

CABINET

17 September 2008

TREASURY MANAGEMENT STEWARDSHIP REPORT

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB1377 Treasury Management, 13 February 2007
CAB1507 Treasury Management Stewardship Report, 19 September 2007
CAB1599 Treasury Management, 13 February 2008

EXECUTIVE SUMMARY:

This report provides information on the stewardship of the Treasury Management function for the financial year 2007/08 and comments on treasury management activity during that financial year.

RECOMMENDATIONS:

That the Treasury Management Stewardship Report be approved.

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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 – CAB1599) and reporting on actual activity for the preceding year (this report).

1.3 This report covers:

- The strategy agreed for 2007/08
- Performance indicators for 2007/08
- The Council's treasury position at the year end
- Borrowing
- Investments
- A summary of the economic factors affecting the strategy during 2007/08
- The compliance of the treasury service with internal and external requirements
- Treasury Management Advisors

2 Treasury Management Strategy for 2007/08

2.1 The Treasury Management Strategy for 2007/08 was approved by Cabinet on 13 February 2007 (report CAB1377 refers).

3 Performance Indicators

3.1 The following treasury management indicators were set for 2007/08

- 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 5.9%, which is 0.2% above the performance target of the benchmark sterling interbank rate at 5.7% (giving an estimated benefit of £55,600 in the year on balances actually invested).
- b) As in previous years investment management costs are higher than the CIPFA benchmark at £0.68 per £'000 invested compared with an average of £0.40 per £'000 invested. It should be noted that we are in the lower quartile of funds invested within the Benchmarking club, and therefore do not have the economies of scale of the larger investors.

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 (2007/08).

4 The Council's treasury position at the year end

4.1 Summary

	31 March 2008		31 March 2007	
	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	£23.00m	5.89%	£22.00m	5.24%
Short-term Variable Rate Investments	0	0%	0	0%
Long-term Variable Interest Investments	£1.33m	3.74%	£1.53m	3.65%
Corporate Deposit Account	£0.78m	5.55%	£1.16m	5.25%
Total Investments	£25.11m	5.76%	£24.69m	4.85%

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. In the period 1st April 2007 to 31st March 2008, the following loan was taken out, maturing on 8th May 2007.

Lender	Deposit date	Period (days)	Amount £m	Interest rate %
South Lanarkshire Council	27.4.07	11	2.5	5.29

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 period 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 2007/08 short term investments were limited to cash deposits. The Council maintained an average balance over the year of £27.8m and received an average return of 5.9%. The comparable performance indicator is the average 7-day LIBOR rate, which was 5.7%.
- 6.3 During the period from 1 April 2007 to 31 March 2008 64 investments totalling £80.0m were managed. The investments that were held at 31 March 2008 are shown in Appendix B.
- 6.4 During 2007/08 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 2008 the value of this investment was £1.335 million (£1.526 million at 31 March 2007). Income of £54,000 was received in 2007/08 (3.74%).
- 7.3 During 2007/08 the Council also held a long term debenture to the value of £50,000 with the Association of District Councils (ADC) which was non interest bearing. The property to which this related was sold on 1st April 2008 and the Council has received repayment of the debenture plus a redemption premium amounting to £9,242 on 31st July 2008.

8 Economic Factors in 2007/08

- 8.1 The Bank of England Base rate changed four times during the year, rising from 5.25% in April 2007 to 5.5% in May 2007, 5.75% in July 2007 and then decreased to 5.5% in December 2007 and 5.25% in February 2008.

- 8.2 The “credit crunch” was beneficial to the Council as a net lender. Average interest rates went up before falling back as base rates were cut. Average interest rates of loans made are as follows:-

April – June	5.72%
July – December	6.27%
January – March	5.67%

During the year the Council had one loan of £1m with Northern Rock which matured on 4th December 2007 and was repaid on that date with accrued interest. The Council currently has no funds with Northern Rock although they remain on the list of approved counter parties.

- 8.3 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. Acting on advice from its brokers the Council's investment guidelines were revised in the Treasury Management Strategy for 2008/09, mainly in respect of the criteria to be used in setting the counterparty list (CAB1599 refers).

9 Compliance with the Council's Procedures and External Requirements

- 9.1 In 2007/08 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 CAB1377 were adhered to.

10 Treasury Management Advisors

- 10.1 During 2007/08 Butlers continued to act as the Council's treasury management advisors offering support and advice on treasury management activities, which was 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 Investment income forms a significant part of the Council's base budget.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Financial Services Division.

APPENDICES:

Appendix A 2007/08 Approved organisations for the investment of Council Funds

Appendix B Investments held at 31st March 2008

2007/08 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

Investments held at 31st March 2008

Borrower	Amount £	Repayment Date	Rate %
Bradford & Bingley plc	1,000,000	7.4.08	6.25
Bradford & Bingley plc	1,000,000	16.6.08	5.77
Chelsea Building Society	1,000,000	13.10.08	6.15
Cheshire Building Society	1,000,000	2.12.08	6.20
Cheshire Building Society	1,000,000	16.4.08	6.26
Cumberland Building Society	2,000,000	4.6.08	6.60
Darlington Building Society	1,000,000	24.2.09	5.75
Derbyshire Building Society	2,000,000	13.1.09	5.45
Derbyshire Building Society	1,000,000	16.12.08	5.81
Furness Building Society	1,000,000	6.11.08	5.47
Hinckley & Rugby Building Society	1,000,000	4.12.08	6.25
Hinckley & Rugby Building Society	1,000,000	31.12.08	6.00
Leeds Building Society	1,000,000	9.4.08	5.70
Leek United Building Society	1,000,000	1.12.08	6.00
Leek United Building Society	1,000,000	5.8.08	6.28
National Counties Building Society	1,000,000	8.8.08	6.28
Norwich & Peterborough Building Society	1,000,000	7.11.08	6.12
Nottingham Building Society	1,000,000	16.7.09	5.65
Progressive Building Society	2,000,000	3.11.08	6.18
Saffron Building Society	1,000,000	3.11.08	6.16
	<u>£23,000,000</u>		

Long Term Investments held at 31st March 2008

Borrower	Amount £	Repayment Date	Rate %
Local Authorities Mutual Investment Trust	1,334,784	flexible	variable
ADC Debenture	50,000	flexible	nil