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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>26 May 2009</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/35/09/AP/CF</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>TREASURY MANAGEMENT MONITORING REPORT 2008/09 - QUARTER 4</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to summarise the Council's treasury management position and activities during the period as required under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".

## 2.0 SUMMARY

- 2.1 The total debt outstanding as at 31<sup>st</sup> March 2009 was £186,431,348. The operational limit for external debt as increased by the Policy & Resources Committee in February 2009 is £210,000,000. The Council is therefore well within its operational limit.
- 2.2 As at 31<sup>st</sup> March 2009 the Council had £1,797,252 invested in deposit accounts and a further £40,000,000 invested externally with third parties as per the Council's Investment Strategy.
- 2.3 The Council are within the limits set for the Prudential Indicators and Council Policy Limits reported to the Committee.
- 2.4 In order to achieve ongoing savings for the Council, some debt restructuring was undertaken during the quarter. The practicalities of this restructuring meant that, for a few hours on 2 occasions, the Council exceeded its TMP limit with the Bank of Scotland.
- 2.5 The Council's contract with Sector Treasury Services Limited for treasury consultancy services has been extended, as approved by Committee in February.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that approval be given to the 2 occasions on which the Council exceeded its TMP limit with the Bank of Scotland on a short-term basis due to debt restructuring exercises that were undertaken during the quarter.
- 3.2 It is recommended that the Treasury Management monitoring report for quarter 4 of 2008/09 otherwise be noted.

Alan Puckrin  
Chief Financial Officer

## 4.0 BACKGROUND

- 4.1 A quarterly report on the Council's treasury management position and activities is required to be submitted to Committee under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".
- 4.2 The Council's position can be split into 4 main areas for consideration:
- Prudential Code & CIPFA Code of Practice
  - Overall Debt Position
  - Overall Investment Position
  - Debt Rescheduling and Borrowing During The Period.

In addition, it is proposed to consider the prospects for interest rates.

### 4.3 Prudential Code & CIPFA Code of Practice

Appendix 1 shows Prudential Indicators and indicators forming part of the Council's Treasury Policy as agreed by the Policy & Resources Committee in April 2008 and February 2009.

### 4.4 Overall Debt Position

The total debt outstanding as at 31<sup>st</sup> March 2009 was £186,431,348. The operational limit for external debt as approved by the Policy & Resources Committee in February 2009 is £210,000,000. The Council is therefore well below its operational limit.

The average length of the debt outstanding as at 31<sup>st</sup> March 2009 was 48.11 years (down from 49.92 years at last quarter) with an average interest rate of 4.13%, a reduction of 0.21% from last quarter. This is largely due to debt rescheduling undertaken during the quarter. Further analysis of the debt position is shown in Appendix 2.

### 4.5 Overall Investment Position

As at 31<sup>st</sup> March 2009 the Council had £1,797,252 invested in deposit accounts and a further £40,000,000 invested externally with third parties as per the Council's Investment Strategy. Further details are given in Appendix 3.

All lending by the Council is undertaken in accordance with the Council's Treasury Policy and Treasury Management Practices.

### 4.6 Debt Rescheduling and Borrowing During The Period

Any borrowing undertaken by the Council is in accordance with the Council's Treasury Policy and Treasury Management Practices and from known and reputable lenders.

During the quarter the Council undertook 3 restructuring exercises:

- The repayment in late January of £20m of PWLB loans with the repayments funded from a £10m 1-year PWLB loan and from Council investments from the Deposit Account.
- The repayment in early February of a £5m PWLB loan with the repayment funded from Council investments from the Deposit Account.
- The repayment in late March of £15m of PWLB loans funded from a £5m 1-year PWLB loan (received in early April), from Temporary Borrowing for 3 months, and from Council investments from the Deposit Account.

This restructuring has resulted in the Council paying a net premium of £937,589.12 (all of which will be charged against the General Fund in 2008/09) but will result in ongoing savings for the Council due partly to being able to re-borrow later at lower interest rates and partly due to the net reduction in interest costs arising from reducing investments (due to the differential between borrowing rates and investment rates).

The Council has not undertaken any borrowing during the quarter, other than in connection with the restructuring exercises.

Whilst undertaking the debt restructuring it was necessary for the Council to obtain funding for the debt repayments before actually repaying the loans to the PWLB. As a result and due to the level of fixed term investments with them, the Council exceeded its TMP limit for funds with the Bank of Scotland for a few hours on 28<sup>th</sup> January and 30<sup>th</sup>/31<sup>st</sup> March. Approval is being sought from Committee for this short-term exceeding of the TMP limit.

#### 4.7 Prospects For Interest Rates

The Bank Rate set by the Bank of England was reduced to 1.50% on 8<sup>th</sup> January 2009, to 1.00% on 5<sup>th</sup> February 2009, and to 0.50% on 5<sup>th</sup> March 2009.

The Council's Treasury Advisers expect that the Bank Rate will remain at 0.50% until Quarter 2 of 2010 and will then increase to 1.00% in Quarter 3 of 2010, to 1.50% in Quarter 4 of 2010, and to 2.00% in Quarter 1 of 2011.

In early January when the Bank Rate was at 2.00% and expected to fall, the Council entered into a fixed term deposit at a rate well above the Bank Rate, as shown in Appendix 3.

It is proposed to continue to monitor and review the interest rates that are available in the market for investments (including deposit accounts) and take appropriate action in line with the Council's Treasury Policy and Treasury Management Practices.

#### 4.8 Movements in Financial Markets/Banking Sector

This quarter has seen continued significant movements in the financial markets, the banking sector, and the wider economy (including with interest rates, as indicated above).

Members should note that Officers monitor market news and movements on bank credit ratings and take advice from the Council's Treasury Advisers as to the implications for the Council of particular market moves, changes in credit ratings, or banking news. None of the movements or news has as yet required the Council to move funds or led to any changes in Treasury Policy but additional caution is, understandably, being adopted.

The revised market conditions have, however, led to the Council undertaking the debt restructuring referred to above to reduce the ongoing impact on loan charges of the fall in investment rates.

#### 4.9 Treasury Advisers

Approval was given by the Committee in February for the extension of the contract with the Council's treasury advisers (Sector Treasury Services Limited) for a further 2 years. This extension has now been agreed and so the contract will run until the end of June 2011.

### 5.0 **IMPLICATIONS**

#### 5.1 Legal

None. Any borrowing or lending is done under the Council's legal powers.

#### 5.2 Financial

The Council utilises Treasury Management as part of the overall Financial Strategy and Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

5.3 Human Resources  
None.

5.4 Equalities  
None.

## **6.0 CONSULTATIONS**

6.1 None.

## **7.0 LIST OF BACKGROUND PAPERS**

7.1 Inverclyde Council – Treasury Management Strategy 2008/09.

**Table 1**

**Prudential Indicators**

	<u>Estimate For 2008/09</u>	<u>Actual For 2008/09 Quarter 4</u>	<u>Within Limits</u>
PI 7 - Authorised Limit for External Debt	£million 217.300	£million 186.431	Yes
PI 8 - Operational Limit for External Debt	210.000	186.431	Yes
PI 10 - Compliance with CIPFA code	%	%	Yes
PI 11 - Upper limit on fixed interest exposure	150.00%	94.57%	Yes
PI 12 - Upper limit on variable rate exposure	30.00%	5.43%	Yes
PI 13 Borrowing fixed rate maturing in each period	<u>Upper</u>	<u>Lower</u>	<u>Within Limits</u>
Under 12 months	30%	0%	7.313% Yes
1 - 2 years	30%	0%	0.002% Yes
2 - 5 years	30%	0%	6.281% Yes
5 - 10 years	45%	0%	2.120% Yes
10 years and above	100%	20%	84.284% Yes
			<u>100.000%</u>
PI 14 - Upper limit on sums invested for periods longer than 364 days	<u>Limit For 2008/09</u> £ 20,000,000	<u>Maximum In Quarter 4</u> £ 0	<u>Within Limit</u>  Yes

**Table 2**

**Council Policy Limits**

	<u>Limit per Council Policy</u>	<u>Actual For 2008/09 Quarter 4</u>	<u>Within Limit</u>
Maximum proportion of borrowing at variable interest rate	35%	26.631%	Yes
Maximum proportion of debt restructuring in any one year	30%	23.017%	Yes
Maximum proportion of debt repayable in any one year	30%	21.456%	Yes

**Table 1**

**Debt Outstanding - Analysis By Time**

	£ Million	Average Interest Rate	Proportion of Debt
<u>Borrowings up to 1 year</u>			
Public Works Loan Board Loans	10.003	0.92%	5.366%
European Investment Bank Loans	0.023	9.00%	0.012%
Temporary Loans	7.726	0.75%	4.144%
	<b>17.752</b>	<b>0.86%</b>	<b>9.522%</b>
<u>Borrowings over 1 year</u>			
Public Works Loan Board Loans	65.779	4.50%	35.283%
European Investment Bank Loans	0.000	0.00%	0.000%
Money Market Loans	102.900	4.47%	55.195%
	<b>168.679</b>	<b>4.48%</b>	<b>90.478%</b>
	<b>186.431</b>	<b>4.13%</b>	<b>100.000%</b>

Total Debt Outstanding 31st March 2009

**Table 2**

**Debt Outstanding - Analysis By Fixed/Variable**

	£ Million	Average Interest Rate	Proportion of Debt
<u>Variable Rate Loans</u>			
Public Works Loan Board Loans	0.000	0.00%	0.000%
European Investment Bank Loans	0.023	9.00%	0.012%
Temporary Loans	7.726	0.75%	4.144%
Market Loans *	41.900	4.57%	22.475%
	<b>49.649</b>	<b>3.98%</b>	<b>26.631%</b>
<u>Fixed Rate Loans</u>			
Public Works Loan Board Loans	75.782	4.02%	40.649%
Market Loans *	61.000	4.40%	32.720%
	<b>136.782</b>	<b>4.19%</b>	<b>73.369%</b>
	<b>186.431</b>	<b>4.13%</b>	<b>100.000%</b>

Total Debt Outstanding 31st March 2009

\* - Market Loans are shown as variable when they have less than 1 year to go until their next call date.

**Table 1**

**Investments and Deposit Accounts Balances As At 31st March 2009**

	<u>Annual Rate</u>	<u>Amount</u>	<u>Deposit Type</u>	<u>Maturity Date</u>
		<u>£</u>		
<u>Investments</u>				
Abbey National	3.25%	5,000,000	Fixed	08-Jun-09
Bank of Scotland	6.75%	10,000,000	Fixed	03-Jul-09
Bank of Scotland	6.42%	10,000,000	Fixed	13-Aug-09
Bank of Scotland	4.00%	10,000,000	Fixed	08-Dec-09
Bank of Scotland *	3.26%	5,000,000	Fixed	06-Jan-10
		<b><u>40,000,000</u></b>		
<u>Deposit Accounts</u>				
Bank of Scotland	0.50%	1,754,800	Call	
Abbey National #	0.60%	182	Call	
Bank of Scotland ##	0.51%	42,270	7-Day Notice	
Alliance & Leicester	Account Closed	0	Call	
		<b><u>1,797,252</u></b>		

\* - Investment entered into since last quarterly report.

# - Account has tiered rates. Rate shown is for the balance in the account.

## - The rate on this account varies on a weekly basis.