

CABINET

19 September 2007

TREASURY MANAGEMENT STEWARDSHIP REPORT

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB1174 Treasury Management, 7 February 2006

CAB1308 Treasury Management Stewardship Report, 13 September 2006

EXECUTIVE SUMMARY:

This report provides information on stewardship of the Treasury Management function in 2006/07 and comments on treasury management activity during that financial year.

RECOMMENDATION:

That Cabinet approves the Treasury Management Stewardship Report.

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1 Introduction

- 1.1 The Council operates its treasury management service in compliance with the *Code of Practice for Treasury Management in the Public Services*, the *Prudential Code for Capital Finance in Local Government* (both published by CIPFA) and the *Guidance on Local Government Investments* (published by DCLG). The prime objective of the treasury management activity is the effective management and control of risk.
- 1.2 The Codes require the regular reporting of treasury management activities, forecasting likely activity for the forthcoming year (in the Annual Treasury Strategy Report) and reporting on actual activity for the preceding year (this report).
- 1.3 This report covers:
 - The strategy agreed for 2006/07
 - Performance indicators for 2006/07
 - The Council's treasury position at the year end
 - Borrowing
 - Investments
 - A summary of the economic factors affecting the strategy over 2006/07
 - The compliance of the treasury service with internal and external requirements
 - Treasury Management Advisors

2 Strategy for 2006/07

- 2.1 The strategy for 2006/07 was approved by Council on 7 February 2006 (report CAB1174 refers).

3 Performance Indicators

- 3.1 The following treasury management indicators were set for 2006/07:-
 - a) Average rate earned on investments to be 0.1% above LIBOR 7 day market rate
 - b) Investment management costs to be lower than the average for the CIPFA benchmarking club
- 3.2 Performance against these indicators was as follows:-

- a) The average return on investments for the year was 4.88%, which is 0.06% above the performance target of the benchmark sterling interbank rate at 4.82% (giving an estimated benefit of £19,000 in the year on balances actually invested).
- b) As in previous years investment management costs are slightly higher than the CIPFA benchmark at £0.56 per £'000 invested compared with an average of £0.45 per £'000 invested.

3.3 Treasury Management Practices (TMPs) form an integral part of the Council's treasury management policy - none of these needed amendment during the year.

4 The Council's treasury position at the year end

4.1 Summary

	31 March 2007		31 March 2006	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	0	0%	0	0%
Variable Interest Rate Debt	0	0%	0	0%
Total Debt	0	0%	0	0%
Short -term Fixed Interest Investments	£22.00m	5.24%	£28.00m	4.72%
Short-term Variable Rate Investments	0	0%	£3.0m	4.65%
Long-term Variable Interest Investments	£1.53m	3.65%	£1.41m	4.07%
Corporate Current Account	£1.16m	5.25%	£0.82m	4.50%
Total Investments	£24.69m	4.85%	£33.23m	4.68%

5 Borrowing

- 5.1 Following the decision of Council on 27 February 2002 all long-term debt was prematurely repaid.
- 5.2 Occasionally, to avoid the more expensive overdraft charges, temporary loans are taken out. No short-term loans were taken out in the period from 1 April 2006 to 31 March 2007. However, the following loan, taken out in 2005/2006, expired on 5 April 2006.

Lender	Deposit date	Period (days)	Amount £m	Interest rate %
Dumfries and Galloway Council	22.03.06	14	1.0	4.5

6 Short Term Investments

- 6.1 The Council can make short term investments for periods from "call" (can be called in at any time) up to 364 day fixed investments. The Approved Organisations for the investment of Council funds are shown in Appendix A.

- 6.2 The Council does not use a wide range of investment products and in 2006/07 opportunities were limited to cash deposits. The Council maintained an average balance of £31.5m and received an average return of 4.88%. The comparable performance indicator is the average 7-day LIBID rate, which was 4.82%. This compares with an original budget assumption of £19.9m investment balances at 4.60% interest rate.
- 6.3 During the period from 1 April 2006 to 31 March 2007 58 investments totalling £69.50m were managed. The investments outstanding as at 31 March 2007 are shown in Appendix B.
- 6.4 During 2006/07 the majority of short term investments were placed with building societies. However, where possible, on the advice of our treasury management advisors, some investments were spread wider across the range of Approved Organisations.

7 Long Term Investments

- 7.1 The only interest bearing long-term investment the Council holds is with the Local Authorities Mutual Investment Trust (LAMIT). A property investment of £1 million was made in March 1990, with the General Fund receiving the income.
- 7.2 As at 31 March 2007 the value was £1.526 million (£1.360 million at 31 March 2006). Income of £61,000 was received in 2006/07 (4.2% based on average value).
- 7.3 The Council also holds a long term debenture to the value of £50,000 from the Association of District Councils (ADC). This debenture is non interest bearing.

8 Economic Factors in 2006/07

- 8.1 Official interest rates were increased three times during the year, rising from 4.5% in April 2006 to 4.75% in August 2006, 5.0% in November 2006 and 5.25% in January 2007.

9 Compliance with the Council's Procedures and External Requirements

- 9.1 In 2006/07 the Council complied with its internal procedures, the requirements of the CIPFA Code of Practice on Treasury Management and the guidance on the Local Government Act 2003, issued by the Department of Communities and Local Government (DCLG). All of the limits set in CAB1174 were adhered to.

10 Treasury Management Advisors

Butlers continue to act as the Council's treasury management advisers offering support and advice on treasury management activities, which has been taken up on a number of occasions.

OTHER CONSIDERATIONS:

11 CORPORATE STRATEGY (RELEVANCE TO):

- 11.1 Treasury Management supports all tenets of the Corporate Strategy as well as the core value of being efficient and offering value for money.

12 RESOURCE IMPLICATIONS:

- 12.1 None directly. The investment income forms a significant part of the Council's base budget.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Finance Division.

APPENDICES:

Appendix A Approved organisations for the investment of Council funds

Appendix B Investments outstanding as at 31st March 2007

CAB1507

Approved Organisations for the Investment of Council Funds

Organisation	Maximum
Top ten Building Societies	£3,000,000
Other Building Societies with assets in excess of £500 million	£2,000,000
Clearing Banks with Fitch IBCA support ratings 1-3, individual ratings A-B and short term credit rating F1	£3,000,000
Wholly owned subsidiaries of the above banks	£1,000,000
Other Local Authorities	£3,000,000
Nationalised Industries	£2,000,000
UK Government (including gilts and the Debt Management Office)	£2,000,000
Instant Access Rate Accounts of the clearing banks noted above	£5,000,000

Short Term Investments held at 31st March 2007

Borrower	Amount £	Repayment Date	Rate %
Chelsea Building Society	2,000,000	4.4.07	5.30
Nottingham Building Society	1,000,000	5.4.07	5.08
Hinckley & Rugby Building Society	1,000,000	2.4.07	4.65
Leek United Building Society	2,000,000	4.4.07	4.75
Scarborough Building Society	1,000,000	4.5.07	4.78
Hinckley & Rugby Building Society	1,000,000	9.7.07	5.00
Stroud & Swindon Building Society	1,000,000	14.8.07	5.225
Stroud & Swindon Building Society	1,000,000	14.9.07	5.175
Coventry Building Society	1,000,000	15.10.07	5.32
Bank of Scotland (Ireland)	1,000,000	8.11.07	5.41
Universal Building Society	1,000,000	16.7.07	5.32
Universal Building Society	1,000,000	16.8.07	5.34
Furness Building Society	1,000,000	16.5.07	5.28
Northern Rock plc	1,000,000	4.12.07	5.30
Cheshire Building Society	1,000,000	4.12.07	5.30
Norwich and Peterborough Building Society	500,000	4.1.08	5.51
Coventry Building Society	1,000,000	16.1.08	5.77
Derbyshire Building Society	1,000,000	8.5.07	5.56
Norwich and Peterborough Building Society	1,500,000	31.10.07	5.62
Coventry Building Society	1,000,000	16.8.07	5.56
	<u>£22,000,000</u>		

Long Term Investments held at 31st March 2007

Borrower	Amount £	Repayment Date	Rate %
Local Authorities Mutual Investment Trust	1,526,584	flexible	variable
ADC Debenture	50,000	flexible	nil