

ITEM

ITEM

Executive – 12th July 2007

Annual Treasury Report 2006/07

Report of: Head of Financial Services

Statutory Powers: S.151 Local Government Act 1972

Financial Implications: Income from Treasury Management activities amounts to £1.3m.

Purpose: To inform the Executive of the results and performance of the Treasury Management activity undertaken in 2006/07. Consideration of this item relates to CP6 – “Improve core service performance in a cost effective way”.

Recommendation:

That the Executive RESOLVES to note the report.

1 Introduction and Background

1.1 The Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management 2001 was adopted by this Council on 2nd May 2002 and this Council fully complies with its requirements. The primary requirements of the Code are the: -

- 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 Executive of an annual strategy report for the year ahead and an annual review report of the previous year.

1.2 Treasury management in this context is defined as:

“The management of the local authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

- 1.3 This annual treasury report covers:
- The Council's current treasury position;
 - assessment of performance;
 - compliance with treasury limits and Prudential Indicators;
 - operational activities 2006/07;

2 The Current Treasury Position

- 2.1 Our investment position at the beginning and the end of the year was as follows:

	As at 31/3/2007		As at 31/3/2006	
	Principal £	Interest %	Principal £	Interest %
Call, 2 & 7 day	855,000	5.32	2,275,000	4.5
Long Fixed	20,500,000	4.73	20,500,000	4.73
Total	21,355,000	4.76	22,920,000	4.71

- 2.2 Appendix A shows how the Council's investment position fluctuated during the year and Appendix B shows the movement in interest rates.

3 Assessment of Performance

- 3.1 Investment interest of £1,318,000 was received during 2006/07 which amounts to £168,000 more than the budget of £1,150,000. This success has had a material impact in off-setting some of our budget issues that have arisen during the year.
- 3.2 Performance is judged and monitored by reference to a standard benchmark, this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate for 2006/07 was 4.8%, which is the same as our weighted average return. Our ability to exceed the benchmark is limited by the amount of fixed long term investments which we hold. Whilst the comparative return this year is the same, in prior years we have far exceeded the benchmark as illustrated in the following table. It can be seen that our investment policy since 2001 has resulted in additional interest to the authority of £1,154,000.

	Benchmark	SHDC return	Additional interest received
2001/02	4.4%	5.0%	£285,000
2002/03	3.7%	4.7%	£359,000
2003/04	3.3%	4.7%	£420,000
2004/05	4.5%	4.7%	£63,000
2005/06	4.6%	4.7%	£27,000
Total			<u>£1,154,000</u>

- 3.3 We have also compared our performance with that of External Fund managers. Appendix C sets out in graphical form the annual return of the eight main fund managers. Upper quartile performance was 4.6% i.e. below the 7 day LIBID benchmark. We will continue to keep the option of employing Fund Managers under review but at this stage see no reason to switch from in-house management.

4 Compliance with Treasury Limits and Prudential Indicators

- 4.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix D.

5 Operational Activities during 2006/2007

- 5.1 We manage our investments in-house and invest with the institutions listed in our approved lending list. We invest for a range of periods from overnight to 5 years, dependant on our cash flows and interest rates.
- 5.2 Monitoring the creditworthiness of counterparties is a critical operation. To do this we use the credit rating service from Sector which ensures the officers can keep our lending list up to date. No institution in which investments were made had difficulty in repaying the principal and interest in full.
- 5.3 We now make extensive use 'business call accounts' offered by the larger banks which pay at or just above base rates as these have largely replaced the traditional 'short term/call market'.

6 Risk Assessment

Risk	Mitigation
<ul style="list-style-type: none"> • risk of failure of counterparty • advancing monies to the wrong counterparty • failure to make advance when contracted to do so • liquidity constraints affecting interest rate performance • volatility of interest rates / inflation • day to day management fault resulting in overdrawn above agreed limits 	<p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an annual Treasury Management Strategy and Investment Strategy in accordance with ODPM guidelines. The Council employs a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported monthly to SMT and quarterly to the Executive.</p>

7 Conclusion

It has been another good year for the Treasury Management team with investment returns matching the benchmark. It is to be commended that since 2001 our investment policy has resulted in over £1.1m of additional interest compared with the benchmark.

John Foxworthy
Head of Financial Services

Executive
12th July 2007

Background papers: none