Part I
Release to Press

Stevenage
BOROUGH COUNCIL

Meeting:	**COUNCIL**	Agenda Item: **12**
Portfolio Area:	Resources	
Date:	**1 October 2008**	

TREASURY MANAGEMENT REVIEW 2007/08
(Accountancy)

NON-KEY DECISION

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1 PURPOSE

To review the progress made towards achieving the objectives in the 2007/08 Treasury Management Strategy.

2 RECOMMENDATIONS

That the Executive recommends Council to approve the 2007/08 Treasury Management Review.

3 BACKGROUND

3.1 It is a requirement of the Treasury Management Code of Practice that a report is presented to members of the Council to review the Treasury Management Strategy for the preceding financial year.

3.2 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by the Council. The Council fully complies with the requirements of the Code.

3.3 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out

the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the Council of an annual strategy report for the year ahead (for 2007/08 this was reported to Council in February 2007) and an annual review report of the previous year (this report is intended to fulfil this requirement).
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2007/08 Economic / Interest Rate Background

4.1.1 Bank Rate started 2007/08 at 5.25% with expectations that there would be further increases in rates. A further increase in rates to 5.5% duly occurred on 10 May 2007 but not before the Governor of the Bank of England had written a letter to the Chancellor in April explaining why the Consumer Price Index (CPI) had risen to 1% or more above the official CPI inflation target of 2%. The Bank of England's Inflation Report issued in May showed inflation would be above target at the two year horizon. Another rise was delivered on 5 July when Bank Rate rose to 5.75%. Although it was expected that interest rates would rise again to keep inflation in check, during August what has become know as the 'credit crunch' hit the markets and global economy.

The crunch originated in the US through the sub-prime housing market. Although originating in the US, world wide investors, particularly banks, had invested in packages of sub-prime loans, attracted by the higher yields offered. Fears arose that a large number of these investments would turn out to be worthless and this in turn would lead to bankruptcies amongst the banking sector. As a result of these fears, banks were loath to lend to each other. In September, it was announced that the Bank of England had provided billions of pounds of financial support to Northern Rock, which had been affected by the drying up of the wholesale money markets which provided 80% of its funding. The Bank Rate was cut on 6 December to 5.50% with a further cut to 5.25% in February.

4.2 Review of 2007/08 Strategy

4.2.1 When formulating the 2007/08 strategy, an interest return rate of 4.75% was estimated. The Council has budgeted for an average return of 5.25% on its investments for 2008/09.

4.2.2 **External Fund Manager**

During 2007/08, the performance of the Fund Manager was kept under review. It was apparent that the returns they were achieving were below those obtained by the internally invested funds. As a result, in September a report was taken to Executive recommending that the fund be closed. It was agreed to close the account in a measured manner where possible investments running to maturity. This was possible with the majority and the longer dated CDs were sold at a profit, so that by the end of 2007, the fund was closed and all the monies managed in-house.

4.2.3 In-House Treasury Activity

At the end of the 2007/08 financial year, the Council's in-house treasury activity had £38.49m on deposit. Activity throughout the year, achieved an average return of 5.79%. These deposits are invested on the money markets in accordance with the Council's strict lending policies, which are formulate to ensure that, whilst the Council seeks to maximise its interest returns, the overriding importance is the security of the underlying investment. Hence the investment policy is very risk adverse. Determination of the Policy and day to day investment activities are supported with advice and market information provided by the Council's Treasury Management advisors "Sector".

Due to the 'credit crunch' there was a move towards shorter dated investments as the rates were well above the Base Rate, during October and November, we were able to obtain between 6% and 6.4%. However, some investments were made for a longer time to ensure that the portfolio was balanced. A 'core' of cash was identified as available for longer term investments. At the year end, £14m had a maturity beyond 2008/09.

4.2.4 Funds Invested according to the Treasury Policy

All funds were invested according to the Treasury Management Policy. A list of the institutions used together with their credit ratings is attached (Appendix A). The overall return of the internal and external funds was 5.75% for the year.

4.2.5 Treasury Management Prudential Indicators 2007/08

Prudential Indicators were introduced from 2004/05. These are defined by the CIPFA Prudential Code, under which the Council sets and monitors various Treasury Management limits for borrowing and lending activities. The original Indicators for 2007/08 were agreed by Council in February 2007. As a result of the funds being withdrawn from the External Fund and brought back in-house to manage, as referred to at paragraph 4.2.2 above, it was necessary to revise the 2007/08 Indicators and these updates were accordingly reported to Council in September 2007. It is the performance against the revised Indicators which is reported in the table below: At this juncture, it was decided not to split the indicators between SBC and the Fund Manager, but to show them all as SBC.

Treasury Management Prudential Indicators	**Approved Limits £'000**	**Actual £'000**
Sums invested at Variable Interest Rate		
SBC	(32,500)	(11,390)
Sums invested at Fixed Interest Rate		
SBC	(66,500)	(45,290)
Principal sums invested for over 364 days		
SBC	25,000	17,200
External Fund Manager	31,000	1,216
Borrowing Limits		

Long-term borrowing	15,000	0
Short-term borrowing	15,000	0

The fixed and variable figures are negative as the interest rate exposure is defined as - The maximum principle sums outstanding at fixed rates, less principle sums outstanding in respect of investments that are fixed rate investments. As the Council is debt free, this is a negative figure. It is the same definition for variable rate investments, but with variable interposed for fixed.

5 IMPLICATIONS

5.1 Financial Implications

The report is of a financial nature and reviews the Treasury Management function for the 2007/08 financial year. Effective management of Treasury Activity, in accordance with the Treasury Management Policy, seeks to maximise the interest returns to the Council, whilst seeking to ensure the security of the Council's underlying investments.

5.2 Legal Implications

None.

5.3 Other Implications

None.

BACKGROUND DOCUMENTS

- Treasury Management Reports
- Sector Reports
- Fund Manager Reports

APPENDICES

Appendix A - List of Institutions Used During the Year Ended 31st March 2008