

West Wiltshire District Council

Cabinet

29 September 2004

Treasury Management Annual Report

1 Purpose

To report the treasury management activity for the year ended 31 March 2004.

This report is produced in accordance with the Council's Treasury Management Policy, which was agreed by Council on 25 February 2004. The report follows the CIPFA code of practice for treasury management.

Treasury Management is defined in the Council's Treasury Management Policy Statement as "The management of the 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 optimum performance consistent with those risks." CIPFA recommends that members be presented with a report on treasury management activity at the end of each financial year.

2 Background

The Council approved the following guidelines for the 2003-04 financial year.

- maximum amount outstanding by way of borrowing £10m
- maximum percentage of total debt at a variable interest rate be 40% of total debt

In accordance with Cabinet decision on 12 February 2003, the Investment Fund was closed and brought back in-house on 31 March 2003. These funds are now managed by Finance with external professional advice from Sector.

Treasury Management activity is reported as part of the regular financial monitoring reports to Cabinet and Internal Overview. It is also reviewed as part of our Internal Audit work for the year.

3 Key Issues

Borrowing

The Council is debt free and any borrowing undertaken is short term (less than 364 days) to cover temporary cash flow deficits.

The position at 31 March 2004 is summarised below.

- long term debt outstanding £nil

- short term debt outstanding £nil
- short term local lenders £92,000
- total interest paid (bonds/ST borrowing) £10,403

The local lenders figure above is a collection of loans or bonds to the Council from the Historic Buildings Committees. Both are repayable at seven days notice.

Investments

Over the years the Council has generated surplus cash, mainly from property sales, and this has been invested. The surplus cash is managed by the Finance and the performance of these funds in 2003/04 is summarised below.

- total value of investments at 31 March 2004 £8.239 million
- average investment for the year £13.415 million
- total return on investments £549,614
- average return 4.10%
- expected return 7 day average 3.56%
- base rate average 3.75%

The value of the fund at the start of the year was £10.810 million and was reduced during the year by expenditure incurred through the capital programme and short-term cash flow requirements.

Weak growth in the US and the fear of war in Iraq together produced an expectation of overall weak world economic growth. Base rate was therefore forecast to remain at 4.0% during 2003 or to be lowered further.

The main objective was therefore to invest a proportion of the funds in fixed rate deposits at the highest rates available to us:

- £5m with the Alliance and Leicester @ 4.5% for three years
- £3m with the National Australia Bank @ 4.45% for three years

Short to medium-term cash surpluses continued to be invested by Finance, mainly in an account with the Abbey Business Reserve Account, with a return of £77k for the year and an account with the Bank of Scotland with a return of £132k.

Base rate was cut in February and July 2003. Rapidly improving growth prospects in the US from late July provoked a turnaround in market expectations to increase the base rate. The first of which was in November and the second in February, ending the year at 4.0%.

The average return was above the benchmark, however unexpected significant business rate refunds, that will not be refunded from the national pool until later in 2004/05, meant that the amount available for investment was less than expected. This point has been raised with the ODPM.

Other Issues

The Council's banking services contract was tendered and awarded to HSBC. The new contract commenced on 1 April 2004 and is valued at £40k per annum.

During the Financial Year the Council operated within the treasury limits set out in the Council's Treasury Management Policy Statement and Strategy.

The long term investments outlined above will continue throughout 2004/05 and short to medium-term cash surpluses will regularly be reviewed for investment opportunities. For balances over £3million, the interest rate offered by our Abbey Business Reserve Account is currently 4.85% and allows daily access to our funds. This is the best rate currently available to us under these terms but this is regularly reviewed within Finance.

Human Rights Implications: The Human Rights implications of this report have been considered and are acceptable.

Legal Implications: There are no legal issues arising directly as a result of this report.

4 Recommendation

The Cabinet is recommended to note the report.

Roy While
Portfolio Holder

Tracey Gay
Financial Accountant

Background Papers – files held in room F35



Plain English guidance given