



## CABINET REPORT

<b>Report Title</b>	<b>TREASURY MANAGEMENT OUTTURN 2007-08</b>
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**AGENDA STATUS:****PUBLIC**

<b>Cabinet Meeting Date:</b>	1 September 2008
<b>Key Decision:</b>	YES
<b>Listed on Forward Plan:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Governance and Improvement
<b>Accountable Cabinet Member:</b>	Malcolm Mildren
<b>Ward(s)</b>	Not Applicable

### 1. Purpose

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- 1.1 To inform the Cabinet of the Council's performance in relation to its borrowing and investment strategy for 2007-08.

### 2. Recommendations

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- 2.1 That the Cabinet recommend to Council that they note the Council's Treasury Management Performance in 2007-08.

### 3. Issues and Choices

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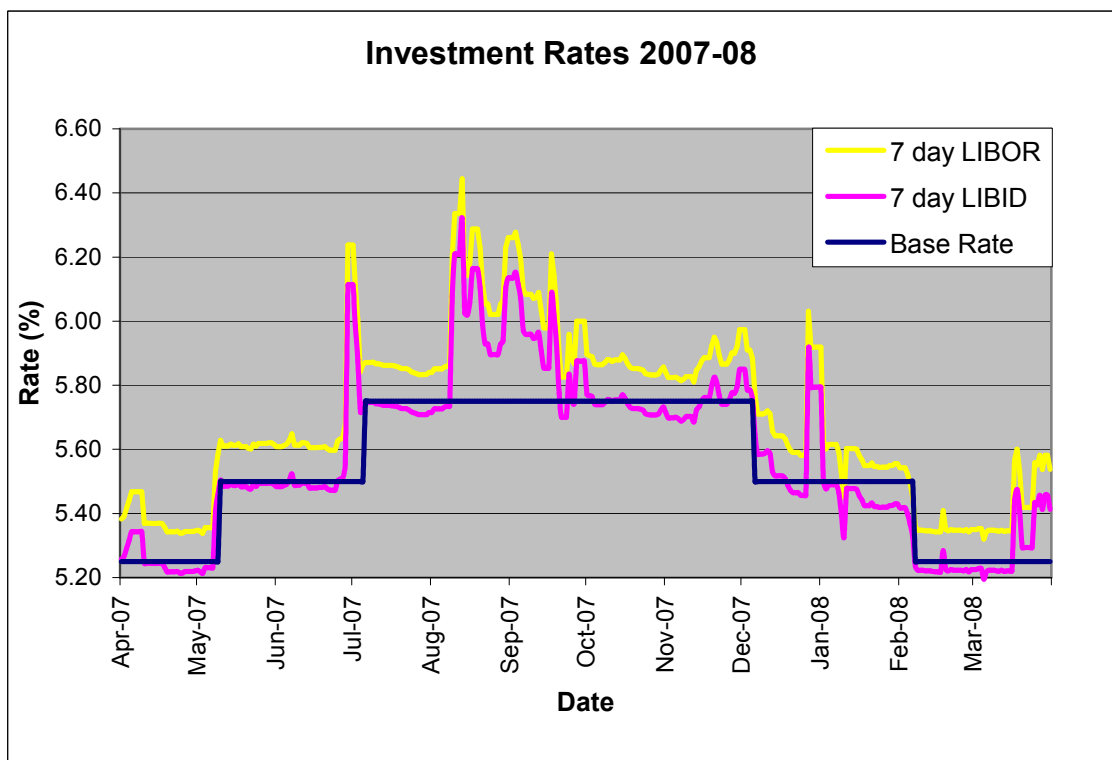
#### Background

- 3.1 The Council adopted the CIPFA Code of Practice for Treasury Management in the Public Services ("the Code of Practice") following its publication in 2001. This was formally minuted as a decision at the Council meeting of 21 January 2008.

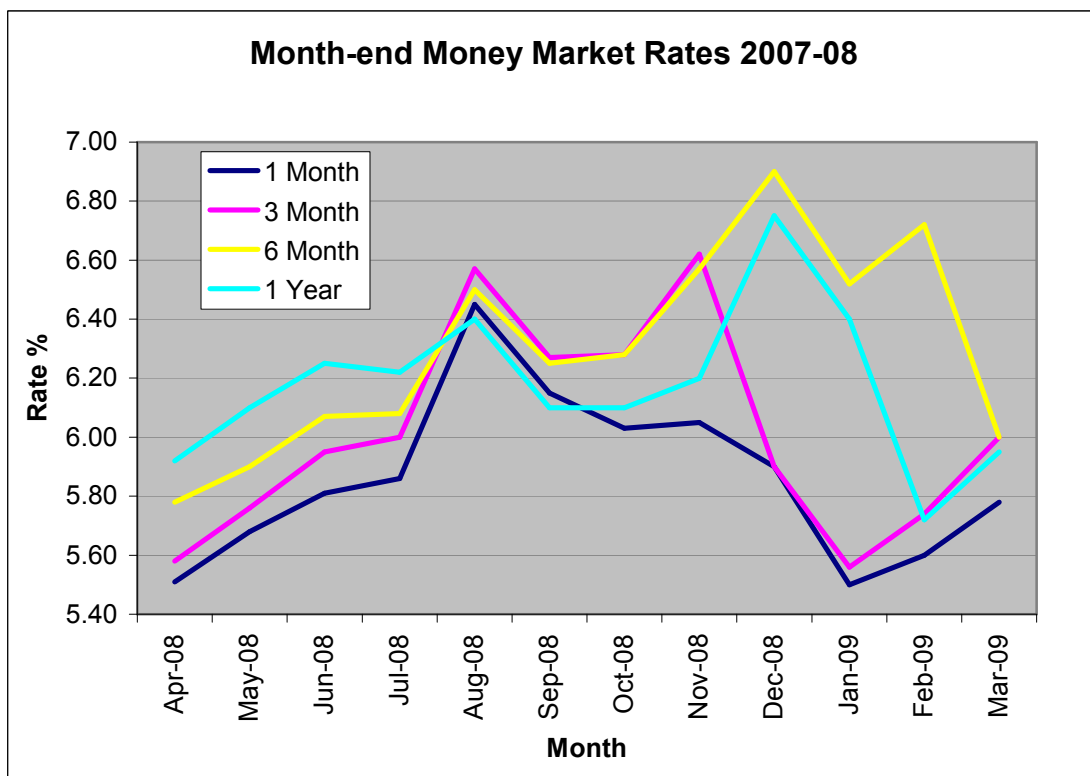
3.2 The Code of Practice recommends that a report covering the relevant activities of the preceding financial year be submitted annually to the Council.

### Interest Rates

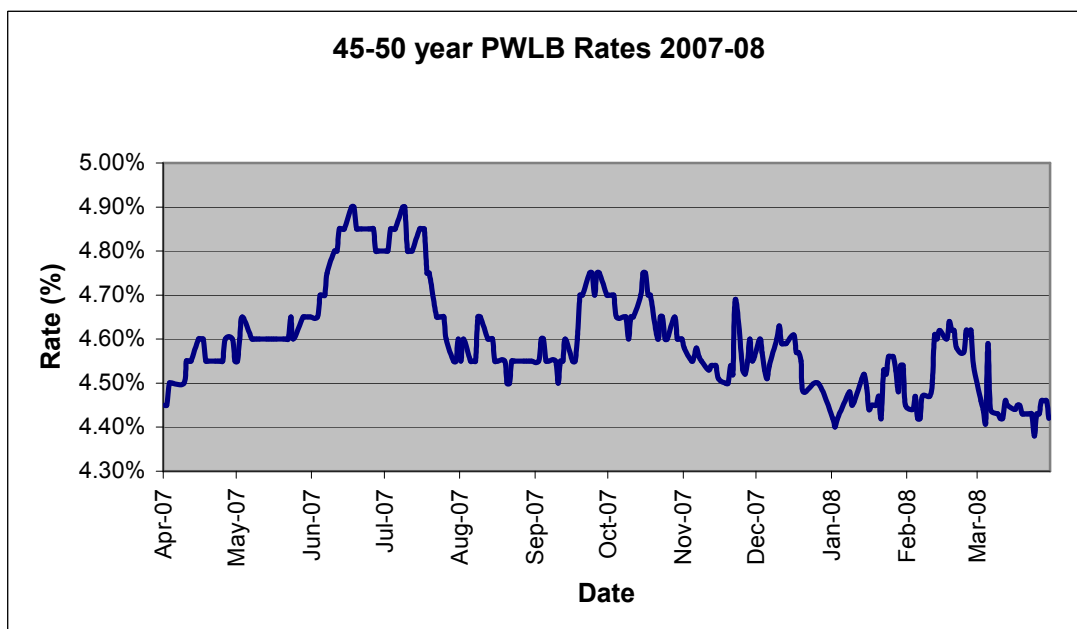
3.3 Interest rates were closely monitored during the course of the year. The bank base rate levels for 2007-08 started at 5.25%, rose during the year to a high of 5.75%, and then dropped back to their starting level by March 08. This trend was matched by the average 7 day London Interbank Bid Rate (LIBID), and the average 7 day London Interbank Offer Rate (LIBOR). This is illustrated in the graph below.



3.4 Investment rates rose in line with the bank base rate in the first half of the financial year, and the one-month and three month rates continued to broadly follow the bank base rates and the LIBID and LIBOR rates through to the year end. However the six-month and one year rates showed an upward trend to December, remaining at artificially high levels right through to February. Officers were able to take advantage of this to set up a number of 364-day investments at very favourable rates in the latter quarter of the year.



- 3.5 Long-term interest rates applicable to borrowing decisions can be illustrated by the Public Works Loan Board (PWLB) 45-50 year rate. This started the year at 4.45% and rose to a high of 4.90% in July before falling to 4.38% at the end of the year. The rates are set out in the graph below.



## Borrowing

### 3.6 Long Term Borrowing

- a) Annex A details the Council's long term debt as at 31 March 2008. The total debt outstanding is £25.9m. Of this amount, 95% (£24.6m) is in the form of money market LOBO loans, and the remaining balance of 5% (£1.3m) in the form of an annuity with English Partnerships.

No new borrowing was undertaken during the financial year.

No loans were repaid during the year other than the repayment of the principal element of the annuity with English Partnerships (£12m) due in 2007-08. The principal amount due to English Partnerships in 2008-09 (£13m) has been transferred to a current creditor, and is not included in the borrowing figures above.

No rescheduling of loans took place during the year.

- b) Under Section 3 of the Local Government Act 2003, the Council is required to set an annual affordable borrowing limit. This limit is also set as a prudential indicator – i.e. the authorised borrowing limit. This was set by Cabinet at its meeting on 3 July 2006.

Compliance is demonstrated below:

	Affordable Borrowing Limit as set 3 July 2006	Maximum Actual Amount Outstanding in Year
Overall Borrowing	£47m	£26m

- c) Annex B illustrates the Council's long-term debt maturity profile as at 31<sup>st</sup> March 2008.
- d) Annex C details the costs of financing and managing the Council's debt and investment portfolio in 2007-08. A summary is shown below:

Budget Comparison	Approved Budget 2007-08 £000	Outturn 2007-08 £000	Variance 2007-08 £000
Debt Financing & Interest	237	(769)	(1006)
Debt Management	85	109	24
Total	322	(660)	(982)

The most significant factor in the £982k variance reported above was the overachievement of investment interest against budget, due in part to the impact of favourable investment rates and in part to more proactive management of the Council's investments to achieve optimum returns.

Budgeted income of £337k from NCC for interest on long-term borrowing arising from Local Government Re-organisation was not achieved due to the repayment of these monies by NCC on 31<sup>st</sup> March 2008. The repaid sums are now included in the Council's investment portfolio.

### 3.7 Short Term Borrowing

- a) The Council has long-standing agreements with three local organisations whereby the organisations deposit amounts with the Council when they have excess funds and recall them when needed. Accounting regulations require that these be treated in the accounts as short-term borrowing.

The Council's arrangement with Orchestras Live ceased on 31 March 2008, leaving just Billing Parish Council and Northampton Volunteering Centre. The interest rate applied to these deposits is linked to the Bank of England lending rate and is below that obtained from external

investments. The year-end position on temporary borrowing, and the range of rates applied, is set out at Annex D.

## Investments

### 3.8 Investments Strategy

- a) The ODPM (now DCLG) Guidance on Local Government Investments, issued in March 2004, required Councils to set an Investments Strategy covering types of investment, liquidity issues, interest rates and prudential indicators. The Council's Investment Strategy for 2007-08 was included in the Treasury Strategy for 2007-08, approved by Cabinet at its meeting on 3 July 2006.
- b) Investments are split into 2 categories:
  - (i) Specified investments which are broadly sterling investments, not exceeding 364 days and with a high credit rating; and
  - (ii) Non-specified investments that do not satisfy the conditions for specified investments.

The Council's Investment Strategy for 2007-08 set out the Council's credit rating criteria for specified investments, and the types of unspecified investments that it might enter into, which included the use of building societies which do not have credit ratings, and investments over 364 days.

Money market investments made during the year, analysed by value, comprised 48% specified investments and 52% unspecified investments,

- c) The total value of investments at 31<sup>st</sup> March 2008 was £52.3m. All investments were placed with reference to a pre-determined lending list, in line with the investment strategy.
- d) The Council increased its use of deposit accounts during 2007-08 in order to more pro-actively manage core cash balances to increase returns whilst maintaining liquidity. Balances in deposit accounts at year-end were £5.1m, representing 10% of the overall investment portfolio.
- e) The Council holds a debenture of £100k with the Association of District Councils (Properties) Ltd (ADCP). Recent correspondence from ADCP indicates that the property to which the debenture relates was sold on 1<sup>st</sup> April 2008, and repayment of the debenture is anticipated during 2008-09.
- f) The Council does not hold any financial instruments listed or publicly traded on a stock exchange.

- g) Most short term investments are held for cashflow purposes. The average period of investments in the year (excluding instant access deposit accounts) was 86 days.
- h) Annex E analyses performance by plotting the Council's average monthly investment rate achieved against the average 7 day London Interbank Bid Rate (LIBID), and the average 7 day London Interbank Offer Rate (LIBOR).
- i) Outturn information on the Prudential Indicators relating to treasury management is shown in Annex F.

## **Accounting & Audit Issues**

- 3.9 The 2007 CIPFA Statement of Recommended Practice (2007 SORP) brought in new and extensive requirements for the accounting treatment and reporting framework for financial instruments, including debt and investment. These requirements have been fully complied with in the Council's Statement of Accounts.
- 3.10 All outturn figures contained in this report are subject to external scrutiny, through the annual audit of the Council's Statement of Accounts.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

- 4.1.1 The Treasury Strategy report sets the Council's policy on its debt and investment portfolios over the next and following two financial years. It is revisited annually and reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2007-08 was approved by Cabinet at its meeting on 3 July 2006.

### **4.2 Resources and Risk**

- 4.2.1 The risk management of the treasury function is considered as an integral part of day-to-day treasury activities, and is also specifically covered in the Council's Treasury Management Practices (TMPs).

### **4.3 Legal**

- 4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

## **4.4 Equality**

4.4.1 An Equalities Impact Assessment (EIA) has been carried out on the Council's Treasury Strategy for 2007-08. This is attached at Annex G. The EIA screening process has indicated that a full EIA is not required. There are no specific equalities issues or implications associated with this report.

## **4.5 Consultees (Internal and External)**

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisers, Sector, and with the Portfolio holder for Finance.

## **4.6 How the Proposals deliver Priority Outcomes**

4.6.1 The Comprehensive Performance Assessment (CPA) Use of Resources for the year ended 31 March 2008 requires the Council to "keep its treasury management strategy under review and monitor against it. The strategy [should] reflect the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services"

## **4.7 Other Implications**

4.7.1 No other implications have been identified.

## **5. Background Papers**

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### **Statute, Regulation and Guidance**

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008

CIPFA Prudential Code for Capital Finance in Local Authorities 2003



CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

**Reports to Cabinet & Council**

Capital Programme 2006-07 Monitoring – Report to Cabinet 3 July 2006 (Contains the Council's Treasury Strategy for 2007-08)

Prudential indicators for Capital Finance 2007-08 - Position as at 30 November 2007 - Report to Council 21 January 2008 (Contains formal adoption of the CIPFA Code of Practice for Treasury Management)

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