

PRIVATE AND CONFIDENTIAL
(Not for Publication)

THE EXECUTIVE

29 SEPTEMBER 2003

REPORT OF THE DIRECTOR OF FINANCE

This report contains information of a commercially confidential nature and is exempt from publication by virtue of paragraphs 1 and 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

TREASURY MANAGEMENT ANNUAL REPORT 2002/2003		FOR INFORMATION
<u>Summary</u> To present the annual Treasury Management Report.		
<u>Recommendation</u> That the report be noted.		
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1. Purpose of Report

1.1. To report on the Treasury Management activities of the Council and their external cash portfolio managers for the financial year 2002/2003 in accordance with the Treasury Policy Statement adopted by the Finance Committee on 28th October 1992.

2. Annual Strategy Statement 2002/2003 approved prior to start of year

2.1 The Executive approved an annual strategy for 2002/2003 on the 26 March 2002.

2.2 The salient points from that strategy were:

- (a) It was assumed that interest rates would rise to 4.5% during the first half of the financial year and continue to move upwards to 5% by the end of the year.
- (b) Funds available for investments would fall during the year due to the Capital programme spend projections.
- (c) External managers to secure the highest rate of return commensurate with maintenance of the capital value of the investments.

- (d) Internal Investments should be concentrated on 'Cashflow' management with limited investment activity.
- (e) The performance of the external managers to be kept under review.

3. **Economic "Factors" 2002/2003**

3.1 The main diary of economic events during 2002/2003 was as follows:

June 2002 to November 2002	- Consumer spending and mortgage lending remained buoyant which continued to cause economic instability in the markets
20th September 2002	- Industrial production/confidence falling
February 2003	- Equity markets on both the UK and US fall
March 2003	FTSE falls below 4000 Base Rate reduced by ¼% to 3.75% Markets nervous regarding the outcome of Iraq conflict

4. **Statistical Information**

4.1 In House Activity

Borrowing - There was no borrowing during the year.

Lending	Number	Value
		£
Loans b/fwd 1.4.2002	27	68,775,000
Loans made	344	910,315,000
Loans repaid	348	923,840,000
Loans Outstanding as at 31.3.2003	23	55,250,000

4.2 External Outstanding Debt

The Council has no external outstanding debt.

4.3 Total Value of External Investments

Fund Manager:	1.4.2002	31.3.2003
	£	£
Council In House Team	68,775,000	55,250,000
Scottish Widows	25,192,119	26,052,651
Investec Guinness Flight	71,833,671	73,979,225
TOTAL	165,800,790	155,281,876

4.4 Total Interest Earnings

	£	Rate of Return
		%
Investec Guinness Flight	3,235,239	5.40
Scottish Widows	1,069,103	4.09
In-house team	2,559,176	4.20
	6,863,518	
Composite Rate of Return		4.75
Average 7 Day Rate 2002/2003 (Benchmark)		3.86

5. Commentary

5.1 It was assumed that interest rates would rise to 5% when in fact they stayed at 4% for the majority of the year. In February 2003 interest rates were cut to 3.75%.

5.2 It was assumed that the value of funds available for investment would reduce during the year due to the estimated large capital programme. Whilst there was only a small underspend on the Capital Programme during 2002/03, the Council however did receive higher than expected right to buy sales. This resulted in only a relatively small decrease in funds available for investment (£10m) during the year.

5.3 The in-house team have two objectives:

- (i) an overriding commitment to ensure that sufficient funds are available on a daily basis to meet the Council's liabilities, which mean on occasions the best investment opportunities have to be forgone and
- (ii) to achieve the best rate of return on uncommitted funds.

In 2002/2003 the In-house investments returns were higher than the benchmark by 0.34%

5.4 In regard to the annual performance of the two external managers, Investec outperformed the benchmark by 1.54% while Scottish Widows outperformed by 0.23%.

6. Treasury Management Costs

6.1 The costs associated with the internal Treasury Management function (including an element for monitoring of the external managers) were as follows:

Salaries	£46,000
Sector Consultancy Costs	£14,000
	£60,000

Fees paid to the external managers during 2002/2003 were as follows:

Investec Guinness Flight.	£93,542
Scottish Widows	£32,096
	£125,638

7. Conclusions

- 7.1 The in-house team, dealing in fixed sterling deposits only, has performed much as anticipated but has still managed to beat the average 7 day rate for the year by 0.34%.
- 7.2 Scottish Widows outperformed the benchmark 7 Day rate by 0.23% whilst Investec outperformed by 1.54%. This was mainly as a result of bond/gilt holdings.
- 7.3 Whilst interest rates stayed at 4% rather than increasing to 5% as was expected, the amount available for investment did not decline as much as expected due to the higher RTB sales. As a result interest earnings during the year were £2.51million above the original budgeted figure for all of the Council's services.