



Report of the DIRECTOR OF RESOURCES

Executive Board

Date: 22nd August 2007

Subject: TREASURY MANAGEMENT ANNUAL REPORT 2006/07

Electoral Wards Affected:

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

yes

Not Eligible for Call In

(Details contained in the report)

EXECUTIVE SUMMARY

1. This is the Treasury Management annual report for 2006/07, as required under the Prudential Code which was introduced in April 2004. Prior to this, local authority borrowing was restricted by Government legislation, these restrictions were lifted by the introduction of the Prudential Code together with the requirement to make revenue provision for debt repayment in the Housing Revenue Account. This created a mechanism to stimulate capital investment, encouraging local authorities to borrow whilst interest rates were at all time lows.
2. The Council's level of external debt varies daily depending on cash flow and the level of creditors and debtors. This report shows that net external debt at 31st March 2006 was £1,195m, lower than originally anticipated at the start of the year due to variations in capital programme and levels of revenue balances. To put this into context the Council's assets were valued at £3.7bn as at 31st March 2006.
3. The level of debt has remained within the Authorised limit for external debt set by the Council in February 2006 and revised in November 2006.
4. Due to low long term interest rates, loans have been secured at lower rates than anticipated during the year. This, together with some restructuring of market loans has enabled revenue savings of £22.2m to be made.
5. The average rate of interest paid on the Council's external debt for 2006/07 has fallen to 4.78% compared to 5.35% for 2005/06.

1 Purpose of This Report

- 1.1 This report provides members with a review of Treasury Management Strategy and operations in for 2006/07.

2 Background Information

- 2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 2.2 In accordance with the prudential code, the Council has also formally adopted the CIPFA Code of Practice on Treasury Management which requires that policy statements are prepared for approval by the Council at least twice a year. The Policy and Strategy statement for 2006/07 was approved by the Executive Board on 17th February 2006 and by full Council on 21st February 2006 and a 6 monthly update on progress was considered by the Executive Board on 15th November 2006. 2006/07 progress was again noted as part of the Treasury Management Strategy Report 2007/08 at the Executive Board meeting on the 9th February 2007.

3 Main Issues

3.1 Review of Strategy 2006/07

- 3.1.1 Table 1 below, shows that net borrowing in 2006/07 was £1,195m by the end of 2006/07, below expectations in February 2007. This lower requirement was due to slippage on the capital programme and early receipt of capital receipts.

Table 1

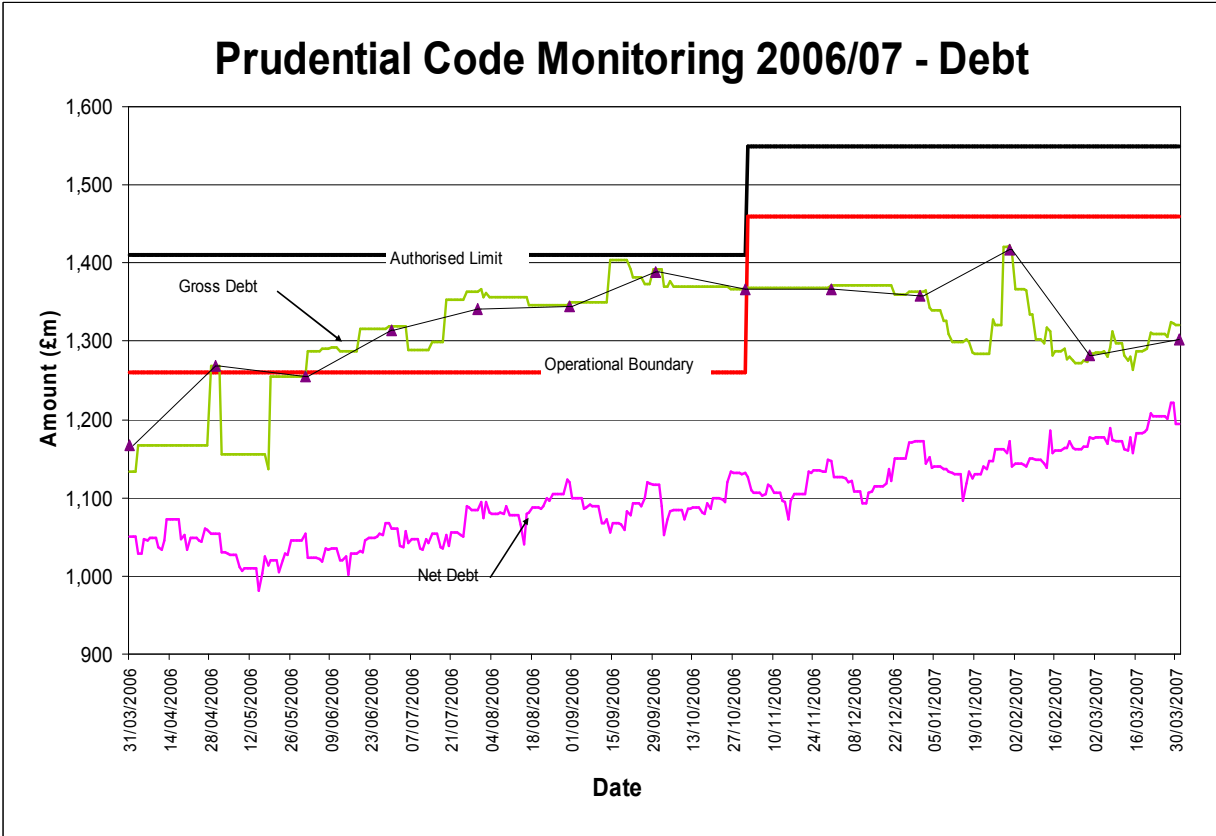
ANALYSIS OF BORROWING 2006/07	2006/07 Feb 07 £m	2006/07 This Report £m
Net Borrowing at 1 April	1,054	1,054
New Borrowing for the Capital Programme – Non HRA	113	87
New Borrowing for the Capital Programme – HRA	118	111
Debt redemption costs charged to Revenue (Incl HRA)	(21)	(25)
Reduced/(Increased) level of Revenue Balances	(3)	(32)
Net Borrowing at 31 March	1,261	1,195
Capital Financing Requirement (Maximum Net Debt)	1,347	1,310
* Comprised as follows		
Long term borrowing		
Fixed	1302	1,259
Variable	40	40
Short term Borrowing	19	22
Total External Borrowing	1,361	1,321
Less Investments	(100)	(126)
Net External Borrowing	1,261	1,195
% borrowing funded by short term and variable rate loans	5%	5%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

3.1.2 Appendix A shows the prudential limits set by the Council in February 2006 together with revisions reflected in the February 2007 report and the outturn for 2006/07.

3.1.3 Graph 1, below shows the level of debt during 2006/07 and its comparison with the prudential limits on debt set by the Council in February 2006 and revised by the Council in November 2006. The authorised limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2006/07. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the authorised limit from being breached. As capital programme, capital financing requirement and cash flow estimates were revised during 2006/07, both the operational boundary and authorised limits were increased in November 2006.

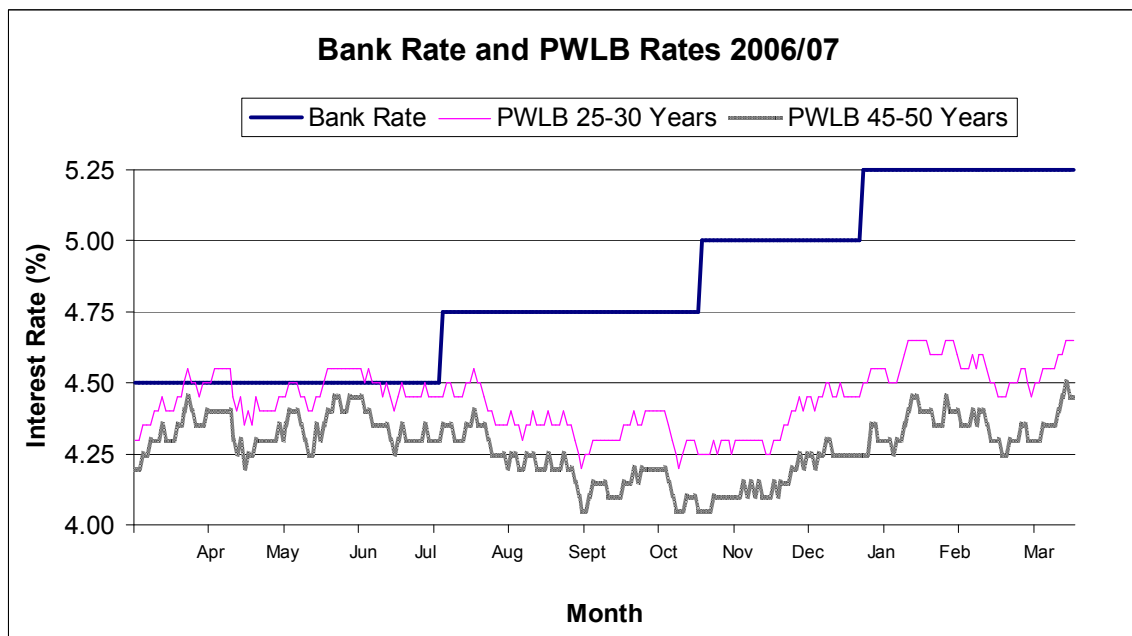
Graph 1



3.1.4 As reported in the Treasury Management Strategy 2007/08 on 9th February 2007, The Bank of England raised the bank rate (formerly known as the base rate) upwards by 0.25% in August 2006, November 2006 and February 2007. In April 2006 the 45-50 year PWLB loan rate stood at 4.20%, fell to 4.05% in late September and again touched this level in early November. Since then the rate has tracked upwards to close the year at 4.45%. This trend was against that experienced in late 2005/early 2006, when gilts hit all time lows, even though demand for gilts was strong. Levels did not drop in response to increasing fears over the path of inflation. Graph 2, below illustrates these movements. In March the Consumer Prices Index of inflation hit 3.1% forcing the Governor of the Bank

of England to write an open letter of explanation to the Chancellor of the Exchequer as to why the inflation target of 2.0% had been breached by more than 1%.

Graph 2



- 3.1.5 Monitoring of the long term interest rates has presented opportunities to restructure £646.3m of loans as shown in Table 2 to generate current and future year revenue savings. This included £551.3m of PWLB loans and a further £95m of market loans. The restructuring of market loans also had the objective of removing the number of opportunities for the lender to vary the interest rate on the loans and thereby reduce volatility.
- 3.1.6 New replacement borrowing totaled £592m, which was £54.3m less than repaid. This was due to a combination of capital programme slippage, capital receipts being realised in 2006/07 rather than 2007/08 and an advantageous cash flow position at the year end.
- 3.1.7 Market conditions have enabled restructuring of long term debt to generate savings totaling £22.2m, of which £18.968m related to discounts achieved on the premature repayment of loans. These savings are reported in accordance with current and proposed interpretation of accounting changes governing premiums and discounts on the rescheduling of loans.
- 3.1.8 To meet the borrowing requirement for the 2006/07, new loans of £165m were taken, £130m from PWLB and £35m in market loans, which were arranged before 01/04/06. These market loans are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allow the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan. Details of new borrowing for 2006/07 undertaken during the year are set out in Table 3.

Table 2

Rescheduling 2006/07								
Premature Repayments					New Replacement Borrowing			
Date	Amount (£m)	Original Rate	Discount Rate	Discount (£m)	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB					PWLB			
02/05/06	14	4.625	4.80	0.257	28/04/06	22	44.5	4.4
02/05/06	23	4.5	4.65	0.448	28/04/06	22	46	4.4
02/05/06	12	4.5	4.65	0.245	28/04/06	26	47	4.4
02/05/06	5	4.55	4.65	0.072	28/04/06	22	48	4.4
02/05/06	30	4.5	4.65	0.655	28/04/06	22	50	4.4
02/05/06	30	4.5	4.65	0.660	19/05/06	20	35.5	4.3
18/05/06	20	4.6	4.75	0.378	19/07/06	30	47	4.25
06/07/06	30	4.35	4.55	0.960	25/01/07	27	45	4.25
21/09/06	30	4.35	4.9	0.899	25/01/07	18	46	4.25
22/12/06	12.3	4.15	4.35	0.464	29/01/07	54	45	4.3
03/01/07	25	4.25	4.5	0.948	29/01/07	46	45	4.3
08/01/07	20	4.625	4.65	0.066	13/02/07	27	46	4.35
08/01/07	25	4.55	4.65	0.354	08/03/07	56	47.5	4.25
08/01/07	30	4.45	4.5	0.239				
18/01/07	20	4.55	4.55	0				
18/01/07	20	4.5	4.55	0.157				
02/02/07	20	4.75	4.8	0.134				
02/02/07	10	4.8	4.8	0				
02/02/07	30	4.75	4.8	0.208				
02/02/07	30	4.75	4.8	0.210				
02/02/07	20	4.6	4.65	0.155				
07/02/07	10	3.7	4.45	1.414				
07/02/07	14	3.7	4.45	2.018				
07/02/07	10	3.7	4.4	1.375				
07/02/07	11	3.7	4.45	1.555				
07/02/07	15	3.85	4.45	1.685				
19/02/07	15	3.85	4.4	1.640				
23/02/07	20	3.95	4.4	1.769				
Sub Total	551.3			18.968		392		
LOBOs					LOBOs			
24/04/06	5	4.25			24/04/06	5	60	4.15
24/04/06	10	4.81			24/04/06	10	60	4.81
28/04/06	5	3.995			24/04/06	5	60	3.995
02/05/06	20	3.98			02/05/06	10	60	3.96
08/05/06	5	4.75			02/05/06	10	60	3.96
19/09/06	15	4.4			08/05/06	5	60	4.33
21/09/06	20	4.5			01/06/06	10	60	3.68
21/09/06	15	4.34			01/06/06	10	60	3.78
					01/06/06	10	60	3.83
					19/09/06	15	70	4.25
					21/09/06	20	70	4.45
					21/09/06	15	70	4.24
					29/03/07	25	70	3.65
					29/03/07	15	70	3.695
					28/03/07	20	70	3.98
					28/03/07	15	70	3.95
Sub Total	95					200		
Total	646.3			18.968		592		

3.1.9 As reported in November 2006 and February 2007, historically low PWLB interest rates in the 45-50 year band presented the opportunity to borrow in advance a substantial part of the 2007/08 borrowing requirement, investing the amounts until they are required. Details are shown in Table 3.

Table 3

New Borrowing for 2006/07 Requirement				
Date	Source	Amount (£m)	Term (Years)	Interest Rate (%)
03/04/06	Market Loan	10	60	3.52
03/04/06	Market Loan	10	60	3.58
03/04/06	Market Loan	5	60	3.40
03/04/06	Market Loan	10	60	3.38
16/06/06	PWLB	30	50	4.25
19/07/06	PWLB	25	46	4.25
14/09/06	PWLB	30	49	4.20
14/09/06	PWLB	25	48	4.20
29/09/06	PWLB	20	48	4.05
		165		
Pre Funding for 2007/08 Requirement				
Date	Source	Amount (£m)	Term (Years)	Interest Rate (%)
19/05/06	PWLB	20	43	4.25
19/05/06	PWLB	20	44	4.25
19/05/06	PWLB	30	50	4.25
19/05/06	PWLB	30	42	4.25
		100		

3.1.10 Total borrowings undertaken in 2006/07 amounted to £857m which is a substantial increase on new borrowings of £275m undertaken in 2005/06. Combined with total repayments of £646.3m total turnover of long-term borrowing amounted to £1,503m in 2006/07.

3.2 Interest Rate Performance

3.2.1 The average rate of interest paid on the Council's external debt for 2006/07 was 4.78% compared with 5.35% in 2005/06 and 5.67% in 2004/05. This is below the average for metropolitan districts for 2005/06 as shown in Appendix B. Appendix C analyses debt as at 31st March 2007 by interest rate bands and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix C.

4 Implications For Council Policy And Governance

- 4.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 4.2 The Code of Practice requires that policy statements are prepared for approval by the Council at least twice a year. This treasury management report for 2006/07 seeks approval in accordance with the code.

5 Legal And Resource Implications

- 5.1 The treasury management annual report for 2006/07 recognises the final borrowing undertaken to fund the capital programme of both General Fund and HRA. The revenue costs of this borrowing have been met within the revenue account and were reported in the revenue outturn report presented to Executive Board on 13th June 2007.

6 Conclusions

- 6.1 The treasury management annual report 2006/07 details the transactions undertaken in 2006/07 to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in significant savings to the revenue budget.

7 Recommendations

That the Executive Board :

- 7.1 Note the treasury management outturn position for 2006/07.

Associated documents:

- a) Treasury Management Policy and Strategy Statements 2006/07 - Executive Board 17th February 2006.
- b) Treasury Management Borrowing Limits – Executive Board 18th October 2006.
- c) Treasury management Update 2006/07 – Executive Board 15th November 2006.
- d) Treasury Management Strategy 2007/08 – Executive Board 9th February 2007.

Leeds City Council - Prudential Indicators 2006/07

No.	PRUDENTIAL INDICATOR	Feb 06 Report	Feb 07 Report	Outturn (This Report)
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
1	Ratio of Financing Costs to Net Revenue Stream General Fund - Excluding DSG (Note1)	10.19%	8.01%	5.31%
2	HRA	14.21%	14.94%	14.77%
3	Impact of Unsupported Borrowing on Council Tax & Housing Rents increase in council tax B7(band D, per annum) (Note 2)	£ . P 34.34	£ . P 37.24	£ . P 35.43
4	increase in housing rent per week	0.00	0.00	0.00
5	Net Borrowing and the capital financing requirement (Note 3)	OK	OK	OK
Estimate of total capital expenditure				
6	Non HRA	206,077	198,108	182,416
7	HRA	139,322	170,227	161,696
	TOTAL	345,399	368,335	344,112
Capital Financing Requirement (as at 31 March)				
8	Non HRA	£'000 655,266	£'000 694,580	£'000 667,891
9	HRA	619,920	652,373	642,095
	TOTAL	1,275,186	1,346,953	1,309,986

No.	PRUDENTIAL INDICATOR	£'000	£'000	£'000
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS				
10	Authorised limit for external debt - (Note 4) borrowing other long term liabilities TOTAL	1,410,000 40,000 1,450,000	1,550,000 40,000 1,590,000	1,550,000 40,000 1,590,000
11	Operational boundary - (Note 4) borrowing other long term liabilities TOTAL	1,260,000 30,000 1,290,000	1,460,000 30,000 1,490,000	1,460,000 30,000 1,490,000
14	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
17	Upper limit for total principal sums invested for over 364 days (Note 5) (per maturity date)	100,000	150,000	150,000

16	Maturity structure of fixed rate borrowind during 2006/07	Lower Limit	Cumulative Upper Limit	Actual 31/03/2006
	under 12 months	0%	30%	0%
	12 months and within 24 months	0%	30%	7%
	24 months and within 5 years	0%	40%	15%
	5 years and within 10 years	0%	50%	4%
	10 years and above	25%	90%	74%

Notes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.
- The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.
- In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.
- Limits are the same as the Feb 07 report which reflected the review in the Treasury Borrowing Limits Report in Oct 06
- Prudential indicator 12 relates to actual external debt at 31st March, which is reported in the main body of this report.
- Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003.

Average Rate of External Debt 2005/06			
Authority Name	Rank	Total Debt at 31.3.06 £m	Gross Average Rate of Interest on Total Debt 2005/06 %
Walsall	1	197	4.15
Sunderland	2	175	4.27
Knowsley	3	115	4.83
Sefton	4	199	5.15
Stockport	5	226	5.19
Leeds	6	1,054	5.35
Solihull	7	170	5.41
Bolton	8	332	5.51
Tameside	9	177	5.64
Trafford	10	93	5.84
Liverpool	11	864	5.91
Calderdale	12	90	5.99
Salford	13	507	6.03
St Helens	14	132	6.07
Weighted Average Metropolitan			6.13
Wakefield	15	220	6.48
Manchester	16	1,208	6.49
Dudley	17	426	6.51
Kirklees	18	430	6.71
Newcastle upon Tyne	19	610	6.80
Rotherham	20	306	7.09
Sheffield	21	789	7.27
Wigan	22	368	7.49
Birmingham	23	1,384	7.60
Gateshead	24	288	8.05
South Tyneside	no return		
Bury	no return		
Bradford	no return		
Barnsley	no return		
Coventry	no return		
Doncaster	no return		
North Tyneside	no return		
Oldham	no return		
Rochdale	no return		
Sandwell	no return		
Wirral	no return		
Wolverhampton	no return		

Debt as at 31st March 2007

Appendix C

Table below shows a breakdown of the maturity structure of the authority giving totals within interest bands

Year Ending 31st March	to 4%	4% to 4.99%	5% to 5.99%	6% to 6.99%	7% to 7.99%	Greater Than 8%	Principal
Long Term Loans including PWLB and LOBOs to the first option date							
2008	60,003	40,000	20	-	-	9	100,032
2009	45,000	35,000	-	-	-	-	80,000
2010	45,000	35,000	-	-	-	-	80,000
2011	30,000	20,000	-	-	-	-	50,000
2012	15,000	20,000	-	-	-	-	35,000
2013	20,000	-	-	-	-	-	20,000
2014	-	-	-	-	-	395	395
2015	-	15,000	-	-	-	1,575	16,575
2016	-	15,000	-	-	-	-	15,000
2017	-	-	-	-	-	19,400	19,400
2018	-	-	-	-	30,000	-	30,000
2020	-	-	-	-	-	1,280	1,280
2022	-	-	20,000	-	81	202	20,283
2024	-	-	-	3,355	-	-	3,355
2025	-	-	25,000	-	-	-	25,000
2026	-	-	25,000	-	-	-	25,000
2027	-	-	20,000	-	-	-	20,000
2028	-	-	38,500	-	-	-	38,500
2034	-	49,000	-	-	-	-	49,000
2035	-	20,000	-	-	-	-	20,000
2043	-	20,000	-	-	-	-	20,000
2049	-	30,000	-	-	-	-	30,000
2050	-	20,000	-	-	-	-	20,000
2051	-	20,000	-	-	-	-	20,000
2052	-	122,000	-	-	-	-	122,000
2053	-	79,000	-	-	-	-	79,000
2054	-	96,000	-	-	-	-	96,000
2055	-	98,000	-	-	-	-	98,000
2056	-	55,000	-	-	-	-	55,000
2057	-	82,000	-	-	12,750	-	94,750
2058	-	-	-	-	20,000	-	20,000
Sub Total	215,003	871,000	128,520	3,355	62,831	22,861	1,303,570
Temporary Short Term Loans							
2007	17,406	-	-	-	-	-	17,406
Sub Total	17,406	-	-	-	-	-	17,406
CABP	232,409	871,000	128,520	3,355	62,831	22,861	1,320,976
Memo : LOBO Variable Rate Loans Maturity							
2044	-	5,000	-	-	-	-	5,000
2054	-	20,000	-	-	-	-	20,000
2055	-	35,000	-	-	-	-	35,000
2056	20,000	50,000	-	-	-	-	70,000
2066	30,000	40,000	-	-	-	-	70,000
2067	90,000	15,000	-	-	-	-	105,000
2077	75,000	15,000	-	-	-	-	90,000
Sub Total	215,000	180,000	-	-	-	-	395,000

LOBO's Shown at Maturity in Bottom Memo Section.

LOBO's included in main section at next option date. (Highlighted)

