NEW FOREST NATIONAL PARK AUTHORITY

AUTHORITY MEETING - 14 JUNE 2007

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2006/07

Report by Pat Higgins, Section 151 Officer

1. Introduction

1.1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2006/07. The report also covers the actual Prudential Indicators for 2006/07 in accordance with the requirements of the Prudential Code.

2. Background

2.1 The Authority's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the Department of Communities and Local Government has issued Investment Guidance to structure and regulate the Authority's investment activities.

2.2 This Authority 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 and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that any activities are undertaken in a prudent, affordable and sustainable basis.

2.3 The Code requires as a minimum the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the proceeding year (this report).

2.4 This report sets out the following information:

Annex 1

- A summary of the treasury strategy agreed for 2006/07;
- A summary of the economic factors affecting the strategy over 2006/07;
- The decisions taken and performance of the treasury service and their revenue effects;
- The Authority's treasury position at 31 March 2007;

Annex 2

- The main Prudential Indicators and compliance with limits;
- Performance indicators set for 2007/08;
- Risk and performance.

3. Recommendations

The Committee are recommended to:

3.1 Note the treasury management stewardship report for 2006/07.

3.2 Note the actual 2006/07 prudential indicators within the report.

Appendix 1

TREASURY MANAGEMENT STEWARDSHIP REPORT – 2006/2007

1. Introduction

1.1 This annex sets out the performance for the Authority's treasury management activities.

2. Treasury strategy for 2006/07

2.1 The Authority approved the Treasury Management Strategy for 2006/07 in May 2006 (NFNPA 89/06).

2.2 The main principles of the investment strategy cover: -

- The security of investments;
- The liquidity of investments;
- Monitoring investment categories and counterparties;
- The use of money brokers;
- Performance indicators

3. Summary of economic factors

3.1 A continued build-up in underlying inflation pressure, the ongoing recovery in the housing market and the unexpected buoyancy of retail activity convinced the markets that the chances of any cut in official interest rates that had been anticipated prior to the beginning of the year had faded completely.

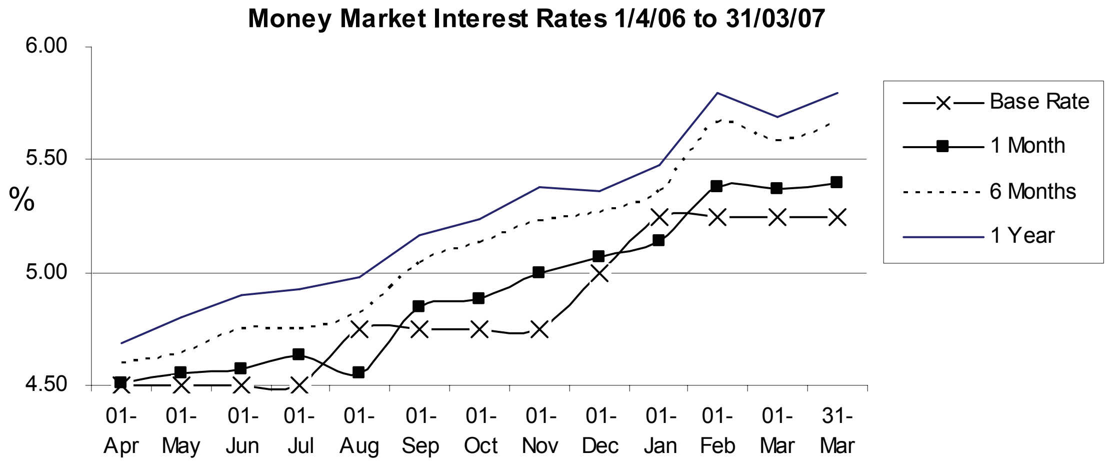
3.2 At the start of the year no change in base rates in 2006 was anticipated; any increases were forecast for early in 2007 when a prospective rise in economic activity was expected to generate additional inflation pressures.

3.3 The subsequent Bank of England Inflation Report (published in May 2006) caused an expectation that official interest rates could rise, possibly in early 2007. Money market rates steepened to reflect these expectations.

3.4 Base rates increased by 0.25% to 4.75% in August with the threat of a further modest rise beyond that point. A further rise to 5% was announced in November 2006.

3.5 It was anticipated that the rise in base rates to 5% may be enough to control CPI inflation at the 2% central target rate. But, following a series of strong inflation statistics, rates rebounded quite sharply towards the year end. In particular the one-year deposit rate reaching the highest level seen since early 2001.

3.6 The following chart shows how the money market interest rates increased sharply over the year following the first four months of benign expectations.



3.7 The movements in the bank base rate during the year were as follows:

Date	Bank Base Rate
At 1 April 2006	4.50%
4 August 2006	4.75%
10 November 2006	5.00%
12 January 2007	5.25%

3.8 Money markets forecast a further bank base rate rise in the spring of 2007.

4. Investment strategy

4.1 All investments have been made for fairly short periods to ensure that funds are readily available as there has been no firm indication of anticipated cash flow movements on which to base longer investment decisions.

4.2 Investments have been made for an average period of 46 days. As an expenditure trend develops it may be possible to place investments for a longer period.

5. Temporary Investments

5.1 Temporary Investments are deposits which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.

5.2 The interest earned on temporary investments for the year was 4.92%.

5.3 For 2006/07, the interest receivable on temporary money market investments is £109,037.

5.4 Further interest earnings from the Treasury Call account and the bank account total £14,746.

5.5 The total earnings are £123,783. This is an increase of £1,783 from the latest estimate for the year, reported in March 2007.

5.6 A list of temporary investments at 31 March 2007 is shown below:-

Borrower	Amount £	Interest Rate %
Derbyshire Building Society	500,000	5.47
Market Harborough Building Society	500,000	5.32
Ipswich Building Society	500,000	5.50
Stroud & Swindon Building Society	500,000	5.34
Bolton Metropolitan Borough Council	500,000	5.30
Lloyds Bank Treasury Call A/c	450,000	4.80
Total	**2,950,000**	

5.7 All temporary investments have been invested according to the parameters set within the Authority's Treasury Policy Statement.

5. Investment benchmark

5.1 The temporary investment interest earnings are measured against a benchmark.

5.2 The benchmark is equivalent to the average 7 day LIBID rate available through the money markets and is measured over the financial year.

5.3 The table below shows the performance of the Authority's investments compared to the benchmark. The performances are shown as annualised figures.

5.4 Results to 31 March 2007 are summarised as follows:

	%
Benchmark Return	4.81
Actual Return	4.92
Return above Benchmark	0.11

5.5 As at 31 March 2007 temporary investment interest earnings exceeded the benchmark by 0.11%; this equates to £2,494.

6. Investment instruments

6.1 All of the investments are made in money market deposits other than balances held in the instant access treasury call account with Lloyds TSB.

6.2 Money market deposits earn a yield that is made up entirely of interest earnings. There is no capital appreciation. No Gilts or Certificates of Deposits are used.

7. Compliance with the CIPFA code of practice

7.1 All treasury functions and debt management procedures, which were undertaken during the period, complied with the existing CIPFA Code of Practice on Treasury Management, as set out in the Authority's Treasury Policy Statement, and the Treasury Management Strategy for 2006/07.

8. Treasury Position at 31 March 2007

The following table shows the treasury position at the 31 March 2007 compared with the previous year. All investments have interest payable at a fixed coupon rate for the period of the investment other than the Call Account which is variable: -

	31 March 2006		31 March 2007	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Temporary Cash-flow Investments	£1.50m	4.47%	£2.50m	5.39%
Call Account	£0.76m	4.05%	£0.45m	4.80%
Total Investments	**£2.26m**	**4.33%**	**£2.95m**	**5.30%**

Appendix 2

PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES TO 31 MARCH 2007

1. Introduction

1.1 The Authority is required by the Prudential Code to report the actual prudential indicators after the year-end.

1.2 The table in Paragraph 2 provides a schedule of all the mandatory prudential indicators applicable to the Authority.

1.3 Certain of these indicators must be compared to others and are detailed later in this report.

2. Estimated and actual treasury position and prudential indicators

2.1 The following table compares the actual figure for 2006/07 with the original indicator for 2006/07 and the actual figure for 2005/06.

2.2 The original indicator for 2006/07 is the same as was included in the Treasury Management Policy and Strategy Report 2006/07 (NFNPA 89/06).

		2005/06 Actual £000	**2006/07 Original Indicator £000**	**2006/07 Actual £000**
1	**Treasury Position at 31 March** Investments - Money Market - Treasury Call **Total**	1,500 765 **2,265**	1,500 0 **1,500**	2,500 450 **2,950**
2	**Authorised Borrowing Limit (against maximum position)**	Maximum 0	Limit 3,000	Maximum 0
3	**Operational Borrowing Boundary**	0	0	0
4	**Investments - Upper limits on fixed interest rates (against maximum position)**	Maximum 91%	Maximum 100%	Maximum 97%
5	**Investments - Upper limits on variable interest rates (against maximum position)**	Maximum 56%	Maximum 50%	Maximum 37%
6	**Interest on Net Investments**	57	43	124
7	**Estimated maximum principal funds invested (against maximum position)**	Maximum 2,700	Maximum 5,000	Maximum 3,240

2.3 Any indicators that were exceeded were guideline limits only. There were no breaches of statutory limits during the year.

2.4 In addition to the above, the Authority is required as a Prudential Indicator, to adopt the CIPFA Code of Practice. The compliance for this indicator is shown at paragraph 2.2 in the body of the report.

2.5 The Authorised Limit must not be breached. The table demonstrates that during 2006/07 the Authority has maintained gross borrowing within its Authorised Limit.

	2006/07
Authorised Limit	**£3.0m**
Operational Boundary	**£0.0m**
Maximum gross borrowing position during the year	**£0.0m**
Minimum gross borrowing position during the year	**£0.0m**

The Operational Boundary is the expected average borrowing position of the Authority during the year, and periods where the actual position is over the Boundary is acceptable subject to the Authorised Limit not being breached.

3. Treasury service performance indicators for 2006/07

3.1 The treasury service has set the following performance indicator:

- For money market investments, the benchmark for return should be set above the average 7 day LIBID rate.

3.2 The performance indicator was 4.81% for the year; the performance was 4.92% as explained in paragraph 5.4 in annex 1 above.

4. Risk and performance

4.1 The Authority has complied with all of the relevant statutory and regulatory requirements that limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and that its treasury practices demonstrate a low risk approach.

4.2 The Authority is aware of the risks of passive management of the treasury portfolio and has proactively managed the investments over the year subject to cash flow restraints.

4.3 Shorter-term market rates and likely future movements of interest rates predominantly determine the Authority's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

4.4 Section 5 of annex 1 shows the returns for 2006/07.