APPENDIX A
(CFO/074/10)

TREASURY MANAGEMENT ANNUAL REPORT 2009/10

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to regular reports to Members. This report represents the final report on Treasury Management for 2009/10.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2009/10. The strategy covers the following areas:

   (a) prospects for interest rates;
   (b) capital borrowings and the portfolio strategy;
   (c) annual investment strategy;
   (d) external debt prudential indicators;
   (e) treasury management prudential indicators;

PROSPECTS FOR INTEREST RATES

3. The strategy statement for 2009/10 predicted that falling inflation would enable the Bank of England Monetary Policy Committee (MPC) to reduce Bank Rate to 1% or below. The very low rates were forecast to continue throughout 2009/10. Bank Rate stood at 0.5% at the start of the financial year following 0.5% reductions at both the February and March MPC meetings and remained at that level throughout the financial year.

4. Long-term interest rates would be driven by conflicting forces but with an overall upward tendency. Longer-term Public Works Loans Board (PWLB) rates were expected to rise from 4.5% to perhaps 5% by the end of the year. The PWLB 50 year rate rose during the early part of the financial year reaching a maximum of 4.8% before falling to a low point of 4.25% at the end of September 2009. It subsequently rose to 4.70% by the end of the financial year.

5. The strategy indicated that the money market would be volatile but the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2009/10. The strategy to reduce investments and borrow for short periods and possibly at variable rates when required was followed. The Authority’s cash flow required short term borrowing in the first half of the year before grant receipts enabled some investment in the second half of 2009/10.

BORROWING

6. The Authority's net capital borrowing requirement for 2009/10 was estimated at £6.7 million. In accordance with the strategy, no new long term borrowing was arranged and investments reduced. As part of this process, PWLB loans with a total value of £4 million at interest rates above 4% were prematurely repaid to PWLB. The transaction generated a discount of £140,000. Borrowings required for cash flow purposes as a result were for short periods at rates below 1%. These transactions generated net interest savings of £120,000 in addition to the discount.

INVESTMENT

7. The investment strategy for 2009/10 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with CLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

8. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. The average rate of return achieved on average principal available in 2009/10 was 0.56%. This compares with an average seven day deposit (7 day libid) rate of 0.37%.

9. The Investment Strategy specifies that investments are only made with banks with a high credit rating. UK banks must have at least an “A” long term rating for inclusion on the Authority’s counterparty list. The money markets are continually monitored for information regarding the creditworthiness of financial institutions and notifications are received of any changes to credit ratings made by any of the rating agencies. An institution is immediately suspended from the Authority’s list of institutions should any doubt arise about its financial standing regardless of whether its credit rating is downgraded.

10. The Authority’s counterparty list for 2009/10 was based on strict credit criteria and contained a limited number of institutions for investment. It was not necessary to remove any institutions from the counterparty list but it was necessary to exceed the original limit with the Debt Management Office (effectively the UK Government) at times when the Authority had high cash balances. This occurred on 5 separate days following large grant receipts in August 2010. This eventuality was provided for within the approved strategy.

11. The strategy indicated that limits may be exceeded for short periods when there are adverse conditions in the money market with the agreement of the Executive Director of Resources or Treasury Manager. The action was taken as an alternative to placing investments in higher risk institutions. Another Money Market Fund account which has the highest AAA credit rating was opened and added to the counterparty list. This provided a new safe avenue for investments and enabled investments with other counterparties to be back within limits.

EXTERNAL DEBT PRUDENTIAL INDICATORS

12. The external debt indicators of prudence for 2009/10 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£68 million
Operational boundary for external debt:	£58 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2009/10 was £50 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

13. The treasury management indicators of prudence for 2009/10 required by the Prudential Code were set in the strategy as follows:

(a) Interest Rate Exposures

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the financial year 2009/10 was as follows:

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 0%

(b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit at any time in the financial year 2009/10 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	30%	0%	5%	0%
12 months and within 24 months	30%	0%	8%	2%
24 months and within 5 years	30%	0%	13%	7%
5 years and within 10 years	30%	0%	2%	2%
10 years and above	95%	50%	84%	82%

(c) Total principal sums invested for periods longer than 364 days

The limit for investments of longer than 364 days was set at £2 million for 2009/10. No such investments were placed during 2009/10.

CONCLUSION

14. Treasury Management activity in 2009/10 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.