

## APPENDIX 4

### TREASURY MANAGEMENT STATEMENT 2009/10 AND REVIEW 2010/11

1. The following sets out the results of the Authority's borrowing and lending transactions in 2009/10 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING**

	£m	£m
<b>Total Loans outstanding at 1 April 2009</b>		<b>99.0</b>
Less Loan Repayments		-20.5
New Loans acquired	PWLB EIP	8.0
	LOBOs	<u>0.0</u>
		8.0
Change in level of temporary loans		2.0
<b>Loans outstanding at 31 March 2010</b>		<b><u>88.5</u></b>

2.1 The schedule of the loans outstanding at 31 March 2010 is shown in Appendix 3.

2.2 There were no outstanding investments at either the beginning or end of the year other than the usual overnight deposits of surplus cash balances.

3. **COMMENT**

3.1 2009/10 continued to be a difficult year for the economy and the banking sector. The UK bank base rate has remained low at 0.5% for the year. Regular advice was received about the financial market which was closely monitored on behalf of the Authority by Leeds City Council. Application of the stringent treasury management policy assisted in ensuring that the Authority's funds were held as securely as possible – a difficult achievement in an environment where the credit ratings of many recognised financial institutions remained low. This robust approach led to a challenging situation for the treasury team but was one which ensured the Authority funds were secure.

3.2 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 is maximised. Longer term investments (subject to a maximum term and exposure) are made as required to secure better returns from surplus funds but none of these existed at the end of the year. A further business reserve account was opened in the year to seek to increase the interest received on overnight and short term surplus funds.

- 3.3 As can be seen from Appendix 3 the loan portfolio has reduced during the year from £99m to £86.5m in the year. This follows a reduction in the previous year also, due to all Authority funding having been received as direct grant for the last two years. Previously capital expenditure had been financed through borrowing. The Authority therefore has no need to make further long term borrowing and is instead in a position where borrowings will need to reduce to meet the requirements of the prudential code.
- 3.4 It has previously been reported to this Committee that the instability in the banking sector had led to increased difficulties in managing the Authority's exposure risk. Previously the Authority was able to choose to invest surplus funds in a wide range of British and overseas banks with very high credit ratings and which delivered a useful interest income stream. By the start of 2009/10 the number of institutions meeting the necessary credit ratings had fallen significantly and within the UK the takeover of high street banks by other high street banks further reduced the scope available.
- 3.5 As well as it being difficult to place funds on the market the interest rates available have been extremely poor, reflecting the very low bank base rate. The policy that continued to be followed during the year was therefore to seek to repay loans if an appropriate opportunity was identified and fund any short term funding shortfall with a short term loan. This policy resulted in the repayment of £20m of PWLB loans during the year with a new EIP loan of £8m taken out. This requires capital and loan repayments within the loan period and is a flexible way of managing the Authority's requirements.
- 3.6 The two loans repaid in the year each gave rise to a premium, totalling £280k. In accordance with the appropriate accounting treatment these costs are written out over the life of the original loans and thus give rise to a small cost in each year up until 2054 of £3k.
- 3.7 The refinancing undertaken during the year has maintained the average borrowing rate for the Authority at below 4.5%.
- 3.8 As has been stated all rates continue to be constantly monitored to see if any further refinancing can be undertaken, either to take advantage of opportunities to reduce the Authority's exposure risk or to reprofile the debt to assist in making repayments in the coming years.

3.9 The prudential limits set in February are reviewed below.

#### **4. TREASURY MANAGEMENT**

4.1 All placement of funds during 2009/10 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.

4.2 As stated above the Authority's investments and cash position are monitored on a daily basis to ensure any available balances are promptly invested.

#### **5. PRUDENTIAL BORROWING CODE**

5.1 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.

5.2 Members at their budget meeting in February 2010 took the appropriate decisions for 2010/11. Any changes to the capital programme in the context of the recent spending cuts will be considered to ensure there is no resultant requirement to amend the prudential indicators. Members can, having regard to changing circumstances, approve amendments during the year.

5.3 Officers would recommend no change to either the treasury management policy or the prudential indicators at this stage but this will be kept under review during the year.

5.4 It is therefore recommended that the following decisions, as taken in February 2010, are endorsed:

5.4.1 That the treasury management policy shall be:

5.4.1.1 That the authority adopts the CIPFA code of practice for Treasury Management in the Public Sector.

5.4.1.2 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.

5.4.1.3 That there shall be no long term investments.

5.4.1.4 To utilise the expertise of the treasury management team in Leeds City Council for future years.

5.4.1.5 To use the following rules for short term investments:-

5.4.1.5.1 The investments shall be determined by the Chief Financial Officer.

5.4.1.5.2 The Chief Financial Officer shall determine the amounts and periods.

5.4.1.5.3 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.

5.4.1.5.4 No investment will be for a period exceeding 3 months.

5.4.1.5.5 With the exception of an emergency overnight facility, there shall be no cross investments with Leeds City Council.

5.4.1.6 To restrict all additional borrowing to meet capital expenditure to the level of specific approvals issued by the government.

5.4.2 That as there have been insufficient changes to alter the predictions the prudential limits for the current year be reiterated as set out below:

5.4.2.1 operational boundary (2010/11 - £108.3m)

5.4.2.2 authorised limit (2010/11 - £118.3m)

5.4.2.3 maturity loan structure as shown

5.4.2.4 a variable rate loan limit of 40%

5.4.2.5 a fixed loan limit of 100%