

CABINET

15 September 2004

TREASURY MANAGEMENT STEWARDSHIP REPORT

REPORT OF THE DIRECTOR OF FINANCE

Contact Officer: Fred Lyon Tel No: 01962 848224

RECENT REFERENCES:

CAB320 CIPFA Prudential Code 21 May 2003  
CAB776 Treasury Management 11 February 2004

EXECUTIVE SUMMARY:

This report provides information on stewardship of the Treasury Management function in 2003/04.

RECOMMENDATIONS:

1. That Cabinet approves the Treasury Management Stewardship Report.
2. That Council be recommended to approve the revision to TMP4 *Approved Instruments, Methods and Techniques* as detailed in Appendix 1.

CABINET15 September 2004TREASURY MANAGEMENT STEWARDSHIP REPORTREPORT OF THE DIRECTOR OF FINANCE1 Introduction

- 1.1 This Council operates its treasury management service in compliance with the *Code of Practice for Treasury Management in the Public Services*, the *Prudential Code for Capital Finance in Local Government* (both published by CIPFA) and the *Guidance on Local Government Investments* (published by ODPM) . The prime objective of the treasury management activity is the effective management and control of risk.
- 1.2 The Codes require the regular reporting of treasury management activities, forecasting likely activity for the forthcoming year (in the Annual Treasury Strategy Report) and reporting on actual activity for the preceding year (this report).
- 1.3 This report covers:
- The strategy agreed for 2003/04
  - Performance indicators for 2003/04
  - The Council's treasury position at the year end;
  - Borrowing;
  - Investments;
  - A summary of the economic factors affecting the strategy over 2003/04;
  - The compliance of the treasury service with internal and external requirements;
  - Treasury Management Advisors.

2 Strategy for 2003/04

- 2.1 The strategy for 2003/04 was approved by Council on 26 February 2003 (report CAB542 refers).

3 Performance Indicators

- 3.1 The City Council is a member of the CIPFA Treasury Management Benchmarking Club and an analysis of activity in 2003/04 compared with a peer group of authorities shows that the Council continues to perform above the average.
- 3.2 The average return on investments for the year was 3.83%, which is above the benchmark sterling interbank rate at 3.57% (giving an estimated benefit of £94,000 on the year on balances actually invested). Costs also compare favourably with other authorities and a further analysis is given in Appendix 3.
- 3.3 Treasury Management Practices (TMPs) form an integral part of the Council's treasury management policy and one of these, *TMP4 Approved Instruments, Methods and Techniques*, now requires amendment. This does not alter the Investment Strategy previously approved by Council but tidies up the wording following comments from our Treasury Management advisors. The amended version is attached for approval at Appendix 1. As Treasury Management policies are a matter for Council to decide the recommendation is for Council to approve this.

The Council's treasury position at the year end

4.1 Summary

	31 March 2004		31 March 2003	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£0.00	0%	£0.00	0%
Variable Interest Rate Debt	£0.00	0%	£0.00	0%
<b>Total Debt</b>	<b>£0.00</b>	<b>0%</b>	<b>£0.00</b>	<b>0%</b>
Short Term Fixed Interest Investments	£31.70m	3.84%	£29.25m	4.00%
Long Term Variable Interest Investments	£1.04m	5.89%	£0.98m	5.45%
<b>Total Investments</b>	<b>£32.74m</b>	<b>3.90%</b>	<b>£30.23m</b>	<b>4.04%</b>

5 Borrowing

- 5.1 Following the decision of Council on 27 February 2002 all long-term debt was prematurely repaid.
- 5.2 In the period from 1 April 2003 to 31 March 2004 3 short term loans were taken out (to avoid the more expensive overdraft charges) as follows:

Lender	Deposit date	Period (days)	Amount £m	Interest rate %
Royal Mail Group	2.05.03	4	1.5	3.2
Devon County Council	19.6.03	18	2.0	3.5
Scarborough Borough Council	31.10.03	5	2.0	3.5

6 Short Term Investments

- 6.1 The Council can make short term investments for periods from "call" (can be called in at any time) up to 364 day fixed investments. The Approved Organisations for the investment of Council funds are shown in Appendix 1.
- 6.2 The Council does not use a wide range of investment products and in 2003/04 opportunities were limited to cash deposits. The Council maintained an average balance of £35.23m and received an average return of 3.84%. The comparable performance indicator is the average 7-day LIBID rate, which was 3.57%. This compares with an original budget assumption of £27.2m investment balances at 3.75% interest rate.
- 6.3 During the period from 1 April 2003 to 31 March 2004 71 investments totalling £78.65m have been made. The investments outstanding as at 31 March 2004 are shown in Appendix 2.
- 6.4 During 2003/04 the majority of short term investments were placed with building societies. On the advice of our treasury management advisors, Butlers, these investments will be spread wider across our range of Approved Organisations in 2004/05.

## 7 Long Term Investments

- 7.1 The only long-term investment the Council holds is with the Local Authorities Mutual Investment Trust (LAMIT). This investment was made in March 1990 as a property investment, with the General Property Fund receiving the income.
- 7.2 As at 31 March 2004 the value was £1,043,363.66 (£980,768.61 at 31 March 2003). Income of £59,594.82 was received in 2003/04 (5.89% based on average value).

## 8 Economic Factors in 2003/04

- 8.1 Official interest rates were altered three times during the year (from 3.75% to 3.5% in July, back to 3.75% in November and then to 4.0% in February 2004). Conditions remained quite volatile across all short and fixed rates with investor expectations swinging between extremes. The year opened on a relatively quiet note, with some evidence of strengthening economic activity in the US and continued buoyancy in the UK, it saw the majority of economists predicting a rise in interest rates before the calendar year end.
- 8.2 The UK's performance remained good relative to most other key zones, although mounting geo-political tensions associated with the Iraq situation led to some market volatility.
- 8.3 The Monetary Policy Committee of the Bank of England started a tightening of rates before Christmas in response to the continuing rise in house prices and the growing level of credit card debt.

## 9 Compliance with the Council's Procedures and External Requirements

- 9.1 The Council has complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management. The Council was still bound by the requirements of the Local Government and Housing Act 1989 in 2003/04 and the limits set in CAB542 were all adhered to.

## 10 Treasury Management Advisors

- 10.1 In 2002/03 a two year extension to the Butlers contract for treasury management advice was negotiated at the same rate as the previous contract. As part of this contract Butlers review our treasury management activities and their advice has been taken on a number of occasions.

### OTHER CONSIDERATIONS:

#### 11 CORPORATE STRATEGY (RELEVANCE TO):

- 11.1 Treasury Management supports all tenets of the Corporate Strategy as well as the core value *use your money carefully*.

#### 12 RESOURCE IMPLICATIONS:

- 12.1 None directly. The investment income forms a significant part of the Council's base budget.

### BACKGROUND DOCUMENTS:

Operational and financial records held in the Finance Department

### APPENDICES:

- Appendix 1 TMP4 *Approved Instruments, Methods and Techniques*
- Appendix 2 Investments outstanding as at 31<sup>st</sup> March 2004
- Appendix 3 Benchmark performance