

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER: **K48A**

TO: COUNCIL

DATE OF MEETING: 30 June 2010

SUPPLEMENT TO PAPER K48 - TREASURY MANAGEMENT ANNUAL REPORT

1. **PURPOSE OF REPORT**

- 1.1 To report on the Council's Treasury Management performance and activities for the financial year 2009/10 as required by CIPFA Code of Practice - see attached Appendix C, which was considered by the Overview and Scrutiny (Stewardship) Committee on the 21 June but omitted from Paper K48.

2. **RECOMMENDATIONS**

The following additional recommendation from the Overview and Scrutiny (Stewardship) Committee to those included in Paper K48 is required:

- 2.4 That the Council notes the attached review of Treasury Management for the year ending 31 March 2010.

3. **FINANCIAL IMPLICATIONS**

- 3.1 The Council's had on average about £6m-£8m of surplus funds to invest during the year. The investment income generated from these funds although not as significant as they have been in the past years due to the dramatic fall in interest rates. In 2009/10 this income was about £70k compared to about £650k 2008/09.

4. **RISK MANAGEMENT**

- 4.1 This report is most closely linked with the Council's Significant Business Risk No. 7- Financial, Performance & Risk management. Key risks are set out below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Financial loss	Low	Marginal	Strict monitoring and control processes in place. Full adherence to Treasury Management Code of Practice.

5. **EQUALITY AND DIVERSITY IMPACT**

5.1 There are no equality and diversity impacts.

6. **KEY INFORMATION**

6.1 The Overview and Scrutiny (Stewardship) Committee have considered and scrutinised the Treasury Management activities and performance information for 2009/10 as part of the Outturn report (Paper K36 – appendix E) on the 21 June.

6.2 This appendix should have been circulated as Appendix C to Paper K48.

7. **APPENDICES**

C – Treasury Management Review 2009/10.

8. **BACKGROUND PAPERS REFERRED TO:**

None.

CONTACT: Barry Hunter, Director of Finance **EMAIL:** barry.hunter@babbergh.gov.uk

Homira Javadi,
Corporate Finance Manager

homirajavadi@babbergh.gov.uk

Treasury Management Review 2009/10

1. Key Points

- 1.1 Council approved the 2009/10 treasury management strategy at its meeting on 21 April 2009. The Council's stated investment strategy was to operate a prudent and cautious approach in response to the changing financial environment.
- To take a very prudent and cautious approach, with security of investment being paramount
 - A tightening of some aspects of the already very high credit rating criteria that the council applied in the past in relation to UK and foreign banks
 - A reflection of developments on Government guarantees and the bail out package
 - The removal of non-credit rated building societies from the council's overall investment criteria
 - To take advice on the optimum time to undertake borrowing to fund the capital programme or to continue to use internal surplus funds.
- 1.2 The Chief Financial Officer is pleased to report that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions, except for the breach as detailed.
- 1.3 One breach of the 2009/10 Treasury Management Strategy related to an investment that was placed for 93 days when the Strategy allows for a maximum of 3 months. This 3 month period of investment totaled 91 days, the maximum consecutive days during the year is 92 days if the redemption date does not occur during a weekend. This has been addressed in the 2010/11 Treasury Management Strategy and the number of days during an investment period is clarified.

2. Activities and performance in 2009/10

- 2.1. The financial crisis in late 2008 prompted the Government to implement a number of extraordinary measures, including capital injections in some banks and the Credit Guarantee Scheme, to keep the banking system afloat amidst a wave of mistrust in financial markets.
- 2.2. In an attempt to avoid a more serious recession and possible deflation, the Bank of England had cut Bank Rate to 0.5% and it remained at this rate for the entire year.
- 2.3. Despite the difficult economic conditions, Investment income was £9K higher than the revised budget. This was mainly due to higher levels of surplus funds and cashflow but also as a result of locking into investments with favourable rates during the second half of the previous year which matured during 2009/10.

- 2.4. Officers monitor rates of return in comparison to the benchmark on monthly basis to ensure consistent levels of performance. The Council's current investment returns are 1.35%, averaging well above the Local Authority 7 day offer benchmark rate of 0.40%. This higher than benchmark return is a result of locking into two high return investments last year shortly before the sharp decline in interest rates. These investments matured in November 2009. The year's performance against benchmark is indicated in the table below:

Return on Investments	2009/10 %	2008/09 %
Average return on investments	1.35	4.73
Local Authorities benchmark	0.4	3.84
Performance over benchmark	+0.95	+0.89

- 2.5. The Council's surplus funds were regularly invested in short-term investments (over-night to 364 days) or in a Business Reserve Account. We have also continued to use the Co-op Bank's Public Sector Reserve Account for our overnight placements. In addition the Santander Business Reserve Account provides us with the base rate of interest but the Council is not currently using this account. .
- 2.6. The following tables summarise the treasury management activity during the 2009/10 financial year:

Total investments as at 31 March 2010 compared to the previous year

Sector	2010 £m	Proportion of Total Investment (%)	Approved Sector Limit (%)	2009 £m
UK Banks	1.6	57.	None	3.8
UK Building Societies	1.2	42.5	70	2.5
Total	2.8	100		6.3

Summary of Transactions for 2009/10

	Principal Amount £m	Interest Rate %
Investments - as at 31 st March 2009	(6.3)	
- matured in year	45.2	
- arranged in year	(41.7)	
- as at 31 st March 2010	(2.8)	
Debt - as at 31 st March 2009	1.1	3.7
- matured/repaid in year	(0.9)	0.4
- arranged in year	1.9	0.52
- as at 31 st March 2010	2.1	
Net Investments at 31st March 2009	(5.2)	
Net Investments at 31st March 2010	(0.7)	

2.7. The Council undertook £1.1m borrowing for HRA in 2006/07 and arranged short term borrowing on 2 occasions during 2009/10 for cash flow purposes. The £1m short term borrowing on the balance sheet at year end was repaid on 1 April 2010. No additional long term borrowing was arranged during the year and internal funds were used to finance the capital borrowing requirements.

3. Risk Management

3.1. The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short-term investments with the UK Government, highly rated banks and building societies.

3.2. The Council's primary objective for the management of its debt is to ensure its long-term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long-term fixed rates of interest with short term borrowing arrangements made with other local authorities.

3.3. However, the combination of short duration investments and long duration debt does expose the Council to the risk of falling investment income during periods of low interest rates. This risk is partially mitigated by the inclusion of some longer-term investments and some variable rate borrowing.

3.4. The Council measures its exposures to liquidity and interest rate risks using the following indicators, as recommended by the *CIPFA Code of Practice*

4. Treasury Management Indicators

4.1. The Council is asked to note the following indicators as at 31st March 2010. These were included with the Prudential Indicators in previous years.

4.2. Interest rate exposures:

This indicator is set to control the Council's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, based upon the net debt position, are as follows:

	Limit	Actual
Upper limit on fixed rate exposures (£m)	5	0
Upper limit on variable rate exposures (£m)	0	0

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

4.3. Maturity structure of borrowing:

This indicator is set to control the Council's exposure to refinancing risk. The maturity structure of fixed rate borrowing was:

	Upper Limit	£m	Lower Limit	Actual £m
Under 12 months	30%	1.5	0%	1.0*
24 months and within five years	30%	1.5	0%	0
Five years and within 10 years	50%	2.5	0%	0
10 years and above	100%	5	0%	1.1

* Includes two separate short term borrowing arrangements (£0.9m and £1m) during the year. These borrowings did not run concurrently, hence the upper limit was not breached.

4.4. Principal sums invested for period longer than 364 days:

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The total principal sums invested to final maturities beyond the period end were:

	2009/10 £000	2010/11 £000	2011/12 £000
Limit on principal invested beyond year end	3,000	3,000	3,000
Actual principal invested beyond year end	2,500	0	0