

WYRE FOREST DISTRICT COUNCIL

CABINET MEETING ON 29TH SEPTEMBER 2005

CORPORATE THEME:	Improving Corporacy & Performance
KEY PRIORITY:	Financial and Asset Management
STRATEGY:	Treasury Management
CABINET MEMBER:	Councillor John Campion
RESPONSIBLE OFFICER:	Head of Financial Services
CONTACT OFFICER:	Jane Kitchen, Ext. 2101
AN OPEN ITEM	

TREASURY MANAGEMENT ANNUAL REPORT 2004/2005

1. PURPOSE OF REPORT

- 1.1 In accordance with the Treasury Management Code of Practice and Financial Regulations, to provide an Annual Report outlining details of Treasury Management activities for the period 1st April, 2004 to 31st March, 2005.

2. RECOMMENDATION

- 2.1 It is recommended that the Treasury Management Annual Report for 2004/2005 be formally approved.

3. TREASURY MANAGEMENT ANNUAL REPORT 2004/2005

- 3.1 This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code. The prime objective of the treasury management activity is the effective management of risk. This Code requires as a minimum the regular reporting of treasury management activities to :

- Forecast the likely activity for the forthcoming year (in the Prudential System of Local Government Finance and The Treasury Management Strategy Report 2005/2006 – available on the Intranet).
- Review actual activity for the proceeding year (this report).

This report covers the treasury operations in place since 1st April 2004, including performance against prudential indicators, following the introduction of the Prudential Code.

Therefore, in accordance with both CIPFA Code of Practice for Treasury Management in the Public Sector and the Prudential Code, this report sets out:

- Capital Expenditure and the Capital Financing Requirement;
- Performance indicators set for 2004/2005;
- The Council's treasury position at the year end;
- A summary of the economic factors affecting the strategy over 2004/2005;
- The Capital Finance decisions taken;

- The performance of these decisions;
- The associated risks of any of these decisions.

4. **CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT**

	2004/2005	
	Revised £'000	Actual £'000
Capital Expenditure		
Supported spend	0	794
Unsupported spend	7,342	2,973
Total spend	7,342	3,767
Financed by:-		
Borrowing/leasing	856	690
Capital receipts	5,535	2,210
Capital Grants	951	867
PCL	0	0
Revenue	0	0
Capital Financing Requirement (CFR)	1,095	926
External Debt		
Borrowing	906	739
Total Debt as at 31 st March 2005	906	739

5. **PERFORMANCE INDICATORS SET FOR 2004/2005**

5.1 This service has set the following performance indicators :-

- Investments - Internal returns above the 7 day LIBID rate;
- Investments - External fund managers - returns 110% of 7 day LIBID rate.

6. COUNCIL'S TREASURY POSITION AT YEAR END

The Treasury position at the 31st March, 2005, compared with the previous year was:-

	31 March 2005		31 March 2004	
	Principal	Average Rate	Principal	Average Rate
Total Investments	£20.2m	4.64%	£17.9m	3.78%

7. CAPITAL FINANCING DECISIONS TAKEN DURING 2004/2005

- 7.1 Capital Expenditure for the year was £3.77 million. This was funded by Capital Receipts/Capital Grants, transitional LASHG (paid directly to the Community Housing Group by Housing Corporation) and Prudential Borrowing.

This compares with a budget assumption of Capital Expenditure of £5.278 million financed as above.

8. INVESTMENT POSITION, PERFORMANCE AND PRUDENTIAL INDICATORS

- 8.1 Investments held by Fund Managers - This Council did not use external fund managers during 2004/2005.
- 8.2 The Council had an average investment balance of £26.283 million and received an average return of 4.64%, with the comparable Performance Indicator being 4.46%. This compares with a budget assumption of an average investment balance of £25.972 million at an average interest rate of 4.41%.

External interest received during the year was £1,277,950 compared to the Revised Budget of £1,145,560. This surplus is primarily due to rate projection being marginally higher than anticipated by our Treasury Management Consultants and slippage on the Capital Programme.

9. PRUDENTIAL INDICATORS

	2004/2005		2005/2006		2006/2007	
	Upper	Upper	Upper	Upper	Upper	Upper
Maximum principal sums Invested for longer than 364 days	£15m	£15m	£15m	£15m	£15m	£15m
Limits on fixed interests	100%	100%	100%	100%	100%	100%
Limits on variable interest rates	22%	22%	22%	22%	22%	22%
Maturity Structure of fixed	Lower	Upper	Lower	Upper	Lower	Upper

Borrowing**						
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	0%	100%	0%	100%	0%	100%
2 years to 5 years	0%	100%	0%	100%	0%	100%
5 years to 10 years	0%	100%	0%	100%	0%	100%
10 years and above	0%	100%	0%	100%	0%	100%

** The upper limit is 100% in each case as this Council's only anticipated borrowing is small sums which are not significant and these maturity structures will not impact on revenue. These limits give maximum flexibility to ensure financial advantages of each transaction.

The Head of Financial Services reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2004/05 and no difficulties are envisaged for the current or future years. This view takes into account current commitments and existing plans.

10. ECONOMIC TRENDS FOR 2004/2005

10.1 The rising trend in UK interest rates which had commenced in mid-2003 continued during the 2004/05 financial year as the Monetary Policy Committee (MPC) tightened policy to combat the effects rising economic activity might have upon inflation. These concerns were most in evidence during the early stages of the year and Base Rates were raised in quarter-point steps in May and June to 4.5%. Market pessimism was fuelled by this comparatively aggressive stance and longer-dated money rates rose to in excess of 5% to reflect this.

Official rates were raised again in August to 4.75%, the peak for the year. Thereafter, the MPC adopted a comparatively neutral stance. A steep rise in world oil prices (to in excess of \$50 per barrel) triggered a slowdown in economic activity in industrialised economies, notably the US. This, together with the benign domestic inflation backdrop, caused the Bank of England to adopt a more optimistic view of medium-term inflation prospects, this was seen as a hint that the rate cycle may have peaked. Money market rates adjusted to accommodate this assessment and longer rates slipped lower.

Base Rates remained unaltered for the balance of the year but confidence that the rate cycle had peaked was undermined in the last few months of the period. Quoting stronger activity, tighter labour market conditions and rising raw material prices, the Bank of England February 2005 Inflation Report cast some doubt upon the ability of inflation to maintain a benign performance over the medium term. Money rates rose in reaction to the view that a further tightening of monetary policy was not out of the question.

Long-term interest rates (Public Works Loans Board (PWLB) rates) tended to track the movements in the money market. A rise in the early part of the year, in response to market interest rate pessimism, was reversed in the autumn and winter of 2004 as weaker economic activity placed downward pressure upon bond yields across the globe. Rates returned to a rising trend in the closing months as the lacklustre

performance of key international bond markets combined with a more pessimistic view on rates to drive yields modestly higher.

10.2 Market Rates during the year were as follows:-

Interest Rates (End-Quarter Levels)

End Period		Base Rate	LIBOR			PWL B RATES		
			3 mth	6 mth	12 mth	5-yr	10-15yr	25-30yr
2004	Mar	4.00	4.4	4.6	4.7	4.80	4.95	4.85
	June	4.50	4.6	4.8	5.2	5.30	5.30	5.05
	Sept	4.75	4.9	5.0	5.1	4.95	4.95	4.80
	Dec	4.75	4.9	4.9	5.0	4.65	4.70	4.65
2005	Mar	4.75	4.9	5.0	5.1	4.85	4.85	4.80

11. RISK MANAGEMENT

11.1 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Butlers, the Council's advisors, has proactively managed the portfolio over the year.

11.2 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.