

CABINET

13 September 2006

TREASURY MANAGEMENT STEWARDSHIP REPORT

REPORT OF THE DIRECTOR OF FINANCE

Contact Officer: Sheila Boden Tel No: 01962 848120 email: sboden@winchester.gov.uk

RECENT REFERENCES:

CAB1174 Treasury Management 7 February 2006

EXECUTIVE SUMMARY:

This report provides information on stewardship of the Treasury Management function in 2005/06 and comments on treasury management activity during that year.

RECOMMENDATIONS:

That Cabinet approves the Treasury Management Stewardship Report.

CABINET

13 September 2006

TREASURY MANAGEMENT STEWARDSHIP REPORT

REPORT OF THE DIRECTOR OF FINANCE

1 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 2005/06
 - Performance indicators for 2005/06
 - The Council's treasury position at the year end
 - Borrowing
 - Investments
 - A summary of the economic factors affecting the strategy over 2005/06
 - The compliance of the treasury service with internal and external requirements
 - Treasury Management Advisors

2 Strategy for 2005/06

- 2.1 The strategy for 2005/06 was approved by Council on 24 February 2005 (report CAB974 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 2005/06 compared with a peer group of authorities shows that the Council performed just above the average for the group for return on investment. This is the fourth time in five years that the average has been exceeded.
- 3.2 The average return on investments for the year was 4.82%, which is above the performance target of the benchmark sterling interbank rate at 4.53% (giving an estimated benefit of £92,000 on the year on balances actually invested). Salary costs compare favourably with other authorities, although overheads are higher: some analysis is given in Appendix C.

3.3 Treasury Management Practices (TMPs) form an integral part of the Council's treasury management policy - none of these needed amendment during the year.

4 The Council's treasury position at the year end

4.1 Summary

| | 31 March 2006 | | 31 March 2005 | |
|---|----------------|--------------|----------------|--------------|
| | 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% |
| Total Debt | £0.00 | 0% | £0.00 | 0% |
| Short Term Fixed Interest Investments | £31.0m | 4.7% | £25.50m | 4.96% |
| Long Term Variable Interest Investments | £1.41m | 4.98% | £1.24m | 4.98% |
| Corporate Current Account | £0.82m | 4.5% | £1.37m | 4.75%- |
| Total Investments | £33.23m | 4.96% | £28.11m | 4.96% |

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 2005 to 31 March 2006 one short term loan was taken out (to avoid the more expensive overdraft charges) as follows:

| Lender | Deposit date | Period (days) | Amount £m | Interest rate % |
|-------------------------------|--------------|---------------|-----------|-----------------|
| Dumfries and Galloway Council | 22.03.06 | 14 | 1.0 | 4.5 |

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 A.

6.2 The Council does not use a wide range of investment products and in 2005/06 opportunities were limited to cash deposits. The Council maintained an average balance of £32.3m and received an average return of 4.82%. The comparable performance indicator is the average 7-day LIBID rate, which was 4.53%. This compares with an original budget assumption of £24.0m investment balances at 4.75% interest rate.

6.3 During the period from 1 April 2005 to 31 March 2006 70 investments totalling £86.5m were made. The investments outstanding as at 31 March 2006 are shown in Appendix B.

6.4 Although during 2005/06 the majority of short term investments were placed with building societies, on the advice of our treasury management advisors, Butlers, some investments were spread wider across the range of Approved Organisations.

6.5 During the previous year a corporate current account was opened with one of the clearing banks to improve the investment return on short term or overnight cash which previously earned very low rates of interest. This account pays interest at current bank base rate.

7 Long Term Investments

7.1 The only interest bearing 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 2006 the value was £1,360,016.04 (£1,192,560.53 at 31 March 2005). Income of £55,835.66 was received in 2005/06 (4.1% based on average value).

7.3 The Council also holds a long term debenture to the value of £50,000 from the Association of District Councils (ADC). This debenture is non interest bearing.

8 Economic Factors in 2004/05

8.1 Official interest rates were altered once during the year (from 4.75% to 4.5% in August).

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 2005/06 and the limits set in CAB974 were all adhered to.

10 Treasury Management Advisors

10.1 In 2004/05 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 of being efficient and offering value for money.

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 Directorate.

APPENDICES:

Appendix A Approved organisations

Appendix B Investments outstanding as at 31st March 2005

Appendix C Benchmark performance