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TREASURY MANAGEMENT REVIEW 2009/10

NON-KEY DECISION

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1. PURPOSE

To review the 2009/10 actual Treasury Management activity compared to the 2009/10 Treasury Management Strategy.

2. RECOMMENDATION

That Council be recommended to approve the 2009/10 Treasury Management Review.

3. BACKGROUND

3.1 It is a requirement of the Treasury Management Code of Practice (revised 2009) that Council receive an annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and Treasury Management Practices.

3.2 The Council complies fully with the above Code, published by Chartered Institute of Public Finance & Accountancy, first adopted by the Council 2001, as revised in 2009.

3.3 The primary requirements of the code are:

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

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Council of an annual treasury management strategy report, including the annual investment strategy report - for the year ahead, a midyear review report, and an annual review report of the previous year.

4. 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.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

3.3 The Council reviewed its 2009/10 Treasury Management Strategy and Prudential Code Indicators, following the achievement of two star status by Stevenage Homes. These were approved in June 2009, the main change was to approve a revised Treasury Management Strategy allowing supported borrowing of up to £55million.

3.4 A number of reviews and updates were undertaken during the year to ensure that our strategy remained current, and that policies and procedures remained relevant to support the strategy. These were approved by this committee.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2009/10 Economic & Interest Rate Review

4.1.1 The 2009/10 financial year started with markets still badly disrupted, the real economy suffering from a lack of credit, short to medium term interest rates at record lows uncertainty as to how or when recovery would take place. During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

4.1.2 Despite keeping Bank Rates at an unprecedented historical low of 0.5% throughout 2009/10, the MPC also had to resort to extreme measures in terms of progressively pumping liquidity into the economy through quantitative easing in order to stimulate economic growth. This started in March 2009 and peaked in November at £200bn through purchases of gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the corporate and public sector.

4.1.3 It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced a gap between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.

4.1.4 The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.

4.1.5 Inflation has not been a major concern of the MPC as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT to 15% on 1 January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.

4.16. On the positive side the supply of credit improved considerably, and the credit crunch induced gap between Bank Rate and 3 month LIBID had disappeared. The equity market ended buoyant, with shares at their highest for two years. The reverse side of this was that gilt prices had fallen and long term yields (and also PWLB long term borrowing rates) were getting near to their peak for the year.

4.2 Review of 2009/10 Strategy

4.2.1 The Council budgeted for an average return of 2.41% on its investments for 2009/10. The budget for 2009/10 was approved in February 2009, at that point the base rate was 1.0%. This followed a period when base rates were reduced, from 4.5% in October. A further reduction to 0.5% had not been expected, the rates remained at this level for the entire year.

4.2.2 **Treasury Activity**. At the end of the 2009/10 financial year, the Council had £15.975m on deposit. Activity throughout the year achieved a return of 1.99%. The deposits are invested in the money markets in accordance with the Council's Treasury Management Strategy, which seeks to maximise returns, in the context of an overriding objective of ensuring the overall security of the investment. Hence the investment policy is risk averse.

4.2.3 The significant difference between the budgeted return of 2.41% and the actual return of 1.99% is as a result of the fall in the base rate. This level and the duration of the reduction was not forecast by expert advisors, consequently, we expected a higher return on our fixed rate investments.

4.2.4 The council kept within the prudential limits for the year.

4.2.5 In 2009/10 there was a move to increasing the use of call accounts. The Council stopped making long term investments, following the Icelandic collapse. The Council would have been required to invest for longer than 6 months to achieve the same rates available on call deposits.

4.2.6 The council had one 'callable' investment at the start of the year of £3million earning 6.25% interest, this was 'called' in May 2009. Also one fixed rate investment of £2million earning 5.4%, matured in May 2010. These two investments helped to keep interest earnings up for the Council in an environment where market rates available to the Council were poor.

4.2.7 At the end of the year the Council did not have any investments which would mature beyond 2010/11.

4.3 **Funds invested in accordance with Treasury Policy.** Funds were invested in accordance with Treasury Management Policy. No breaches occurred during 2009/10. A list of institutions used, along with their credit rating is attached (Appendix A).

4.4 **Treasury Management Prudential Indicators 2009/10.** The Council operated within the prudential indicators for the year. These were amended in a revised Treasury Management Strategy in June 2009, following the achievement of two star status by Stevenage Homes Ltd. The actuals were as follows:

Treasury management prudential indicators for SBC:	**Approved limits £'000**	**Actual £'000**
Sums invested at variable interest rates. To 18th June 2009	-£20,000**	-£7,850
Sums invested at variable interest rates. From 19th June 2009	-£20,000**	-£19,676
Sums invested at fixed interest rates. To 18th June 2009	-£40,000*	-£31,800
Sums invested at fixed interest rates. From 19th June 2009	-£30,000*	-£27,500
Principal sums invested for more than 364 days. To 18th June 2009	£17,000	£2,000
Principal sums invested for more than 364 days. From 19th June 2009	£10,000	NIL
To 18th June 2009: Authorised Borrowing Limit Operational Boundary for borrowing	 £15,000 £10,000	 £2,000 (repaid 1 April 2009)
From 19th June 2009: Authorised Borrowing Limit Operational Boundary for borrowing	 £26,000 £21,000	 £5,000 £5,000
*The figures are negative because they as based on amounts borrowed less amounts invested. Where the borrowing and investments are at a fixed rate of interest. ** The figures are negative because they as based on amounts borrowed less amounts invested. Where the borrowing and investments are at a variable rate of interest.		

The council has complied with treasury limits throughout the year.

4.5 **Borrowing.** The Treasury Management Strategy (Revised) received approval from members at the 10 June 2009 Executive Committee which reflected the need for supported borrowing of £55million.

4.5.1 The revised Strategy allowed the council to borrow up to £21million in 2009/10, this being the council's operational boundary for external debt.

4.5.2 The council took out £5million of prudential borrowing from the Public Works Loan Board during 2009/10, for 25 years. This was necessary to fund the decent homes programme, and was secured at an average borrowing rate for the year of 4.72%.

4.5.3 Interest paid and payable in respect of PWLB for 2009/10 was £9,947. This is because the loans were taken out towards the end of the financial year. The interest cost for the decent homes programme was met from the HRA.

4.5.4 The rates secured are fixed rate, and will not therefore be subject to market changes. Securing future borrowing to meet capital programme expenditure, will however be subject to the market rate at the date of taking out the loan. This does represent a risk to the authority. The HRA bears this cost, and it is paid for via the HRA subsidy system. The Council has obtained a special determination for 2010/11 which ensures the no part of the cost is met from the council tax payer and that it is all refunded via the HRA subsidy system.

4.5.5 The updated Capital Strategy elsewhere on this agenda (Executive) identifies that there is a need to borrow in the current year of £812,938. An updated Treasury Management Strategy will be presented to the September Executive.

5. IMPLICATIONS

5.1 Financial Implications

This report is of a financial nature and reviews the treasury management function for the 2009/10 financial year.

5.2 Legal Implications

None

5.3 Other Implications

None

BACKGROUND DOCUMENTS

- Treasury Management Reports
- Sector Reports
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APPENDICES

- Appendix A – list of institutions used in 2009/10