

Report to: **Executive**
Date: **24 July 2007**
Report of: **Executive Member of Resources**
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 2006/07.

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 2006/07 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 on 29th January 2002 and fully complies with its requirements. The primary requirements of the Code are:

1. Creation and maintenance of a Treasury Management Policy Statement which set 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 Executive of an annual strategy report for the year ahead and an annual review report of the previous year. (this annual treasury report)
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

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 Council's current treasury position;
- Performance Measurement;
- Compliance with treasury limits and Prudential Indicators;

4.0 Year End Portfolio Position

4.1 The Council's debt position for the period was as follows:

		31 March 2006		31 March 2007	
		Principal £'000	Rate %	Principal £'000	Rate %
Fixed Rate Funding	PWLB	66,829		66,215	
	Market	0	7.14	1	7.12
Variable Rate Funding	PWLB	0		0	
	Market	30	3.75	140	4.55
Total Debt		66,859	7.14	66,356	7.11
Investments – in house		27,228	3.96	26,638	5.22

4.2 At the 31st March 2006 the average interest rate for total debt was 7.14% this has reduced to 7.11%.

4.3 At the 31st March 2006 surplus funds were invested at rates of around 3.96% when the base rate was 4.5%, during 2006/07 the base rate has increased to 5.25% at 31st March 2007 and the surplus year end funds were invested at a rate of around 5.22% compared to 3.96% the year before.

5.0 Performance Measurement

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

5.2 During 2006/2007 the following activities took place: -

5.2.1 Investments

The Council manages its investments in house and invests with the institutions listed in the Councils approved lending list maintained within the Finance Unit. During 2006/07 the Council invested for a range of periods most of which were between overnight to 365 days, dependent on the cash flows available. However in 2006/07 a 2-year investment was entered into until January 2009. 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 %	1 Month %	3 Month %
30 th June 2006	16	18,116	851,134	4.70	4.50	4.54	4.60
30 th September 2006	7	4,898	236,236	4.83	4.67	4.71	4.81
31 st December 2006	5	2,371	123,717	5.22	4.94	5.02	5.13
31 st March 2007	7	1,202	66,422	5.52	5.26	5.32	5.46
TOTAL	35	26,587	1,277,509				

* 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 4.80%. LIBID rates ranged from 4.50% to 5.46%.

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 2006/07) and 4.58% respectively (4.33% previous year).

5.2.2 Short Term Borrowing

It was deemed necessary to borrow short term on 5 occasions the average amount borrowed was £420,000 interest paid was £817, an average rate of interest of 4.5%.

5.2.3 Medium and Long Term Borrowing

No new medium or long-term borrowing took place in 2006/07.

6.0 Compliance with Treasury Limits

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

6.2 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

None.

7.2 Legal

None.

7.3 Policy

7.3.1 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

None.

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

None.

7.6.3 E Government

This report has no e-government issues.

7.6.4 Procurement

None.

8.0 Recommendations

This report is for information only.

Background Papers/ Documents referred to in preparing the report.

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

PRUDENTIAL INDICATORS

	2005/06 Actual	2006/07 Original Estimate	2006/07 Actual Out-turn
Capital Expenditure	£'000	£'000	£'000
General Fund	4,654	5,012	5,107
HRA	11,410	12,080	13,246
TOTAL	16,064	17,092	18,353
Ratio of financing costs to net revenue stream	%	%	%
General Fund	(2.14)	(1.60)	(2.43)
HRA	16.49	17.79	17.24
Net Borrowing requirement	£'000	£'000	£'000
Brought Forward 1 st April	63,562	66,619	66,859
Carried Forward 31 st March	66,859	66,306	66,326
In year borrowing requirement	3,297	(613)	(533)
Capital Financing Requirement as at 31st March	£'000	£'000	£'000
General Fund	11,192	10,477	10,733
HRA	55,637	56,637	56,637
TOTAL	66,829	67,114	67,370
Annual change in Cap. Financing Requirement	£'000	£'000	£'000
General Fund	(101)	(448)	(458)
HRA	2,179	1,000	1,000
TOTAL	(2,078)	552	542
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	(0.33)	0	0
Increase in average housing rent per week (housing authorities only)	0.09	0.05	0.056

Notes to Prudential Indicators

1. Capital Expenditure

The outturn is around £1.26m higher than originally estimated this is due to two main reasons, firstly slippage in 2005/06 carried forward into 2006/07 programme, however this is negated to some extent by slippage on 2006/07 which is to be carried forward to 2007/08, and secondly additional approval to spend £1m on doors and windows on council houses.

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 2006/07 additional interest receivable was earned by both HRA and the General Fund. In addition more rents were received on the HRA than estimated.

3. Net Borrowing requirement

The change in the net borrowing requirement in year is £80,000 this is due to an investment by East Durham Business Service which impacts on the councils borrowing amount.

4. Capital Finance Requirement (CFR)

The variance on the general fund CFR arises due to the opening balance being different due to transactions in 2004/05.

5. Annual change in Capital Financing Requirement

There is a minor change in this outturn compared to the estimate due to a minor adjustment in the calculation of the minimum revenue provision for the General Fund.

6. Incremental Impact of Capital Investment Decisions

There is no change to the general fund comparison between estimate and outturn as no borrowing took place for the General Fund.

Borrowing of £1 million was agreed on the HRA this cost per rent payer was 5.6p per rent week compared to an estimate of 5p per week, however, as this was supported borrowing the full cost is met by the Housing Subsidy Grant received from the Government.