
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM:15
DATE OF MEETING:	22nd JUNE 2006	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/treasury management/out-turn2005-06
SUBJECT:	TREASURY MANAGEMENT ANNUAL REPORT 2005/06	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

1.1 That the Treasury Management Annual Report for 2005/06 is approved.

2.0 Purpose of Report

2.1 To detail the Council's actual borrowing and lending performance for 2005/06 compared to the approved strategy, including performance against the Prudential Indicators. This is in accordance with the Local Government Act 2003 and associated regulations.

3.0 Executive Summary

3.1 The Council's borrowing strategy for the year required that its cash flow requirements were managed through short-term borrowings and bank deposits. Overall, the Council's cash flow remained more favourable during the year compared to that projected and was still positive as at 31st March 2006.

3.2 This generated additional interest in 2005/06 compared to that estimated. As previous financial monitoring reports indicated, this additional amount equated to approximately £22,000.

3.3 In undertaking its treasury management functions during the year, the Council managed its activities within its prudential indicators and lending policy.

3.4 In addition, the average interest earned on its deposits, was slightly above the market average (4.50% compared to a market rate of 4.44%).

4.0 Detail

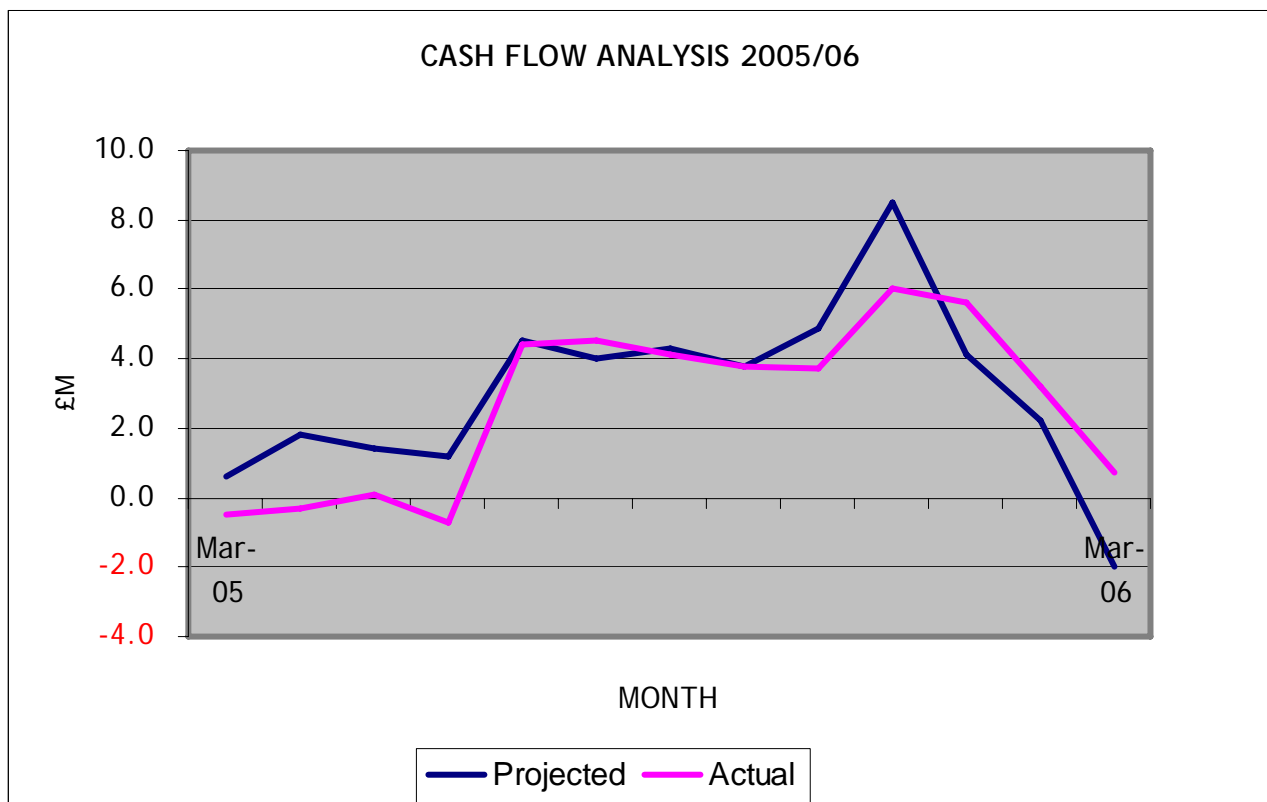
Borrowing During 2005/06

4.1 The Council's approved borrowing strategy for 2005/06 was:

- To manage its cash flow requirements through short-term borrowings and bank deposits.
- That no longer-term borrowing be undertaken in the year.
- That the one remaining Money Market loan of £1m be repaid should the Lender invoke their option to increase the interest rate.

The Council's Cash Flow During 2005/06

- 4.2 The Council's cash flow on a daily basis can fluctuate depending on the timing of income and expenditure. At certain times of the year, the Council may need to borrow to cover shortfalls on a temporary basis, whilst when cash flow is positive, any surplus funds are invested on a temporary basis.
- 4.3 In recent years, the Council has not needed to enter into any new long-term borrowing and in fact has for the large part, been a net investor. This has been due to some relatively significant asset sales (which have been used to repay debt) together with the continuation of "Right to Buy" sales for council houses.
- 4.4 The Council's cash flow during 2005/06 with a comparison to that originally projected is shown below.



- 4.5 In general, the actual pattern of cash flow followed that projected. However, the amount of surplus cash did not peak as much as expected in the later half of the year. However, overall cash remained positive over the remainder of the year and did not fall into deficit by the year-end as projected.

Interest Rates

- 4.6 The projections assumed interest rates averaging 4.75% in 2005/06 in accordance with the prevailing Base Rate and economic predictions guiding its movement during the year.
- 4.7 Rates on temporary borrowings were generally much lower than this, in fact averaging 3.5% from August 2005, even though the base rate was only lowered to 4.5% (from 4.75%) in July 2005. The Council paid an average of 4% on its temporary borrowings during 2005/06, which was predominantly incurred during the early part of the financial year.
- 4.8 Rates achieved on temporary deposits were maintained more in line with the Base Rate. The Council received an average of 4.5% on its deposits for the year.

Budgetary Implications

- 4.9 The level of interest received and paid is built into the General Fund Revenue Account. The actual interest received compared to that included in the approved estimate is summarised below.

Cash Flow Interest 2005/06	Estimate £	Actual £
Overall interest received from money lent/on deposit	140,000	161,770
Less – Interest payments on temporary borrowings	-12,000	-11,869
Net Interest Received	128,000	149,901

- 4.10 The net effect is that overall interest received was higher compared to that estimated by around £22,000. This is in line with that previously reported as part of financial monitoring reports and reflects the better overall cash flow position during the year.

Money Market Debt

- 4.11 The only long-term debt still remaining is one money market loan for £1m. This costs around £48,000 per year in interest charges at a fixed rate of 4.875%. It is due to mature in 2032.
- 4.12 Potentially, there is a break clause. The lender has the option of reviewing the interest rate at any time and increasing it if they so wish. However, the Council then has the option of rejecting this and can instead choose to repay without incurring any penalty.
- 4.13 In setting the borrowing strategy for 2005/06, it was considered that it was not cost effective to prematurely repay the loan due the penalty payment involved. However, it was also resolved that should the lender exercise their option to increase the interest rate, then the loan should be repaid at that time.
- 4.14 The lender did not invoke their option during the year.

Investments 2005/06

- 4.15 The Council does not have any long-term investments, but the Council is required to maintain an investment strategy covering short-term investments such as the deposit of surplus funds.
- 4.16 The overall strategy was to effectively invest surplus funds to meet cash flow requirements within the year. In addition, there was no proposal to enter into longer term and externally managed funds. The Council invests surplus funds in accordance with an approved policy and associated lending list. This is summarised below.

Institution	Limit
Specified Investments	
<ul style="list-style-type: none"> • UK Debt Management Office (DMO) • Local, Police, Fire and Parish Authorities • Other Bodies with a High Credit Rating of F1+/AA- 	£10m £5m £7.5m
Non-Specified Investments	
<ul style="list-style-type: none"> • F1/AA Rated Bodies – First Call • F1/A Rated Bodies – Second Call • F2/A Rated Bodies – Third Call 	£1m £0.5m £0.25m

General Policy

- 4.17 Priority is given to specified investments in any investment decision. This is in accordance with current practice and these institutions are usually the only ones used in any case.
- 4.18 The length of investments are made in accordance with overall cash flow requirements, subject to the condition that they are for less than 1-year to meet regulations. An analysis of deposits made in the year is provided in the following table.

Institution	Average Deposit Lodged £'000	Highest Amount Lodged £'000	Total Interest Received £'000	Average Interest Rate
Co-op Bank (Council's Reserve Account)	202	1,330	7	3.49%
Bank of Scotland (Instant Access)	3,162	5,000	145	4.58%
The DMO, other Authorities, and mainstream Banks	222	2,800	10	4.42%

- 4.19 A substantial amount of available funds were lodged with the Bank of Scotland. This provided a competitive return on larger but short-term deposits with instant access. All deposits made were in accordance with the approved lending list and were all Specified Investments.

Performance Indicators

4.20 The main indicator is for the return on short-term investments to average over the year, **the local authority 7-Day Rate**. This is a standard measure of performance and is a rolling annualised rate. The Council's performance for 2005/06 (with a comparison to recent years) is shown in the following table.

	2003/04	2004/05	2005/06
7-Day Rate (target)	3.51%	4.47%	4.44%
Actual Rate	3.55%	4.63%	4.50%

Prudential Indicators

4.21 Under the Code of Practice for Capital Finance, the Council must set and regularly monitor Prudential Indicators. In addition, the Council's Section 151 (Chief Finance) Officer is required to provide an assessment of these indicators and the implications for the Council's spending plans and overall financial position.

4.22 The prudential system provides the flexibility for these indicators to be changed depending on local circumstances. It is the responsibility of the Section 151 Officer to advise the Council accordingly. The relevant Prudential Indicators for 2005/06 with a comparison to the previous year are set out in the following table.

Prudential Indicator	2004/05 Actual £'000	2005/06 Estimate £'000	2005/06 Actual £'000
1 – Capital Expenditure:			
• Council Housing	2,034	2,098	2,028
• Other Housing	125	59	84
• General Fund	2,666	3,967	4,476
• Covenants	469	385	384
Total	5,294	6,509	6,972
2 – Ratio of Financing Costs to Net Revenue Stream:			
• General Fund	0.7%	0%	0.3%
• Council Housing	5.2%	4.5%	4.7%
Total	2.2%	1.4%	1.3%
3 – Capital Financing Requirement (CFR)	13,840	14,713	12,559
4 – Authorised Limit for External Debt			
• Fixed Debt	1,000	1,000	1,000
• Temporary Debt	7,500	7,500	7,500
• Covenants	3,500	3,200	3,200
Total	12,000	11,700	11,700
5 – Operational Boundary for External Debt	10,000	9,700	9,700

Indicator 1 - Capital Expenditure

- 4.23 This represents a summary statement of actual capital expenditure that was incurred. Further details of the investment programme and financial performance is subject to the Budget Out-turn report elsewhere on this Agenda.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

- 4.24 This indicator aims to show the level of “gearing”, i.e. the extent of the Council’s debt liability. If this percentage is high and/or rising, then it could give cause for concern as it may indicate that an organisation is relying too heavily on loan finance.
- 4.25 The indicator for the Council shows that in percentage terms, the Council’s overall debt interest is relatively low. This is due to debt outstanding being minimal, with the main liability now remaining being interest payable on Covenants.

Indicator 3 – Capital Financing Requirement (CFR)

- 4.26 The CFR is a measure of the Council’s underlying need to borrow **for capital investment**, and is based on the value of its assets contained in the Council’s balance sheet. Under the Prudential System, the Council has to ensure that net external borrowing does not exceed the CFR. The Council’s net borrowing was substantially below this amount throughout the year.

Indicator 4 - Authorised Limit for External Debt

- 4.27 This is a statutory limit designed to cover all borrowing and long-term liabilities. The limit of £11.7m was not breached at anytime during the year. The maximum amount of temporary debt was £2.1m during the early part of the year. Covenant finance outstanding at 1st April 2005 was £3.15m, falling to £2.75m at 31st March 2006.

Indicator 5 - Operational Boundary for External Debt

- 4.28 This limit acts as a guide and monitor for the Head of Finance in managing day to day treasury management. It is designed to act as an early warning sign in advance of the Council possibly exceeding the statutory limit above.
- 4.29 It effectively allowed a boundary limit of £5.5m for temporary debt during 2005.06. As highlighted above, the maximum amount was £2.1m, and therefore, this boundary was not exceeded.

5.0 Financial Implications

- 5.1 As set out in the report.

6.0 Corporate Implications

- 6.1 None directly.

7.0 Community Implications

- 7.1 None directly.

8.0 Background Papers

- 8.1 None