

## Treasury Management – Outturn Report 2007/08

### 1 THE ISSUE

- 1.1 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2007/08

### 2 RECOMMENDATION

- 2.1 That the Cabinet accepts the treasury management report to 31<sup>st</sup> March 2008 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 £7.255m was included in the Councils 2007/08 revenue budget for capital financing costs. A number of budget transfers have taken place during the year reflecting the favourable investment income position, resulting in a final year end budget for capital financing of £6.035m.
- 4.2 A breakdown of this budget and the actual year end position is included in Annex 1. This shows an underspend at outturn of £1.7m in 2007/08. The underspend is due to the following factors:
- Minimum Revenue Provision (MRP) in respect of debt repayments underspend of £289k due to the final capital spend in 2006/07 being c£10m underspent compared to the estimate used in setting the 2007/08 budget for MRP.
  - The capital monitoring outturn as reported in Appendix 1 shows an underspend of £7.5m against the revised budget. Earlier in the financial year £18m was re-phased to future years following a review of the capital programme. These changes have meant that the council has not needed to borrow during 2007/08. The underspend on loan charges as a result of this is £416k.
  - Additional Investment income achieved over budget due to having higher cash balances available. Current forecast is for additional £1 million over the revised budget. This is made up of £270k from education capital grant receipts in advance of spend, £290k from increased interest rates and £440k from capital spend slippage and other favourable cashflow impacts.

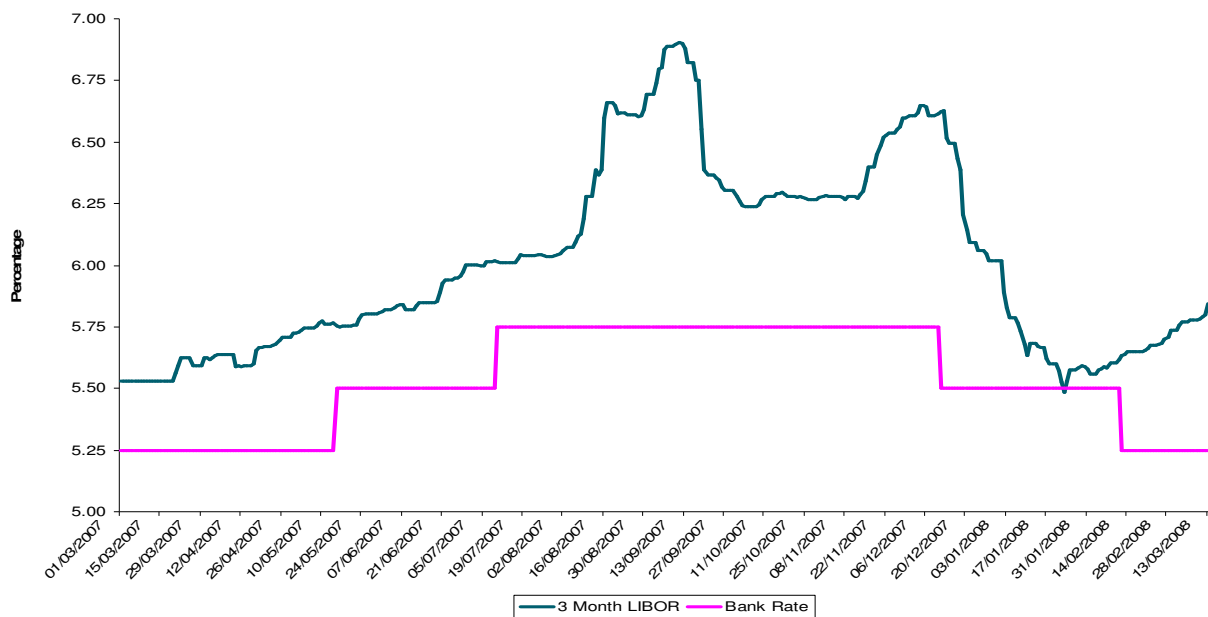
### INVESTMENT OUTTURN 2007/08

- 4.3 The Council's investment position as at 31<sup>st</sup> March 2008 and performance in 2007/08 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.

4.4 Gross interest earned for 2007/08 totalled £4.120m (including £0.097m 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 £2.382m. The average rate of interest earned on investments over this period was 5.92%, which is 0.29% above the benchmark rate of average 7 day LIBID + 0.05% (5.63%). This represents an extra £111k of interest income earned above the benchmark rate.

4.5 The following graph shows how the short interbank interest rates have moved during the year in relation to the UK bank rate.

**2007/08 Interest rates: 3 month LIBOR versus UK Bank Rate**



4.6 The graph highlights the impact of the credit crunch resulting in higher short term interbank rates. This was a result of liquidity pressures in the financial markets, due to concerns over the subprime debt holdings of financial institutions. This fear led to a massive dislocation of the markets and a virtual drying up of activity as market rates moved away from the levels set by the central banks. In September Northern Rock announced it had financial difficulties as a result of the seizing up of the wholesale lending and borrowing markets and was having to borrow from the Bank of England under its “lender of last resorts” facility. Ultimately this led to the nationalisation of Northern Rock following a public rush to remove their cash from the stricken bank.

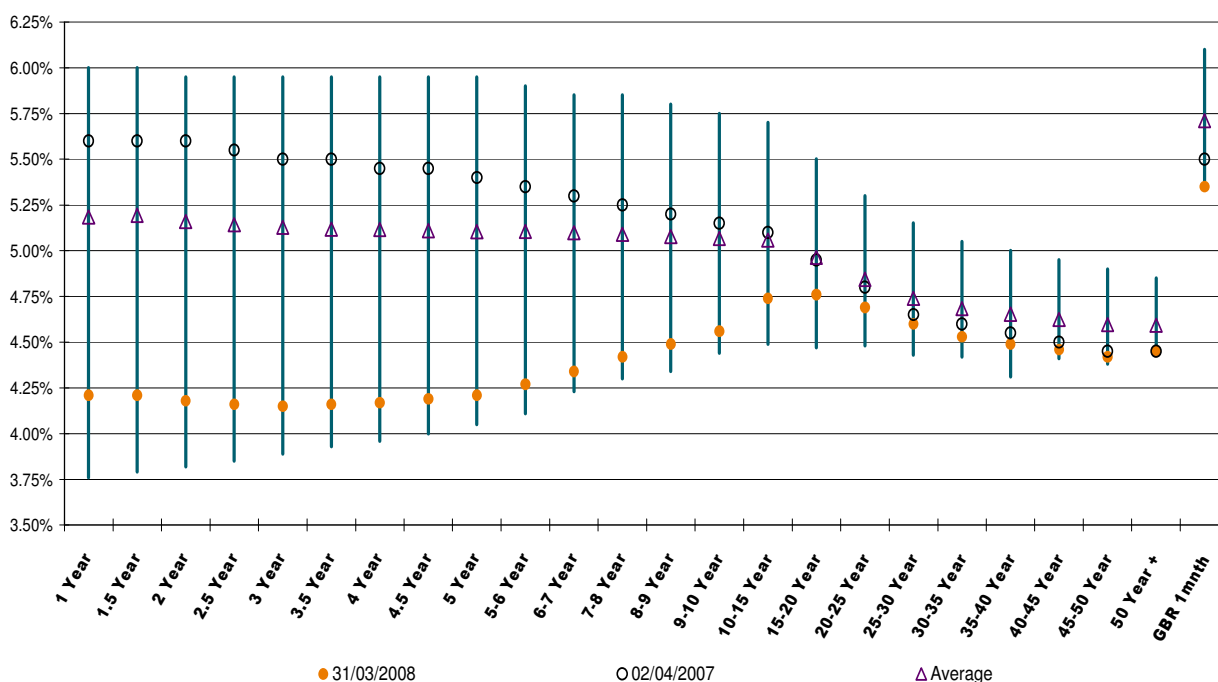
4.7 In light of these volatile market conditions the Council’s lending list was reviewed by its treasury consultants in September and was found to be in line with their recommended limits. As part of a risk management approach, market information on financial institutions as well as the normal credit ratings were closely monitored before undertaking any further fixed term investments. Following further adverse reports on the financial markets during February & March a decision was taken to restrict fixed term investments to the Government backed Debt Management Office (The highest “AAA” credit rated investment facility) to ensure security of the Council’s investments.

## BORROWING, DEBT RE-SCHEDULING & ACCOUNTING

4.8 The Council's external borrowing as at 31<sup>st</sup> March 2008 is detailed in Annex 3. As reported in paragraph 4.2 no further borrowing was undertaken in 2007/08.

4.9 The following graph shows the range (high and low points) in PWLB (Public Works Loan Board) rates for borrowing in each maturity period during the year, and individual rates at the start and end of the financial year:

### PWLB rates 2007/08



## TREASURY MANAGEMENT & PRUDENTIAL INDICATORS

4.10 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 2007 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.

## APPENDIX 10 - ANNEX 1

### Capital Financing Costs – Budget Monitoring 2007/08 (Outturn)

April to March 2008	YEAR END FORECAST			ADV/FAV
	Forecast Spend or (Income) £'000	Budgeted Spend or (Income) £'000	Forecast over or (under) spend £'000	
<b>Capital Financing</b>				
- Debt Costs	3,103	3,519	(416)	FAV
- Ex Avon Debt Costs	2,050	2,036	14	ADV
- Minimum Revenue Provision (MRP)	1,568	1,857	(289)	FAV
- Interest on Balances	(2,382)	(1,377)	(1,005)	FAV
<b>Sub Total - Capital Financing</b>	<b>4,339</b>	<b>6,035</b>	<b>(1,696)</b>	<b>FAV</b>

### The Council's Investment position at 31<sup>st</sup> March 2008

	Balance at 31 <sup>st</sup> March 2008
	£'000's
Notice (instant access funds)	6,000
Up to 1 month	41,500
1 month to 3 months	6,000
Over 3 months	5,000
<b>Total</b>	<b>58,500</b>

The investment figure of £58.5 million is made up as follows :

	£'000's
B&NES Council	35,494
School's	12,720
Pension Fund	10,286
<b>Total</b>	<b>58,500</b>

The Council had an average net positive balance of £41.5m during the period April 2007 to March 2008.

The following fixed term investments were undertaken during 2007/08 with a maturity date in the following financial year:

<b>Institution</b>	<b>Amount</b>	<b>Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>
Ulster Bank	£4m	6.17%	14/12/07	13/6/08
Depfa Bank	£6m	5.50%	08/02/08	28/04/08
Yorkshire BS	£5m	5.55%	14/02/08	28/07/08
IIB Bank	£2m	5.84%	17/03/08	12/06/08
Debt Management Office	£11.7m	5.24%	25/03/08	08/04/08
Debt Management Office	£13.5m	5.25%	26/03/08	02/04/08
Debt Management Office	£5.5m	5.11%	28/03/08	04/04/08
Debt Management Office	£4.8m	5.09%	31/03/08	07/04/08
<b>Total</b>	<b>£52.5m</b>	<b>-</b>	<b>-</b>	<b>-</b>

## APPENDIX 10 - ANNEX 2

### Average rate of return for 2007/08

	April %	May %	June %	July %	Aug %	Sept %
Average rate of interest earned	5.47%	5.56%	5.65%	5.81%	5.88%	6.14%
Benchmark: Average 7 Day LIBID rate + 0.05%	5.30%	5.48%	5.58%	5.80%	6.02%	5.97%
Performance against Benchmark	0.17%	0.08%	0.07%	0.01%	-0.14%	0.17%

	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Average for period %
Average rate of interest earned	6.27%	6.28%	6.28%	6.06%	5.85%	5.57%	5.92%
Benchmark: Average 7 Day LIBID rate + 0.05%	5.79%	5.79%	5.67%	5.51%	5.31%	5.35%	5.63%
Performance against Benchmark	0.48%	0.49%	0.61%	0.55%	0.54%	0.22%	0.29%

**APPENDIX 10 ANNEX 3****Councils External Borrowing at 31st March 2008**

<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
KBC Bank N.V*	5,000,000	3 yrs	3.72%	47 yrs	4.5%
KBC Bank N.V*	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>				

\* The KBC Bank LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have 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 10 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>2007/08 Prudential Indicator</b>	<b>2007/08 Actual as at 31st Mar 2008</b>
	£'000	£'000
Borrowing	108,000	80,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>110,000</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>2007/08 Prudential Indicator</b>	<b>2007/08 Actual as at 31st Mar 2008</b>
	£'000	£'000
Borrowing	103,000	80,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>105,000</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>2007/08 Prudential Indicator</b>	<b>2007/08 Actual as at 31st Mar 2008</b>
	%	%
<b>Fixed interest rate exposure</b>	<b>100</b>	<b>87.50</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>2007/08 Prudential Indicator</b>	<b>2007/08 Actual as at 31st Mar 2008</b>
	%	%
<b>Variable interest rate exposure</b>	<b>50</b>	<b>12.50</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>2007/08 Prudential Indicator</b>	<b>2007/08 Actual as at 31st Mar 2008</b>
	%	%
<b>Investments over 364 days</b>	<b>80</b>	<b>0</b>

LOBO's which have passed the initial fixed rate interest period are included as variable rate, although the rate can only change at 6 monthly intervals, and the Council has the right to terminate the loan at the point of any increase.

## 6. Maturity Structure of new fixed rate borrowing during 2007/08

	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>2007/08 Actual as at 31st Mar 2008</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	0

No new borrowing taken in 207/08

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

	<b>2007/08 Prudential Indicator</b>	<b>2007/08 Provisional as at 31st Mar 2008</b>
	%	%
Capital Financing as % of Net Revenue Stream	<b>3.72</b>	<b>2.30</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.