

## Treasury Management – Outturn Report 2006/07

### 1 THE ISSUE

- 1.1 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2006/07

### 2 RECOMMENDATION

- 2.1 That the Council Executive accepts the treasury management report to 31<sup>st</sup> March 2007 prepared in accordance with the CIPFA Treasury Code of Practice and notes the performance.

### 3 FINANCIAL IMPLICATIONS

- 3.1 Included in the report.

### 4 TREASURY PERFORMANCE

- 4.1 An amount of £5.06m was included in the Council's 2006/07 revenue budget for the cost of borrowing<sup>1</sup>. A virement was agreed at the Council Executive's April meeting for St John's Court which had the net effect of decreasing this budget to £5.00m. A further transfer of £700k was agreed as part of the funding of the Council's Exceptional Risk Reserve given a revised budget of £4.3m. Latest projections of borrowing costs and interest income from temporary investments indicate a potential year end under-spend of around £1.65m against the revised budget. There is also an under-spend of £68k in respect of the Ex-Avon Debt administered by Bristol City Council. The main factors causing the under-spend are as follows:-

- The budget for borrowing and the Minimum Revenue Provision (MRP) for debt repayment in 2006/07 was based on a full spend of capital in 2005/06 (after the re-phasing of £10m to 2006/07 based on the budget monitoring information available at that time). The year end position for 2005/06 included further capital spend slippage of £9m into 2006/07 which resulted in a lower MRP in 2006/07.
- In line with the annual borrowing strategy, further borrowing was taken out during the financial year in support of the Council's capital programme due to long term interest rates falling to, or below, target levels. Capital spend for 2006/07 is only 81.5% of the annual budget. The Council also made a decision in February to generate additional capital receipts of £10m prior to the financial year end as part of its budget strategy for 2007/08. Both these factors have resulted in the Council having larger cash balances than projected which have been invested short term. The interest receipts have contributed to the underspend, average interest rate earned on the Council's investments in the second half of the financial year were around 1.00% higher than the last £20m of borrowing which was taken at 4.10%.

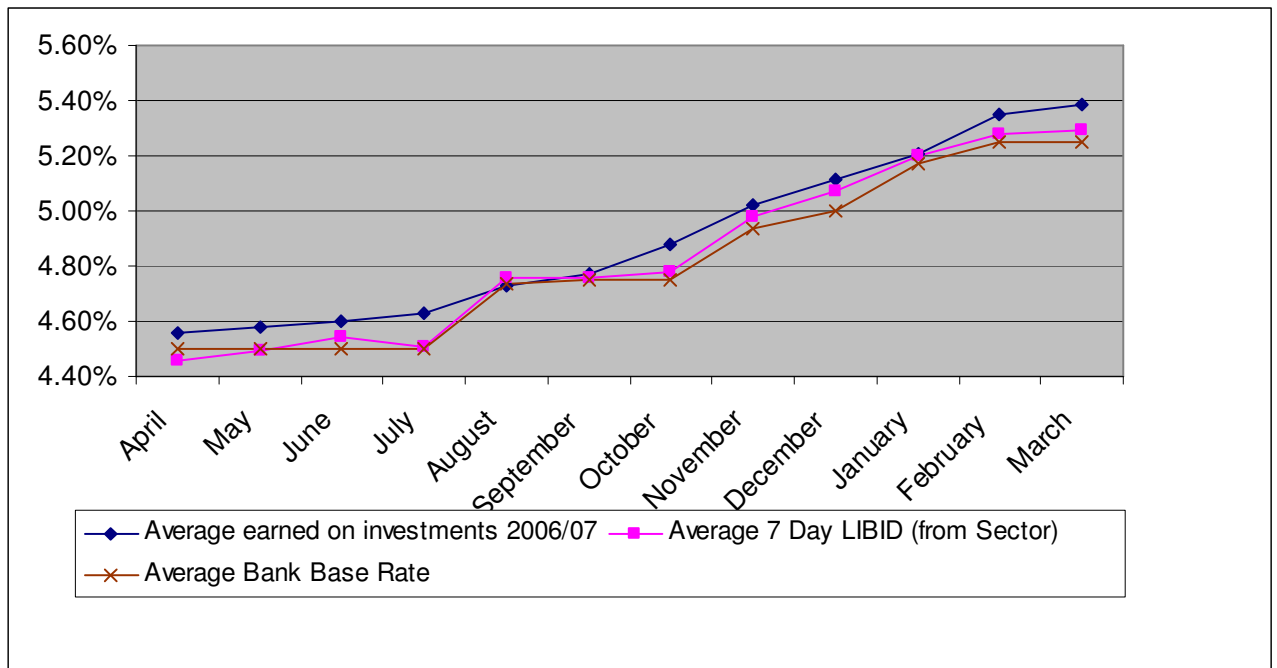
<sup>1</sup> This excludes the Council's proportion of debt relating to the former Avon County Council for which £2.05m is included in the 2006/07 budget.

## INVESTMENT OUTTURN 2006/07

4.2 The Council's investment position as at 31<sup>st</sup> March 2007 and performance in 2006/07 is given in Annexes 1 and 2. In line with the Annual Investment Strategy, investments undertaken were temporary short term investments made with reference to the core balance and cash flow requirements.

4.3 Gross interest earned for 2006/07 totalled £2.550m (including £0.087m from Somer Community Housing in respect of interest earned on Right to Buy housing sales). Net interest, after deduction of amounts due to the pension fund, schools and other internal balances, is £0.952m. The average rate of interest earned on investments over this period was 4.91%, which is 0.07% above the benchmark rate of average 7 day LIBID (4.84%). The following graph shows the average interest rate earned compared to average 7 day LIBID and average Bank Base Rate:

**Chart 1: Comparison of average interest rate achieved on investments – 2006/07**



## BORROWING, DEBT RE-SCHEDULING & ACCOUNTING

4.4 The Council's external borrowing as at 31<sup>st</sup> December 2006 is detailed in Annex 3. The following borrowing was taken out in 2006/07 in line with the treasury management strategy to take long dated borrowings in the first half of the year before PWLB rates rise:

- £10m PWLB loan – duration 47 years – interest rate = 4.25% - borrowing date = 19<sup>th</sup> July 2007
- £20m PWLB loan – duration 48 years – interest rate = 4.10% - borrowing date = 2<sup>nd</sup> October 2007

4.5 As a comparative performance indicator, the average PWLB maturity loan interest rates for the 45-50 years duration range in 2006/07 was 4.27%, the above

borrowing undertaken by the Council equates to an average rate of 4.15%, this is equivalent to £36,000 savings against the annual PWLB average rate.

4.6 On 19<sup>th</sup> December, due to increases in the 25-30 year PWLB rates to 4.45%, an opportunity arose to replace a £10m loan which had 28 years and five months left to run at 4.45% interest rate with a £10m with a 46 year maturity at 4.25% interest. No penalty was incurred for the early repayment (due to the 25-30 year PWLB interest rate matching the rate at which the loan was initially taken out) and the interest savings net of arrangement fees were £2,000 for 2006/07 with full year ongoing savings of £20,000 from 2007/08.

4.7 CIPFA have issued a new draft Statement of Recommended Practice (SORP 2007) which includes proposals to integrate Financial Reporting standards FRS25 & FRS26 into Local Authority accounting. These proposals affect the accounting treatment of premiums and discounts from loan restructuring and interest on stepped LOBO's (Lender Option, Borrower Option Loans). The guidance in relation to stepped LOBO's (loans where there is an initial lower fixed rate of interest on the loan which then steps up to a higher rate of interest) is that interest should be evened out over the contractual period of the loan. This is different from the Council's current treatment which evens out interest over the estimated life of the loan (estimated life = low interest fixed period plus 5 years). The treatment was agreed following discussions with external audit. DCLG has written to all local authorities indicating that they will introduce regulations during 2007/08 that negate the need to make any prior year adjustments in relation to this change. Any financial impact of the change will be reported in monitoring reports during 2007/08 once the final SORP is issued. Current estimates are that the effects on 2007/08 could be around £60-£80k in extra interest charges over budget.

## **TREASURY MANAGEMENT & PRUDENTIAL INDICATORS**

4.8 Performance against the Treasury Management & Prudential Indicators agreed as part of the annual Treasury Management Strategy is provided in Annex 4. The outturn position is within all the limits agreed in February 2006 as shown in Annex 4.

## **5 RISK MANAGEMENT**

5.1 The Council's lending & borrowing list was last reviewed at the start of this financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants SECTOR.

## **6 RATIONALE**

6.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

## **7 OTHER OPTIONS CONSIDERED**

7.1 None

## **8 CONSULTATION**

8.1 None

## 9 REASONS FOR URGENCY

9.1 Not urgent.

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<b>Background papers</b>	<i>Treasury Management Strategy &amp; Annual Investment Plan 2006/07</i>

## APPENDIX 9 - ANNEX 1

### The Council's Investment position at 31<sup>st</sup> March 2007

	Balance at 31 <sup>st</sup> March 2006
	£'000's
Notice (instant access funds)	26,000
Up to 1 month	6,000
1 month to 3 months	10,000
Over 3 months	5,000
<b>Total</b>	<b>47,000</b>

The investment figure of £47 million is made up as follows :

	£'000's
B&NES Council	15,256
School's	11,996
Pension Fund	19,748
<b>Total</b>	<b>47,000</b>

The Council had an average net positive balance of £19.8m during the period April 2006 to March 2007.

## APPENDIX 9 - ANNEX 2

### Average rate of return for 2006/07

	April %	May %	June %	July %	Aug %	Sept %
Average rate of interest earned	4.56%	4.58%	4.60%	4.63%	4.73%	4.77%
Average 7 Day LIBID rate (source:Sector City Watch publication)	4.46%	4.49%	4.54%	4.51%	4.76%	4.76%
Performance against 7 Day LIBID %	0.10%	0.09%	0.06%	0.12%	-0.03%	0.01%

	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Average for period %
Average rate of interest earned	4.88%	5.02%	5.11%	5.21%	5.34%	5.38%	4.91%
Average 7 Day LIBID rate	4.78%	4.98%	5.07%	5.20%	5.28%	5.29%	4.84%
Performance against 7 Day LIBID %	0.10%	0.05%	0.05%	0.01%	0.06%	0.09%	0.07%

**APPENDIX 9 ANNEX 3****Councils External Borrowing at 31st December 2006**

<b>LONG TERM</b>	<b>Amount</b>	<b>Fixed Term</b>	<b>Interest Rate</b>	<b>Variable Term</b>	<b>Interest Rate</b>
PWLB	10,000,000	30 yrs	4.75%	n/a	n/a
PWLB*	10,000,000	46 yrs	4.25%	n/a	n/a
PWLB	10,000,000	50 yrs	3.85%	n/a	n/a
PWLB	10,000,000	47 yrs	4.25%	n/a	n/a
PWLB	20,000,000	48 yrs	4.10%	n/a	n/a
Deutsche Bank	5,000,000	3 yrs	3.72%	47 yrs	4.5%
Deutsche Bank**	5,000,000	2 yrs	3.15%	48 yrs	4.5%
Eurohypo Bank	10,000,000	3 yrs	3.49%	47yrs	4.5%
<b>TOTAL</b>	<b>80,000,000</b>				
<b>TEMPORARY</b>	<b>NIL</b>				
<b>TOTAL</b>	<b>80,000,000</b>				

\* This is the PWLB loan taken out on 8<sup>th</sup> December to replace the former £10m PWLB loan which had 28 years and 5 months to run at 4.45%.

\*\* The Deutsche Bank LOBO (Lender Option / Borrower Option) reached the end of its fixed period on 8<sup>th</sup> October 2006 and reverted to the variable rate of 4.5%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

## APPENDIX 9 ANNEX 4

### Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

#### 1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	<b>2006/07 Prudential Indicator</b>	<b>2006/07 Actual as at 31st Mar 2007</b>
	£'000	£'000
Borrowing	102,000	80,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>104,000</b>	<b>80,000</b>

#### 2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	<b>2006/07 Prudential Indicator</b>	<b>2006/07 Actual as at 31st Mar 2007</b>
	£'000	£'000
Borrowing	90,000	80,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>92,000</b>	<b>80,000</b>

#### 3. Upper limit for fixed interest rate exposure

This is the maximum % of total borrowing which can be at fixed interest rate.

	<b>2006/07 Prudential Indicator</b>	<b>2006/07 Actual as at 31st Mar 2007</b>
	%	%
<b>Fixed interest rate exposure</b>	<b>100</b>	<b>83.75</b>

#### 4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping a degree of flexibility through the use of variable interest rates. This is the maximum % of total borrowing which can be at variable interest rates.

	<b>2006/07 Prudential Indicator</b>	<b>2006/07 Actual as at 31st Mar 2007</b>
	%	%
<b>Variable interest rate exposure</b>	<b>50</b>	<b>6.25</b>



### 5. Upper limit for total principal sums invested for over 364 days

Given the Councils' financial position, i.e. of having low cash balances, any lending is likely to be the result of the phasing of cash flow. Investment periods are unlikely to be more than 6 months. This is the maximum % of total investments which can be over 364 days.

	<b>2006/07 Prudential Indicator</b>	<b>2006/07 Actual as at 31st Mar 2007</b>
	%	%
<b>Investments over 364 days</b>	<b>80</b>	<b>0</b>

### 6. Maturity Structure of new fixed rate borrowing during 2006/07

	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>2006/07 Actual as at 31st Mar 2007</b>
	%	%	%
Under 12 months	50	Nil	0
12 months and within 24 months	50	Nil	0
24 months and within 5 years	50	Nil	0
5 years and within 10 years	50	Nil	0
10 years and above	100	Nil	100

### 7. Capital Financing as % of Net Revenue Stream

	<b>2006/07 Prudential Indicator</b>	<b>2006/07 Provisional as at 31st Mar 2007</b>
	%	%
Capital Financing as % of Net Revenue Stream	<b>3.91</b>	<b>2.52</b>

Note: Capital financing includes the amount paid to Bristol City Council in respect of Ex-Avon Debt and Net Revenue Stream includes Dedicated Schools Grant (DSG).

The lower projection reflects the under spend on capital financing compared to budget referred to in the main report.