

CABINET

3 September 2003

TREASURY MANAGEMENT STEWARDSHIP REPORT

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB542	Treasury Management	12 February 2003
CAB320	CIPFA Prudential Code	21 May 2003
CAB675	Treasury Management	16 July 2003

EXECUTIVE SUMMARY:

This report provides information on stewardship of the Treasury Management function in 2002/03.

RECOMMENDATION:

That the stewardship report be approved.

CABINET3 September 2003TREASURY MANAGEMENT STEWARDSHIP REPORTREPORT OF THE DIRECTOR OF FINANCE1 Introduction

1.1 This Council adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this guidance. The prime objective of the treasury management activity is the effective management and control of risk. The Code requires the regular reporting of treasury management activities, forecasting likely activity for the forthcoming year (in the Annual Treasury Strategy Report) and actual activity for the proceeding year (this report).

1.2 This report covers:

- The strategy agreed for 2002/03
- Performance indicators for 2002/03
- The Council's treasury position at the year end;
- Borrowing;
- Investments;
- A summary of the economic factors affecting the strategy over 2002/03
- The compliance of the treasury service with internal and external requirements;
- Forthcoming changes – the Prudential Code;
and
- Treasury Management Advisors.

2 Strategy for 2002/03

2.1 The strategy for 2002/03 was approved by Council on 27 February 2002 (report CAB313 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 2002/03 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 4.23%, which is above the benchmark sterling interbank rate at 3.88% (giving an estimated benefit of £151,000 on the year on balances actually invested). Costs also compare favourably with other authorities and a further analysis is given in Appendix 3.

4 The Council's treasury position at the year end

4.1 Summary

	31 March 2003		31 March 2002	
	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	£29.25m	4.00%	£26.85m	5.10%
Long Term Variable Interest Investments	£0.98m	5.45%	£0.95m	7.40%
Total Investments	£30.23m	4.04%	£27.80m	5.18%

5 Borrowing

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

Lender	Deposit date	Period (days)	Amount £m	Interest rate %
Bank of England	29.4.02	8	1.3	3.8125
Bank of England	31.1.03	4	1.6	3.875

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 2002/03 opportunities were limited to cash deposits. The Council maintained an average balance of £34m and received an average return of 4.23%. The comparable performance indicator is the average 7-day LIBID rate, which was 3.88%. This compares with a budget assumption of £37m investment balances at 3.75% interest rate.
- 6.3 During the period from 1st April 2002 to 31st March 2003 98 investments totalling £90.7m have been made. The investments outstanding as at 31st March 2003 are shown in Appendix 2.

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 31st March 2003 the value was £980,768.61 (£953,296.10 at 31st March 2002). Income of £53,454.39 was received in 2002/03 (5.45% based on value).

8 Economic Factors in 2002/03

- 8.1 Save for official interest rates, which were altered only once (from 4% to 3.75% in February 2003), conditions remained highly volatile across all short and fixed rates with investor expectations swinging between extremes. The year opened on a relatively pessimistic note. Evidence of a strengthening of economic activity in the US and continued buoyancy in the UK, saw the majority of economists predicting a rise in interest rates before the calendar year end.
- 8.2 These fears weakened as the year progressed and evidence of a faltering in economic recoveries began to materialise. The UK's performance remained good relative to most other key zones where confidence was undermined by dwindling demand and rising unemployment. Mounting geo-political tensions associated with the Iraqi situation compounded the gloom and fears of renewed recession, notably in countries such as Germany and Japan (both faced with the threat of a damaging dose of deflation). Market volatility increased dramatically with the outbreak of war and the year ended on a highly uncertain note on all fronts – market prospects, interest rate outlooks and future borrowing plans all contributed to sharp movements in all major areas.

- 8.3 The UK eventually succumbed to the downbeat tone and evidence that the consumer boom (driven in part by the surge in house prices) that had prevented recession for so long was drawing to a close. This caused an about face in interest rate expectations. By late 2002, a new consensus view on the UK had emerged – short-term rates had further to fall. Long-term fixed rates also declined to new lows in the shadow of economic and political tensions. Severe weakness in the equity markets, sparked initially by financial scandals (Enron/WorldCom), and compounded later by poor economic performance, strengthened the appeal to investors of the gilt-edged market's safe haven status. The yield declines were most notable out to around 10 years. Five-year yields, for example, fell significantly below 4%.

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 is bound by the requirements of the Local Government and Housing Act 1989 and the limits set in CAB313 were all adhered to.

10 Forthcoming Changes - The Prudential Code

- 10.1 The Prudential Code is expected to be implemented from 1 April 2004, providing the Local Government Bill receives Royal Assent by the autumn. This will provide the Council with the freedom to invest in capital expenditure subject to it being prudent, affordable and sustainable, and so long as the Council takes treasury decisions in accordance with good professional practice. This freedom is of course subject to the Treasury being content with the state of the economy and accepting there is no need to impose national limits on borrowing. This will see the reporting requirements for treasury management expand.
- 10.2 The 2003/04 treasury strategy includes some of the requirements of the Prudential Code. Whilst this was in advance of the proposed implementation it does allow a smoother transition to the new system.

11 Treasury Management Advisors

- 11.1 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 have reviewed our treasury management practices and procedures and their advice has been incorporated in the Council's Treasury Management Manual.

OTHER CONSIDERATIONS:

12 CORPORATE STRATEGY (RELEVANCE TO):

- 12.1 Treasury Management follows one of the main tenets of the Corporate Strategy - to make the best use of all available resources by continued clear financial planning within the City Council.

13 RESOURCE IMPLICATIONS:

- 13.1 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 Approved Organisations for the Investment of Council Funds
 Appendix 2 Investments outstanding as at 31st March 2002
 Appendix 3 Benchmark performance