TREASURY MANAGEMENT ANNUAL REPORT

1 SUMMARY

1.1 This is the annual report for treasury management for the year 2002/2003.

2 INTRODUCTION

2.1 The Chartered Institute of Public Finance and Accountancy published a Revised Code of Practice on Treasury Management. The adoption of the Code was agreed when the new Financial Regulations were adopted in December 2002 (Min 636/02). The Code clarifies the reporting requirements for treasury management functions and this report covers those requirements.

2.2 A primary requirement of the Code is that Council should receive an annual review report for the previous year.

2.3 The Council employs Sector Treasury Services Ltd to advise on treasury management strategy and policy.

3 BORROWING

3.1 All long-term loans are from the Public Works Loans Board (PWLB). The Council's debt position at the beginning and end of the year was as follows:

	£
Balance as at 1 April 2002	13,529,758
Scheduled repayments of principal	356,863
Early repayment	1,600,000
Balance as at 31 March 2003	11,572,895

3.2 The Council redeems long-term debt as it becomes due. However, during 2002/03, on the advice of our consultants, the Council repaid £1.6m of debt to leave the amount outstanding at 31 March 2003 as £11,572,895. No new borrowing from the PWLB was undertaken. For the next five years, repayments of existing debt will be made at an annual rate of £356,863 per year unless the financial position of the Authority makes early repayment suitable.

3.3 During the year, temporary loans totalling £3,755,000 were taken for short periods during the year. These ranged between overnight and 20 days. There were no temporary loans outstanding at the end of the year.

3.4 As previously reported (Policy & Finance Committee 8 July 2003), a Prudential Framework is being introduced with effect from April 2004 to provide a new basis for local authorities to borrow for capital projects. Any requirements for new borrowing will be considered in reports to committee on the Budget Strategy and individual capital items.

4 INVESTMENTS

4.1 The attached graph, shown as appendix A, shows the total investments, the average sum invested, the rates of interest achieved and the base rate. The base rate started the year at 4% and did not change until it was cut to 3.75% in February 2003. Total external interest earned was £496,057. Investment income was higher than expected due to the higher average balance of investments during the year.

5 COMPLIANCE WITH TREASURY LIMITS

5.1 The treasury limits for the financial year were agreed by Finance & General Purposes in February 2002. The Council operated in accordance with the applicable treasury management policies and within these treasury limits.

6 RESOURCE IMPLICATIONS

6.1 Within the final account report, net external finance showed an increase over budget in net income of £141,587. Within this sum are the following principal items: the cost of borrowing by the Council, the amount of that borrowing which, in line with legislation, is charged to the Housing Revenue account, the income earned from investments and other miscellaneous interest transactions.

6.2 The result of treasury management is currently a net credit to the general fund. Recharges are made to the Housing Revenue Account in line with Government legislation and are mainly met by housing subsidy.

6.3 In 2002/2003, external interest payments totalled £1.3m. In previous years, the initial interest charge is made to the General Fund, with all costs covered by recharges to the Housing Revenue Account. However, in 2002/2003 because of the balance between debt outstanding for the HRA and actual external debt outstanding, the General Fund bore interest charges of £44,752.

6.4 Treasury management is based on two key issues:-

- The investment of all surplus cash to the advantage of the Authority. The income from investments is credited to the General Fund.

- Borrowing policies that take account of the requirements of the Authority and the inter-relationship of the General Fund to the Housing Revenue Account. Usually, the initial charge is to the general fund, with all costs covered by recharges to the Housing Revenue Account. New borrowing has to be judged by taking account of this process of recharge and the requirements of the new Prudential Framework.

7 RECOMMENDATION

7.1 It is proposed that the Committee **RESOLVES**

To note the report.

D Deeks

Head of Financial Services

Background Papers:

None

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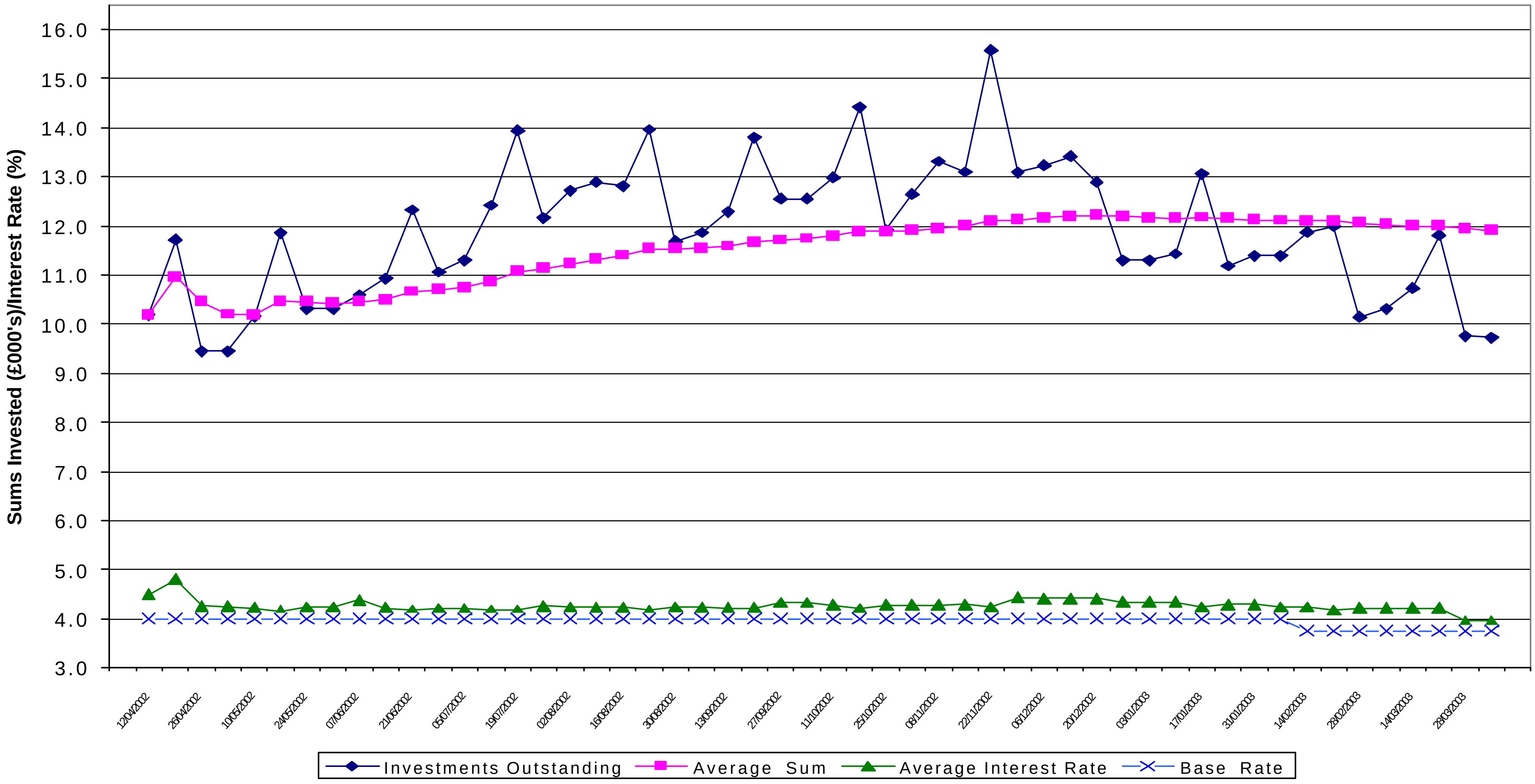
Investments and Interest Rates for the year 2002/03



Appendix A