Meeting:	Cabinet
Date:	18 June 2009
Subject:	Treasury Management Outturn Report 2008-09
Key Decision:	No
Responsible Officer:	Myfanwy Barrett: Corporate Director of Finance
Portfolio Holder:	David Ashton (Leader and Portfolio Holder for Strategy, Partnership and Finance**)**
Exempt:	No
Enclosures:	Appendix 1 – Prudential Indicators

Section 1 – Summary and Recommendations

This report sets out the summary of Treasury Management activities for 2008-09.

Recommendations
Note the outturn position for Treasury Management activities for 2008-09.

Reason

- To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.
- To keep Cabinet Members informed of Treasury Management activities and performance.

Section 2 – Report

1. INTRODUCTION AND BACKGROUND

The Council is required, under the Local Government Act 2003, to approve a Treasury Management Strategy each year. The strategy complies with the DCLG guidance on local government investments and the CIPFA Code of Practice for Treasury Management.

The primary requirements of the Code are as follows:

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 and an annual review report of the previous year.

4. Delegation by the Council of responsibility for the implementation and monitoring of its treasury management policy to Cabinet and for the execution and administration of treasury management decisions to the Council's Section 151 Officer.

2. THIS ANNUAL TREASURY REPORT COVERS

- the outturn position
- the Council's treasury position as at 31 March 2009;
- the economy in 2008-09;
- the borrowing outturn for 2008-09;
- compliance with treasury limits and Prudential Indicators;
- investment outturn for 2008-09;

3. Outturn Position

There was a favourable variance of £3.5m on capital financing budget of £16.5m as detailed below:-

	Latest Budget	Outturn	Variation	
	£000	£000	£000	%
Cost of Borrowing	**9,485**	**7,706**	**-1,779**	**-18.8**
Investment Income	**-3,135**	**-4,321**	**-1,186**	**-37.8**
Minimum Revenue Provision	**6,222**	**5,696**	**-526**	**-8.5**
Total	**12,572**	**9,081**	**-3,491**	**-27.8**

The reasons for variations are explained in the report in paragraph 6 and 8.

4. TREASURY POSITION AS AT 31 MARCH 2009

The Council's debt and investment position at the beginning and the end of the year was as follows:

	31st March 2009	Average Rate	Average Life yrs	31st March 2008	Average Rate	Average Life yrs
	£M	**%**	**Yrs**	**£M**	**%**	**Yrs**
Fixed Rate Funding						
- PWLB	135.4	4.38	33.33	120.5	4.91	32.66
- Market	81.8	5.18	34.63	86.8	6.09	24.79
Total Debt	**217.2**	**4.69**		**207.3**	**5.09**	
Investments:						
- In-House	84.9	5.26		85.3	5.94	
Total Investments	**84.9**			**85.3**		

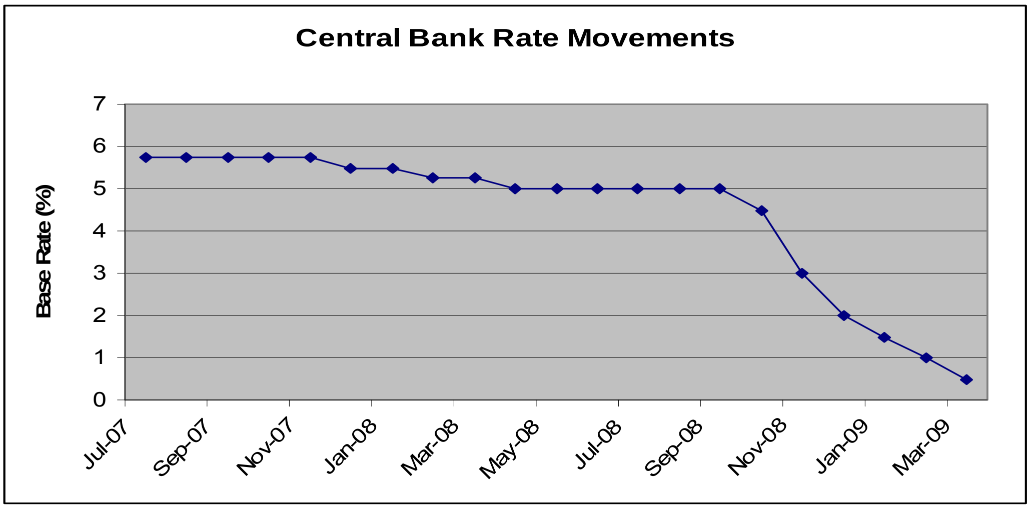
5. THE ECONOMY AND INTEREST RATES

The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from a slowdown in growth to outright recession.

After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The MPC had been very concerned about CPI inflation, which had been rising sharply on the back of higher commodity and food prices. The bank rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts in the autumn.

The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut. It was the strength of the banking crisis, precipitated by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 50bp on October 8 in concert with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously thought and interest rates were subsequently slashed by 150bps in November, 100bps in December and 50 bps in January, February and March 2009 respectively. It currently stands at 0.5%.

Based on the Sector view it is expected to stay at 0.50% for the rest of the year and gradually start increasing to 1.5% from the third quarter of 2010.



6. BORROWING OUTTURN FOR 2008-09

Total long term debt of £217.2m at the end of March 2009 is made up £81.8m Bank loans and £135.4m PWLB loans. The maturity of a debt is determined by reference to the earliest date on which the lender can require payment.

The following activities were carried out in respect of Long Term Borrowing:-

- PWLB borrowing in November 08 of £5m for a 50yr period at 4.28%
- PWLB borrowing in December 08 of £5m for a 50yr period at 4.12%
- PWLB borrowing in December 08 of £5m for a 1yr period at 1.49%

The table below sets out the position as at 31 March 2009

	31st March 2009		31st March 2008	
	£m	%	£m	%
Under 12 Months	5.0	2.3	5.0	2.4
12 Months and under 24 Months			0.0	0.0
24 Months and within 5 years	10.2	4.7	0.2	0.1
5 years and within 10 years	26.1	12.0	26.2	12.6
10 years and above	175.9	81.0	175.9	84.9
Total	**217.2**	**100**	**207.3**	**100.00**

As highlighted in section 3 above the average debt portfolio interest rate has moved over the course of the year from 5.09**% to 4.69%.** The approach during the year was:

1. To draw longer term fixed rate debt, to take advantage of low long term rates and reduce exposure to fluctuations in short term interest rates:
2. Fund borrowing from surplus cash.

The outturn position on Capital Financing was a favourable variance of £1.8m. This represents a lower borrowing cost as a result of implementing the above strategy.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1.

The total capital expenditure for 2008-09 was £98.9m. Approximately £52.6m (53% of the total expenditure) was funded from grants, revenue contributions and capital receipts. This resulted in the borrowing requirement of £46m.

Following the impact of the credit crunch on world economies and the banking system, the strategy during the year was to fund the borrowing requirement from surplus cash. This resulted in the lower financing cost for 2008-09.

However, the impact of capital investments decisions on the Council Tax per annum has risen sharply (approximately by 50%) due to the new Minimum Revenue Provision requirement. Under the new regulations the charge to revenue is based on the appropriate asset life compared to the old regulation of charging revenue with 4% on the reducing balance of the borrowing. The new methodology is more prudent as it is matching the life of the asset to the borrowing requirement.

In addition to the above, the lack of capital receipts due to current economic conditions results in a higher borrowing requirement.

8. INVESTMENT OUTTURN FOR 2008-09

The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council invests for a range of periods from overnight to 364 days / 5Y years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer.

Change in strategy and credit policy during the year

The strategy and policies adopted in the Treasury Management Strategy Report and Annual Investment Strategy for 2008-09 approved by the Council in February 2008 were subject to major revision during the year due to the unprecedented impact of the credit crunch on world economies and the world banking system. This resulted in amending the lending list criteria as detailed below:-

1. Introduced sovereign rating criteria of AAA for foreign banks
2. Eliminate all the building societies from the list except for the ones which are credit rated and meet the minimum criteria
3. The individual and group limits for the UK banks were increased to create more flexibility.
4. Reduction in limits for Non UK banks

The impact of the credit crunch resulted in a rapid fall in central bank rates around the world during the year, including in the UK, and correspondingly in the Council's investment returns in the second half of the year.

This Council viewed the market's expectation for Bank Rate as too low, and that short term rates would rise during the year. Investments were, accordingly, kept short, with a view to enabling returns to be compounded more frequently.

A total of £84.9m investments were placed via the London money market as at 31 March 2009. The average return achieved on investments for the year was 5.26%; this included investments made in the previous financial year that matured in 2008-2009. This figure compared favourably with the average 7 day LIBOR rate for the year of 3.76%.

The actual income was £4.3m compared to a revised budget of £3.1m. The main reason for the favourable variation amounting to £1.2m is mainly due to higher rates secured on investments made before the credit crunch
The table below sets out the position as at 31 March 2009.

	March 2009		**March 2008**	
	£m	%	£m	%
Specified Investments				
Banks & Building Societies	52.9	62.3	3.0	71.3
Money Market Funds	5.0	5.9	3.4	5.9
Non –Specified Investments				
Building Societies	27.0	31.8	78.9	22.8
Total	**84.9**	**100.0**	**85.3**	**100.0**

9. FINANCIAL IMPLICATIONS

Financial matters are integral to the report.

10. PERFORMANCE ISSUES

Treasury Management is scored as part of one of the Key Lines of Enquiry on Managing Finances in the Use of Resources framework. The Council meets the requirement of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practice for the Treasury Management function, contributing to the overall score on the Use of Resources.

11. ENVIRONMENTAL IMPACT

There is no environmental impact.

12. RISK MANAGEMENT IMPLICATIONS

Risk is included on Directorate risk register.

Section 3 - Statutory Officer Clearance

Name: Myfanwy Barrett Date: 26 May 2009	√	Chief Financial Officer
Name: Hugh Peart Date: 3 June 2009	√	Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Date: 26 May 2009	√	Divisional Director

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards Date: 26 May 2009	√	Divisional Director (Environmental Services)

Section 6 - Contact Details and Background Papers

Contact: Jennifer Hydari (Divisional Director of Finance and Procurement)

Background Papers: Report to February 2008, December 2008 and February 2009 Cabinet : Approval of 2008-09 Treasury Management Strategy and Prudential Code.

Appendix 1

Prudential Indicators

PRUDENTIAL INDICATORS (1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	2007-08 £'000 actual	2008-09 £'000 Revised	2008-09 £'000 actual
Capital Expenditure			
Non - HRA	£42,562	£76,586	£83,310
HRA	£10,957	£14,963	£15,590
TOTAL	**£53,519**	**£91,549**	**£98,900**
Ratio of financing costs to net revenue stream			
Non - HRA	7.30%	6.61%	5.67%
HRA	28.69%	35.64%	35.46%
Net borrowing requirement			
brought forward 1 April	£149,333	£122,083	£122,083
carried forward 31 March	£122,083	£131,568	£132,374
in year borrowing requirement	**£27,250**	**£9,485**	**£10,291**
In year Capital Financing Requirement			
Non - HRA	£14,156	£32,156	£29,911
HRA	£6,121	£10,254	£10,673
TOTAL	**£20,777**	**£42,410**	**£40,584**
Capital Financing Requirement as at 31 March			
Non - HRA	£166,625	£198,781	£196,536
HRA	£36,907	£47,161	£47,580
TOTAL	**£203,532**	**£245,942**	**£244,116**
Incremental impact of capital investments decisions	£p	£p	£p
Increase in Council Tax (band D) per annum	£20.59	£57.10	£58.03
Increase in average housing rent per week	£18.64	£19.30	£19.22

PRUDENTIAL INDICATORS (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2007-08 £'000 actual	2008-09 £'000 Revised	2008-09 £'000 actual
Authorised Limit for external debt-			
borrowing	£207	£278	£217
other long term liabilities	£0	£0	£0
TOTAL	**£207**	**£278**	**£217**
Operational Boundary for external debt-			
borrowing	£207	£255	£217
other long term liabilities	£0	£0	£0
TOTAL	**£207**	**£255**	**£217**
Upper limit for fixed interest rate exposure			
Net principal re variable rate borrowing / investments	£207m	£255m	£217m
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments OR:-	£85m	£100m	£0m
Upper limit for total principle sums invested for over 364 days (per maturity date)	£11m	£50m	£18.6m

Maturity Structure of new fixed rate borrowing during 2008-09

	Upper Limit	**Lower Limit**	**Actual March 2009**	
	%	%	£m	%
Under 12 Months	20	0	0	0
12 Months and under 24 Months	20	0	5	2.3
24 Months and within 5 years	30	0	0	0
5 years and within 10 years	40	10	0	0
10 years and above	95	10	10	4.6