Report of the Service Director Finance

Agenda Item No:
Meeting: 25 June 2008

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT ANNUAL REPORT 2007-2008

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To inform members of the performance of the Treasury Management function for the financial year 2007-2008.

1.2 The key points are:

- The average cash balance was £52.8m .
- This earned an average interest rate of 5.80%, which exceeded the estimate of 5%.
- The council borrowed £13m fixed term to fund capital investment at an average rate of 4.55%, and repaid £5.277m.
- It arranged leases for vehicles and equipment of £0.209m.
- The council remained within targets set for the operational and authorised boundaries for external debt, interest rate exposure and the maturity structure of borrowing.

2. BACKGROUND INFORMATION

2.1 Treasury Management covers the management of the council's cashflow, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with these risks.

2.2 Under the council's Treasury Management Policy, approved for 2007-2008 by council 21 February 2007 (minute 1417 refers), the adoption of the CIPFA Code of Practice on Treasury Management and the Regulation to comply with the Prudential Code under Part 1 of the Local Government Act 2003, performance is reported to members on an annual basis.

Estimates

2.3 Council on 21 February 2007 set the Treasury Management Strategy for 2007-2008 based on the best available information.

2.4 The council's cash flow does not necessarily match its expenditure patterns and any excess is invested on a day to day basis with the London Money Markets to generate interest receipts for the council's Benefit:

- Targets were set to maximise the daily investment and keep the average daily balance not invested below £20k.
- Cash flows for 2007-2008 were expected to be an average daily balance of £30m.

(The estimated cashflows were based on daily cash flows achieved in the previous three financial years plus planned borrowing for capital purposes timed towards the end of the financial year.)

2.5 The prospects for interest rates were based upon the council's views on interest rates, supplemented with leading market forecasts provided by the council's brokers, advisors, Reuters and press statements. With the majority view of economists being that the base rate had peaked at 5.25%, North Lincolnshire Council's view on interest rates was that the Base Rate would begin the financial year at 5.25% and fall back to 5% by the end of December 2007, an average of 5% for the year. A budget was set to deliver interest receipts of £1.885m and revised to £2.683m in October 2007 at an average return of 0.1% below base rate.

2.6 Longer-term interest rates (25 year PWLB) were expected to range between 4.35% and 5.2%. For budget purposes the council estimated new borrowing would be at an average rate of 5%.

Outcomes

2.7 Actual performance in the year is reviewed in the following paragraphs and at Appendix 1.

Investment

2.8 The minimum and maximum amounts invested, on a daily basis throughout 2007-2008, were £34m and £70m respectively, with the average for the year £52.8m.

The council manages all of its investments in-house and investments are made in accordance with the ODPM Guidance and Code of Practice. Investments were made with the institutions identified in the council's counter party list. Given the view that interest rates would average 5% the council's strategy was to maintain only temporary, short-term investments (overnight, call, 2 day, 7 day and up to 12 months fixed).

- In 2007-2008 a total of 280 separate investments were made, for one or more nights, totalling £408m. This generated interest receipts of £3.156m in year (against an original budget of £1.885m and a revised budget of £2.683m).

- The average rate of return was 5.8% compared to an average base rate for the year of 5.54% and a target of 5%. The money market was extremely volatile throughout the financial year.

- Base Rate rose from 5.25% at the start of the financial year to 5.75% before the reduction to 5.5% in December 2007, the first reduction in over two years, and then reducing again to 5.25% in February 2008.

The rises in bank rate dampened the housing market through increases in the mortgage rate. Higher petrol and food prices also put consumer spending power under major pressure. The decision of the banks to

tighten their lending through both mortgages and credit cards, as a result of the aftermath of the sub-prime credit crisis, also served to dampen consumer expenditure. As a result, the Service Director Finance, following the fallout from the US housing market crisis and consumer confidence being lost in Northern Rock Plc, introduced further measures to reduce the risk to the authority by limiting the use of certain institutions on the agreed lenders list. These measures remain in place and continue to be monitored on a daily basis.

2.10 The average balance invested on any one night during the year was £52.8m. This process minimises the balance held in the council's bank account each night to ensure surplus cash is invested where it can earn additional interest. Performance is measured by the level of lthe balance on that account daily:

Target	Performance in Year
Maintain a balance on the bank account of less than £20k on 80% of days	Bank balance was less than £20k on 96% of days
Average bank balance for year less than £20k	Average bank balance for the year was £7k

Borrowing

2.11 The council also borrows long-term to finance its capital programme, and to maintain its debt portfolio. Outstanding debt at 31.03.2008 was £121.664m. The movement of debt during the year is shown in the table below;

	Debt 31.03.2007 £'000	Loans Raised £'000	Loans Repaid £'000	Accrued Interest £'000	Debt 31.03.2008 £'000
Market Debt	113,806	13,000	(5,277)	135	121,664

In 2007-8 the council borrowed £13m to finance new capital projects. This was borrowed from the Public Works Loan Board:

December 2007	£6.5m	4.57%	23 years
December 2007	£6.5m	4.53%	26 years

Long-term interest rates are difficult to predict so the strategy was to obtain funds from PWLB when the interest rate profile was advantageous to the council. Long and short term interest rates are monitored daily and advice is given by our Treasury advisors. Borrowings were arranged when trigger points were reached (e.g. a 25 year low was reached with no indication of further improvement).

- Long-term rates (PWLB 25 year maturity) started the year at 4.8% fluctuating between a low of 4.45% and a high of 5.3% before finishing the year at 4.64%.
- Actual borrowing averaged 4.55% saving the Council £58,500 in a full year against the target of 5%.

3. OPTIONS FOR CONSIDERATION

3.1 This is a report on past performance. There are no options for consideration.

4. ANALYSIS OF OPTIONS

4.1 This is a report on past performance. Estimates and outcomes were discussed in section 2 above.

5. RESOURCE IMPLICATIONS

5.1 Financial: The financial implications to this report are reflected in the 2007/2008 Statement of Accounts to be presented to the Audit Committee on 30 June 2008.

5.2 Staffing: There are no staffing implications to this report.

6. OTHER IMPLICATIONS

6.1 Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in England and Wales, under Part 1 of the Local Government Act 2003. There are no other direct implications arising from this report.

7. OUTCOMES OF CONSULTATION

7.1 The gathering of information process involved the Council's Brokers and Treasury advisor. Their advice and comments helped shape the strategy and decisions taken throughout the financial year

8 RECOMMENDATIONS

8.1 That the contents of this report be noted.

SERVICE DIRECTOR FINANCE

Pittwood House, Ashby Road, Scunthorpe, DN16 1AB
Author: Hazel Collingwood/Dave Lyons
Date: 11 June 2008

Background Papers used in the preparation of this report
Local Government Act 2003; CIPFA Prudential Code; Treasury Management Strategy; Treasury Management Policy Statement; Treasury Management Practices.

PRUDENTIAL GUIDELINE INDICATORS			**APPENDIX 1**
PRUDENTIAL GUIDELINE INDICATORS			
(i) estimates of capital expenditure	2007-2008 APPROVED £'000 45,825	2007-2008 RVD EST £'000 34,687	2007-2008 ACTUAL £'000 31,037
(ii) General Fund ratio of financing costs to the net revenue stream	2007-2008 ORIG EST 5.42%	2007-2008 RVD EST 4.61%	2007-2008 ACTUAL 4.14%
(iii) an estimate of the capital financing requirement	2007-2008 ORIG EST £'000 129,600	2007-2008 RVD EST £'000 118,000	2007-2008 ACTUAL £'000 116,658
(iv) the authorised limit for external debt including borrowing and other long term liabilities	2007-2008 ORIG EST £'000 209,330	2007-2008 RVD EST £'000 200,000	2007-2008 ACTUAL £'000 123,600
(v) the operational boundary for external debt including borrowing and other long term liabilities	2007-2008 ORIG EST £'000 144,600	2007-2008 RVD EST £'000 133,000	2007-2008 ACTUAL £'000 123,600
(vi) upper limit for fixed rate exposure	2007-2008 ORIG EST % 100	2007-2008 RVD EST % 100	2007-2008 ACTUAL % 94
(vii) upper limit for variable rate exposure	20	20	6
(viii) upper and lower limits for maturIty structure of borrowing			
UPPER LIMIT			
under 12 months	15	15	2
12 months and within 24 months	15	15	1
24 months and within 5 years	50	50	7
5 years and within 10 years	75	75	15
10 years and above	90	90	75
LOWER LIMIT			
under 12 months	0	0	
12 months and within 24 months	0	0	
24 months and within 5 years	0	0	
5 years and within 10 years	0	0	
10 years and above	25	25	
(ix) total principal sums invested for periods longer than 364 days	A maximum of £5m with a maturity period not exceeding 3 years	A maximum of £5m with a maturity period not exceeding 3 years	**none**