St Edmundsbury
BOROUGH COUNCIL

Z299

Cabinet
23 October 2008

Treasury Management 2008/2009:
1 April to 30 September 2008

1. Summary and Reasons for Recommendation

1.1 This report summarises the investment activity for the first six months of the 2008/2009 financial year and is submitted in accordance with good practice.

1.2 At the end of September 2008 interest earned amounted to £1,692,350 against the budget for the period of £1,172,250, a surplus of £520,100. The over achievement of interest on investments during this period was due to higher than expected interest rates and to slippage on the capital programme. The target investment rate for the year is 4.75%. In the six month period covered by this report, the average rate of interest achieved was 5.47%.

1.3 The budget for investment income for the 2008/2009 financial year is £2,102,000, equivalent to £55.92 for each Council Tax Band D property.

2. Recommendation

2.1 Information on the Treasury Management function for the period 1 April to 30 September 2008, as detailed in Report Z299, be noted.

3. Corporate Objectives

3.1 The recommendation meets the following, as contained within the Corporate Plan:-

(a) Corporate Priority : '*To raise corporate standards and efficiency*'; and
(b) Cabinet Commitment : '*Improving Efficiency and Value for Money*'.

Contact Details	Portfolio Holder	Lead Officer
Name	Paul Farmer	Chris Barber
Telephone	(01284) 768777	(01284) 757241
E-mail	paul.farmer@stedsbc.gov.uk	chris.barber@stedsbc.gov.uk

4. Background

4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, adopted by the Council in March 2002, requires that the Cabinet receives progress reports on treasury management activity. This report outlines the Council's investment position for the current financial year to 30 September 2008.

Investment Position

4.2 The total amount invested at 1 April 2008 was £56.2m and at 30 September 2008 was £61.35m (30 June 2008 £56.45m). It should be noted that the Council has never held funds with any Icelandic banks and so has not been affected by the recent collapse of that country's banking system. The Council's treasury management advisors, Sector Treasury Services Limited, are continuing to provide on-going advice on the creditworthiness of individual financial institutions based upon the latest assessments provided by the Fitch and Moody credit rating agencies. In addition, the Council's investment strategy seeks to minimise the risks associated with fluctuations in interest rates and the potential collapse of individual financial institutions by spreading funds across a range of organisations for varying durations at fixed rates of interest.

4.3 The budget for investment income for the 2008/2009 financial year is £2,102,000, equivalent to £55.92 for each Council Tax Band D property. At the end of September 2008 interest earned amounted to £1,692,350 against the budget for the period of £1,172,250, a surplus of £520,100. The over achievement of interest on investments during this period was due to higher than expected interest rates (£178,400) and to slippage on the capital programme and other cash flow advantages (£341,700). The target investment rate for the year is 4.75%. In the six month period covered by this report, the average rate of interest achieved has been 5.47%. Furthermore, as at 30 September 2008 only £7,536,000 had been spent out of the full year's original capital programme budget of £29,468,000.

Sensitivity to Interest Rate Fluctuations

4.4 The target investment rate of 4.75% was set in February 2008 as part of the budget process. This rate was set on the basis of interest projections provided by the Council's external treasury advisors, Sector Treasury Services Limited. The base rate at 1 April 2008 was 5.25% which fell to 5.00% on 10 April. On 8 October the Bank of England's Monetary Policy Committee cut rates by 0.5% (to 4.5%) as part of a co-ordinated rate cut by several of the world's central banks, including the US Federal Reserve and the European Central Bank. This move was taken to help alleviate some of the problems associated with the current credit crisis and to help stimulate economic growth amid concerns of a global recession.

4.5 Many financial analysts are now predicting further falls in the bank base rate over the forthcoming months. Sector's latest view is that rates may fall to 4.00% in the last quarter of 2008/2009, with further reductions possible during 2009/2010. As many of our investments are for fixed durations and at fixed rates, the full impact of rate cuts will not be felt until the 2009/2010 financial year and will need to be taken into consideration as part of the 2009/2010 budget and Council Tax setting exercise. In view of latest projections of spending on capital projects and receipts from the sale of assets, it is expected that the current level of budget surplus on investment returns will be maintained during this financial year.

5. Other Options considered

The Code of Practice requires that regular progress reports on Treasury Management are presented to Cabinet.

6. Community impact *(including Section 17 of the Crime and Disorder Act 1998 and diversity issues)*

6.1 General

6.1.1 The level of interest earned on investments reduces the demand on the Council Tax payer to fund the cost of service provision.

6.2 Diversity

6.2.1 All Council Taxpayers in the St Edmundsbury area will benefit from the interest achieved on investments.

7. Consultation

7.1 Portfolio Holder for Resources and Efficiency.

8. Resource implications *(including asset management implications)*

8.1 Interest on investments of £2,102,000 is budgeted in the 2008/2009 financial year, this equates to £55.92 for each Council Tax Band D property.

9. Risk Assessment *(including Health & Safety, potential hazards or opportunities affecting corporate, service or project objectives)*

9.1 Investment activities are carried out in accordance with the approved Annual Strategy and comply with the CIPFA Code of Practice. The Council has a high level of capital receipts. The interest obtained on these receipts is significant and helps to support the annual level of Council Tax. As fluctuations in interest rates and levels of capital expenditure and receipts can impact considerably on the Council's budget the Council has established an Interest Equalisation Reserve which can be used to help smooth out year-on-year variances in investment returns. In addition, the portfolio of investments includes loans for varying periods of duration of up to five years at fixed rates of interest and these give some certainty of return for a proportion of the investments.

Risk area	**Inherent level of Risk** (before controls)	**Controls**	**Residual Risk** (after controls)
Economic (fluctuations in interest rates)	Medium	Spread of investments for periods of up to five years and utilisation of the Interest Equalisation reserve.	Low
Failure of financial institutions with which the Council invests.	High	Use of Sector Treasury Service for on-going assessment of creditworthiness of financial institutions. Spread of investments across a range of financial institutions with varying durations.	Low

10. Legal or policy implications

10.1 Consideration of the report complies with Council policy and the CIPFA Code of Practice on Treasury Management.

Wards affected	All	**Portfolio Holder**	Resources and Efficiency
Background Papers		**Subject Area** Finance	