (i) Members receive the report
- (ii) The current investments and performance in 2008/09 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 The treasury position as at 31 October 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 2008/09 Current Investments

7.1.1 The interest received by the Council from investments and loans for the seven-month period to 31 October total £633k; this compares to an original estimate of £790k for the full financial year. The higher return than anticipated at this point is firstly due to the higher interest rates than expected, with LIBOR fixings well in excess of the Bank Base Rate in the first half of the year and secondly, the higher than anticipated level of balances available for temporary investment.

7.1.2 The table below shows the relative performance of the external and internally managed funds with a 7-day benchmark for the period ended 31 October 2008.

	Average Investment (£)	Gross Rate of Return	Rate of Return (net of fees)	Benchmark Return
Internally Managed:				
Temporary Investments	1,044,424	5.69%	N/A	N/A
Fixed Term Deposits	1,125,000	6.11%	N/A	N/A
Externally Managed	1,250,000	5.70%	5.64%	5.15%

7.1.3 As at 31 October 2008 managed investments totalled £19,350,000 which were lent out as follows:

	Internally Managed (£)	Externally Managed (£)
Temporary Investment	9,850,000	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	14,350,000	5,000,000

7.1.4 Investments held as at 31 October 2008 were placed with the following types of institution.

Financial Institution Type	Internally Managed (£)	Externally Managed (£)
UK Clearing Banks	3,000,000	1,000,000
Foreign Banks	5,750,000	4,000,000
Building Societies	5,600,000	0
Total	14,350,000	5,000,000

7.1.5 Since the last monitoring report Members will be aware of the crisis that has affected several Icelandic banks. There are many Councils that have money invested with these banks, thankfully Ryedale is fortunate not to be one of them. There is no evidence that any Council has been imprudent with the management of these funds and that this is an unfortunate fall out of the global financial crisis.

7.1.6 The difficult position these Councils are in demonstrates how vulnerable the security of Ryedale District Council's own investments with banks and other financial institutions can be within the current rapidly changing economic environment. Listed below are the foreign banks that the Council has current investments with:

Foreign Bank	Investment (£)	Latest Credit Rating Position
Anglo Irish Bank	1,950,000	Rating up since investment
Allied Irish Bank	1,000,000	Rating same since investment
Bank of Ireland	1,800,000	Rating same since investment
CIC Group	1,500,000	No change in rating
DBS Bank Ltd	1,000,000	No change in rating
DePfa Bank Plc	1,000,000	Rating down, does not meet policy
First Active Plc	1,500,000	Rating down, still meets policy

7.1.7 The credit quality of counter-parties 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 Policy. All the above borrowers still meet the required credit rating with the exception of DePfa Bank Plc whose Fitch credit rating since the point of investment has moved from F1+ to F1 for short-term investment. The investment with DePfa Bank Plc is scheduled to mature in August 2009.

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. To ensure the security of the Council's investments the options have been significantly reduced by the current economic crisis.

9.0 FINANCIAL IMPLICATIONS

9.1 The results of the investment strategy affect the funding of the Capital Programme.

10.0 LEGAL IMPLICATIONS

10.1 There are no legal implications regarding this report.

11.0 ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications.

12.0 RISK ASSESSMENT

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

13.0 CONCLUSION

13.1 The return on investments is well in excess of the level of income estimated in the 2008/09 Budget. Despite the significant fall of interest rates in November the Council has fixed term deposit investments that are well in excess of the Bank Base Rate, therefore the return on the Council's investments will still compare very favourably with the estimated return.

13.2 There is much uncertainty about the financial crisis. Officers will continue to ensure that there is full compliance with the Council's treasury management strategy and good practice.

13.3 The latest forecast from the Council's Treasury Advisor Sector, is that the Monetary Policy Committee will reduce the Bank Rate to 2.50% in quarter4 of 2008 before cutting the rates to 1.75% in the first quarter of 2009. If Sector's prediction is realised that this low level of interest rates will be sustained through the next financial year it will have a significant detrimental impact on the funding stream available to finance the Council's Capital Programme.

BACKGROUND PAPERS:

None

OFFICER CONTACT:

Please contact P Cresswell, Corporate Director (s151) if you require any further information on the contents of this report.