Item no.

Report to: Executive

Date: **20th September, 2005**

Report of: Director of Finance and Corporate Service

Subject: Annual Treasury Report

Ward: **All**

1.0 Purpose of the Report

To report information to members regarding the treasury transactions during the financial year 2004/05.

2.0 Consultation

In preparing the report I have consulted with the Head of Financial Management and Principal Accountant with responsibility for Treasury Management.

3.0 Introduction and Background to Report

Treasury management in local government for 2004/05 was regulated by the 2001 revision of the CIPFA Code of Practice on Treasury Management in Local Authorities (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement which sets out Council, Executive and Director of Finance and Corporate Services responsibilities and delegation and reporting arrangements (this was revised and approved by Council on 29th January 2002).

A requirement of the Council's Treasury Policy Statement is to report to Executive on both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report). 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 the optimum performance or return consistent with those risks."

This annual report covers:

- The Councils current treasury position;
- Performance ;
- Compliance with treasury limits and Prudential Indicators;

4.0 Current Portfolio Position

The Council's debt position for the period was as follows:
At the 31st March 2004 the average interest rate for total debt was 7.26% this has increased to

		31 March 2004 Principal £000	31 March 2004 Rate %	31 March 2005 Principal £000	31 March 2005 Rate %
Fixed Rate Funding	PWLB	51,891		63,385	
	Market	118	8.02%	42	7.37%
Variable Rate Funding	PWLB	11,750		0	
	Market	105	3.90%	135	4.11%
Total Debt		63,864	7.26%	63,562	7.36%
Investments - in house		15,357	3.96%	18,541	4.88%

7.36% due to low rated variable debt maturing in the year.(see section 5(c))

At 31st March 2004 surplus funds were invested at rates of around 3.96% when the base rate was 4.00%. However during the year the base rate increased three times reaching 4.75% by the 31st March 05.

The surplus year end funds were invested at a rate of around 4.88% compared to 3.96% the year before.

5.0 Performance

One of the requirements of the code is to report on the performance measurement relating to investments, debt and capital financing activities.

During 2004/2005 the following activities took place:-

(1) Investments
The Council manages its investments in house and invests with the institutions listed in the Councils approved lending list submitted with the Treasury Strategy statement. During 2004/05 the Council invested for a range of periods from overnight to 365 days, dependent on the cash flows available, the average rates achieved compared to the LIBID rates (London Interbank Bid rate)are shown below:-

Quarter Ended	No. of Loan Transactions	Value of Loan Transactions £(000)	Interest Earned £ In Year	Return Earned * %	LIBID 7 day %	LIBID 1mth %	LIBID 3mth %
30th June 2004	15	6,819	299,748	4.40	4.13	4.27	4.46
30th September 2004	7	5,352	266,3581	4.98	4.57	4.66	4.81
31st December 2004	8	4,005	91,725	4.79	4.71	4.72	4.78
31st March 2005	5	1,297	62,270	4.80	4.67	4.74	4.81
Totals for Year	35	17,473	820,101	4.69	4.52	4.60	4.71

* Calculated on the average daily sum invested.

All the investments were made in accordance with the Policy Statement which authorises that I invest surplus Council Monies with specified Institutions for the amounts, terms, conditions and periods which are most suitable and advantageous for the Council. The table above shows that the investments made achieved a reasonable rate of return of 4.69% . LIBID rates ranged from 4.52% to 4.71%.

In addition we have two investment accounts with Co-operative Bank and the Bank of Scotland whereby surplus funds are invested on a call basis the average interest for the year being 0%(not used in 2004/05) and 4.38% respectively.

(2) Short Term Borrowing
No short term borrowing took place in 2004/05.

(3) Medium and Long Term Borrowing.
During the year £12,000,000 of new debt was taken on, in the main this was to replace variable debt which matured in the year, details are as follows:-

29th September 2004 £6,000,000 @ 4.75% for 25 years,
2nd December 2004 £6,000,000 @4.55% for 26 years.

As comparative indicators, the average PWLB Maturity loan interest rates for 2004/05 were:-

1 year 4.720% ranging from 4.35% to 5.10%
9-10 years 4.988% ranging from 4.60% to 5.40%
25-30 years 4.818% ranging from 4.50% to 5.10%

A further indicator of the rate for variable debt on offer, at the time the borrowing took place, is also relevant. On the 29th September variable rates ranged from 4.875% to 5%, and on the 2nd of December all options(1,3 or 6months) were 4.875%. Members will note the rates we accepted where within these ranges.

As highlighted in section 4, a consequence of having to replacing the £11.7m of maturing variable rate debt during the year has resulted in the average debt portfolio interest rate increasing from 7.26% to 7.36%.However, mid way through the year variable rates began to exceed fixed term rates and had the Council not locked in to the lower long term fixed rated debt then our average debt portfolio interest rate would have increased more significantly affecting our costs in the longer term.

6.0 Compliance with Treasury Limits

During the financial year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement.

Members may recall that the Treasury Strategy Statement presented to Council as part of the Budgeting process included a section on prudential indicators, Appendix 1 shows the actual outturn for those indicators compared to the original estimates, the notes following the table explain the reasons for any variances

7.0 Implications

7.1 Financial Implications

There are no financial implications resulting from this report.

7.2 Legal Implications

There are no legal implications in connection with this report.

7.3 Policy Implications

This report is submitted in line with the approved policy as agreed by members on 29th January 2002.

7.4 Risk Implications

This report is to inform members of the results of the Treasury Management activities in the year, there are no risks impending on connection with this report.

7.5 Communications

This report is for information only.

7.6 Corporate

7.6.1 Corporate plan and priorities

This report accords with the Councils objectives and priorities. In particular it assists in the following:-

SFE To ensure the corporate health of the council through sound and prudent financial management.

7.6.2 Equality and Diversity

This report has no equality and diversity issues.

7.6.3 This report has no e government issues.

7.6.4 There are no procurement issues.

8.0 Recommendations

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s report is for information only.

Background Papers/Documents referred to in preparing the report.

Year end statements / spreadsheets
LIBID/LIBOR rates from external consultants.

Appendix 1 PRUDENTIAL INDICATORS

	2003/04 Actual	2004/05 Original estimate	2004/05 Actual out-turn
Capital Expenditure (note 1)	**£'000**	**£'000**	**£'000**
General Fund HRA	4,025 9,788	4,246 10,667	3,884 9,934
TOTAL	13,813	14,913	13,818
Ratio of financing costs to net revenue stream (note 2)	**%**	**%**	**%**
General Fund HRA	2.9 16.57	1.69 16.86	(0.2) 15.84
Net borrowing requirement (note 3)	**£'000**	**£'000**	**£'000**
Brought Forward 1st April Carried Forward 31st March	72,144 63,864	63,904 63,572	63,864 63,562
In year borrowing requirement	(8,280)	(332)	(302)
Capital Financing Requirement as at 31st March (note 4)	**£'000**	**£'000**	**£'000**
General Fund HRA	15,989 51,506	16,484 53,654	11,551 53,458
TOTAL	67,495	70,138	65,009
Annual change in Cap. Financing Requirement (note 5)	**£'000**	**£'000**	**£'000**
General Fund HRA	(140) (4,631)	(307) 1,952	(4,438) 1,952
TOTAL	(4,771)	1,645	(2,486)
Incremental impact of capital investment decisions (note 6	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	(0.01)	0.80	0.49
Increase in average housing rent per week (housing authorities only)	0.02	0.14	0.14

Notes to Prudential Indicators.

1) Capital Expenditure

The outturn is around £1 m lower than originally estima

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ted, this is due to slippage within schemes which have sub

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sequently been agreed can be carried forward into 2005/06.

2) Ratio of financing costs to net revenue stream.

This indicator reflects the net interest paid/received as a percentage of rents/council tax base. In 2004/05 additional interest receivable was earned by the HRA, and also less interest was payable on the debt outstanding. The change to the general fund indicator is due in the main to the decision to voluntarily repay debt at the end of March 2005.

3) Net borrowing requirement.

Minimal variance.

4) Capital Finance Requirement.(CFR)

The variance on the general fund CFR arises from two factors, firstly the opening position at 1st April 2004 differed by around £800,000 this arose from the matching of the Basic Credit Approval to the Housing Subsidy calculation, and secondly the year end decision to voluntarily repay debt of £3,860,750, which is beneficial to the revenue account in future years.

5) Annual change in Capital Financing Requirement.

Again this change is due to the decision at the end of the year to voluntarily repay debt.

6) Incremental Impact of Capital Investment Decisions.

There is no change to the HRA figures. The General Fund figure varies due to borrowing of £265,180 instead of an estimated £368,880, this change has resulted in a reduction to Band D figure of 31p.