

APPENDIX 4

TREASURY MANAGEMENT STATEMENT 2006/07 AND REVIEW 2007/08

1. The following sets out the results of the Authority's borrowing and lending transactions in 2006/07 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING**

	£m	£m
Total Loans outstanding at 1 April 2006		105.0
Less Loan Repayments		-50.0
New Loans acquired	PWLB	49.0
	LOBOs	<u>5.0</u>
		54.0
Change in level of temporary loans		6.4
Loans outstanding at 31 March 2007		<u>115.4</u>

The schedule of the loans outstanding at 31 March 2007 is shown in Appendix 3.

3. **INVESTMENTS**

	£000
Short term investment at 31 March 2006	5,000
Movement in the year	0
Short term investment at 31 March 2007	<u>5,000</u>

- 3.1 The position both at the start and end of the year reflects normal financing arrangements. As reported last year the general level of balances and other reserves, including amounts due to the Executive, have been reduced slowly over the past few years. The agreed policy, because interest rates are currently low on the financial markets, is to ensure the level of short term investments are maintained as close as possible to zero. This minimises the risk of there being a loss between interest paid out and interest received.

4. COMMENT

- 4.1 There has been a steady change in the UK Bank Base Rate during 2006/07 when it changed in steps of 0.25% from an opening rate of 4.5% on 1 April 2006 to 5.25% by 31 March 2007. Regular advice was received about the financial market which was closely monitored on behalf of the Authority by Leeds City Council. Current Base stands at 5.5% with suggestions that it may rise further.
- 4.2 The money market is being constantly monitored to ensure that the Authority's bank account is maintained with a minimum cash balance (nearly always below £1,000) with temporary borrowing and investments being used as appropriate. A special business reserve account paying interest at Bank base rate is used to ensure interest from overnight funds are maximised. Although longer term, but less than 12 months, investments are made these are rare and only one such existed at the end of the year.
- 4.3 As can be seen from Appendix 3 the basic borrowing requirement for the year was relatively low at £4.5m. However, towards the end of the year additional capital payments and the payment to operators arising from the adjudicators ruling on concessionary fares required the Authority to obtain a temporary loan. That loan was short term and the Authority is again moving into credit.
- 4.4 Interest rates have again been quite volatile in the market thus the constant review indicated possibilities for some refinancing. These were taken and achieved large savings for the Authority by repaying £50m of loans and refinancing at different times and for different periods some £54m. The results have achieved discounts (profits) on the loans repaid of £724k but also, by judiciously re-borrowing, annual savings of interest of nearly £170k over the whole loan portfolio.
- 4.5 The refinancing undertaken during the year has continued the reduction in the average borrowing rate for the Authority from 4.53% to 4.37%. This is well below the level of 6.0% used in 2006/07 for calculating the District Councils' FSA which covers this debt in their RSG. On the current level of debt this reduction would be worth well over £1.7m per annum.
- 4.6 As has been stated all rates continue to be constantly monitored to see if any further refinancing can be undertaken. In the light of the anticipated rise in interest rates part of the borrowing contained £5m for the funding requirement for 2007/08. Since the end of the financial year the market has been volatile and currently longer term loans are standing at 4.8% which is far higher than expected. However, rates are expected to ease later in the year.
- 4.7 Already some activity has been possible in 2007/08. Some £30m of loans have been replaced. By switching loan periods a saving of some £80k per

annum has been achieved. It is not possible to say if further savings can be achieved in view of the currently high long term interest rates in the market. Additionally one of the £5m LOBOs has been called in by the bank concerned, although in that case it was possible to obtain a new one at a marginally reduced rate.

4.8 The prudential limits set in February are reviewed below.

5. TREASURY MANAGEMENT

5.1 All placement of funds during 2006/07 was undertaken by Leeds City Council in accordance with rules approved by the Authority adopting the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA). This ensured all investment decisions not merely sought the highest return but sought to ensure the safety of those funds and to limit the Authority's exposure to any one organisation.

5.2 As stated above the Authority's investments and cash position is monitored on a daily basis to ensure any available balances are promptly invested. The levels of Base Rates during the year moved from 4.5% to 5.25% averaging 4.82% over the year. The average investment return achieved was 4.90%.

6. PRUDENTIAL BORROWING CODE

6.1 The 2003 Local Government Act requires local authorities to have regard to the prudential code. Under this code members approve a treasury management policy and review the prudential indicators for the year.

6.2 Members at their budget meeting in February 2007 took the appropriate decisions for 2007/08. There has been little change in the overall expected level of the capital programme since that meeting although some borrowing has taken place. Members can, having regard to changing circumstances, approve amendments during the year.

6.3 Officers would recommend no change to either the treasury management policy or the prudential indicators.

6.4 It is therefore recommended that the following decisions, as taken in February 2007, are endorsed:

- 6.4.1 that the treasury management policy shall be:
 - 6.4.1.1 that the authority adopts the CIPFA code of practice for Treasury Management in the Public Sector.
 - 6.4.1.2 To operate the financing on a short term basis to minimise both investments and income to avoid taking out expensive loans and re-lending them at a lower rate of interest.
 - 6.4.1.3 That there shall be no long term investments.
 - 6.4.1.4 To utilise the expertise of the treasury management team in Leeds City Council for future years.
 - 6.4.1.5 To use the following rules for short term investments:-
 - 6.4.1.5.1 the investments shall be determined by the Chief Financial Officer
 - 6.4.1.5.2 the Chief Financial Officer shall determine the amounts and periods.
 - 6.4.1.5.3 the procedural document as approved for their Treasury Management Division by Leeds City Council shall be adopted in relation to the authority's short-term investments encompassing the council's list of approved financial organisations and the maximum lending limits per organisation, as specified in that document from time to time.
 - 6.4.1.5.4 no investment will be for a period exceeding 12 months.
 - 6.4.1.5.5 with the exception of an emergency overnight facility, there shall be no cross investments with Leeds City Council.
 - 6.4.1.6 To restrict all additional borrowing to meet capital expenditure to the level of specific approvals issued by the government.
- 6.4.2 that as there have been insufficient changes to alter the predictions the prudential limits for the current year be reiterated as set out below be:
 - 6.4.2.1 operational boundary (2007/08 - £129.4m)
 - 6.4.2.2 authorised limit (2007/08 - £139.4m)
 - 6.4.2.3 maturity loan structure as shown
 - 6.4.2.4 a variable rate loan limit of 40%
 - 6.4.2.5 a fixed loan limit of 100%

Monitoring Report

	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
Expenditure per Capital Programme				
Local Transport Plan	11,880	10,654	9,237	12,656
MyBus Scheme	1,883	0	0	0
Supertram	2,000	1,500	1,371	0
	15,763	12,154	10,608	12,656
Less forecast slippage	-2,830	-1,118	79	-2,859
	12,933	11,036	10,687	9,797
Financing				
SCA/SCE(R) - LTP # (75%)	6,196	6,627	6,987	7,348
SCE(R) - MyBus	629	0	0	0
Anticipated Borrowing	6,825	6,627	6,987	7,348
LTP Grant (25%)	2,248	2,209	2,329	2,449
Section 56 Grant (now Section 31)	1,254	0	0	0
Other funding #	2,606	2,200	1,371	0
	12,933	11,036	10,687	9,797

Start on schemes after 2007/08 will be determined by the resources available.

Calculation of Prudential Indicators:

	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
<u>AFFORDABILITY</u>				
Ratio of financing costs to net revenue stream				
Debt Charges	9,493	9,824	10,076	10,424
Levy	89,433	103,010	107,130	111,416
(Assumes a 4% increase per the Financial Strategy + £10m re national Concessionary Fares)				
Resultant ratio:	10.6%	9.5%	9.4%	9.4%

Notes: All additional debt charges should be covered by FSS received by the Constituent Authorities.

It is not appropriate to compare to Band D of Council tax as this changes per District.

PRUDENCE

Net external borrowing does not exceed the total of capital financing requirement in previous year plus the estimate of any additional financing requirement for the current and later years.

Estimate of Capital Financing Requirement

Position at 1 April	115,400	117,617	119,548	121,761
Additional borrowing requirement in year	6,825	6,627	6,987	7,348
Less debt repayments in year	-4,608	-4,696	-4,774	-4,862
Calculated Operational Boundary	117,617	119,548	121,761	124,247
Funding for up to 2 future years	12,000	12,000	12,000	12,000
Forecast Operational Boundary	129,617	131,548	133,761	136,247
Safety factor	10,000	10,000	10,000	10,000
Forecast Authorised Limit	139,617	141,548	143,761	146,247

Maturity of Loan Structure

	Minimum	Maximum
Loans up to 1 year	0%	30%
Loans between 12 and 24 months	0%	20%
Loans between 24 and 60 months	0%	50%
Loans between 5 and 10 years	0%	75%
Loans over 10 years	25%	100%

Interest Rate Structure:

Variable rate loans - maximum 40%
Fixed rate loans - maximum 100%