Treasury Management Interim Report **Appendix C**
Year ended 31 March 2011

This report demonstrates the council is embracing best practice in accordance with CIPFA's recommendations, by keeping members informed of Treasury Management activity.

1. The Council's Investments

1.1 At the year end the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested £m	£m
Instant access bank accounts:					
National Westminster	N/A	N/A	1.10%	5.90	
Royal Bank of Scotland	N/A	N/A	1.10%	2.50	
Santander	N/A	N/A	0.80%	5.00	
Bank of Scotland	N/A	N/A	0.85%	2.00	15.40
Rolling monthly programme of £1 million one year term deposits:					
Lloyds	364 days	27/07/11	1.95%	1.00	
Lloyds	364 days	19/08/11	1.95%	1.00	
Barclays	364 days	16/09/11	1.46%	1.00	
Nationwide	334 days	25/10/11	1.25%	1.00	
Nationwide	364 days	24/11/11	1.33%	1.00	
Bank of Scotland	335 days	28/12/11	1.82%	1.00	
Bank of Scotland	364 days	26/01/12	1.95%	1.00	
Bank of Scotland	364 days	13/02/12	2.05%	1.00	
Newcastle City Council	364 days	15/03/12	1.55%	1.00	9.00
Other fixed term deposits:					
Newcastle City Council	339days	27/02/12	1.48%	2.00	2.00
Total					**26.40**

1.2 As can be seen from the above, of the £26.40 million held at the year end £11.00 million was tied up in term deposits leaving liquid balances of £15.40 million.

1.3 Short-term borrowing of £9.50 million was taken out between 04/01/11 and 16/02/11 to provide extra liquidity around the year end. The interest rates payable varied between 0.45% and 0.60% and so on most days, if not all, the interest earned on these additional funds would have exceeded the interest payable. One loan for £4 million at 0.45% was repaid on 31 March 2011. The rest of the loans totalling £5.50 million were repaid in April and early May.

1.4 The balances at the year end were also bolstered by a new Public Works Loans Board (PWLB) loan of £5 million which was advanced on 3 March 2011.

1.5 During the year the daily interest rate earned on investments varied between 0.72% (June 2010) to 1.26% at the end of the year.

1.6 The total invested ranged from £14 million (at the start of the year) to £59 million (in October). The average interest rate achieved for the year was 0.97%, which compares favourably with the generally accepted benchmark of the average 7-Day London Inter-Bank Bid (LIBID) rate of 0.43%.

1.7 The council's investment income exceeded the budget by £162,559 as shown below.

	Average Amount Invested	**Interest Earned**	**Average Interest Rate Earned**
	£m	**£**	
April	23.7	19,866	1.02%
May	30.5	24,156	0.94%
June	44.7	29,272	0.79%
July	49.3	35,726	0.85%
August	41.2	35,136	1.01%
September	47.6	38,175	0.98%
October	48.8	40,381	0.97%
November	44.4	37,782	1.04%
December	42.7	39,597	1.16%
January	47.8	41,759	1.09%
February	42.6	33,477	1.09%
March	37.0	33,717	1.23%
Total treasury management interest earned		409,044	
Add interest from car loans etc		15,195	
Less interest paid out to trust funds etc		(12,610)	
Total net interest received for year		411,629	
Budget for year		249,070	
Surplus interest received		**162,559**	
Add PWLB discount received (see 2.4)		5,558	
Total surplus		**168,117**	

2. <u>The Council's Borrowing</u>

2.1 Loan rescheduling occurred during the year, repaying expensive and replacing with new loans from PWLB. In 2010/11 the following transactions were made:

New PWLB Loans 2010-11					
Date of advance	**Amount borrowed**	**Interest rate**	**Type of loan**	**Term**	**Interest Cost in 2010-11**
24/06/2010	10,000,000	2.47%	EIP*	10 years	£186,197
27/07/2010	5,000,000	2.24%	EIP*	9 years	£74,718
27/08/2010	5,000,000	3.95%	Maturity	50 years	£116,877
15/10/2010	4,000,000	1.85%	Maturity	5 years	£33,858
15/10/2010	3,000,000	2.16%	Maturity	6 years	£29,648
03/03/2011	5,000,000	3.71%	EIP*	10 years	£14,230
Total of extra interest paid in 2010-11					£455,528
PWLB Loans Repaid in 2010-11					
Date of repayment	**Principal repaid**	**Interest rate**	**Type of loan**	**Remaining term**	**Interest Saved in 2010-11**
30/07/2010	5,000,000	4.25%	Maturity	23 years	£142,054
02/08/2010	5,000,000	4.20%	Maturity	37 years	£138,657
02/08/2010	5,000,000	4.20%	Maturity	41 years	£138,657
Total interest saved in 2010-11					£419,368

EIP = Equal Instalments of Principal, so that a 10 year EIP loan would necessitate the council repaying £500,000 of principal every six months*

2.2 By rescheduling £15 million of longer term loans (see transactions shaded above) the council made interest savings of £158,453 in 2010-11. Total interest savings over the term of the new loans (multiplying the beneficial interest rate differential by the principal outstanding) will amount to £1.38 million.

2.3 Loans were taken out in advance of repaying old loans to take advantage of interest rates. The council waited until interest rates had risen sufficiently to repay old loans without having to pay redemption premiums. In fact repayment discounts totalling £83,400 were received. Accounting rules require that this discount is released to revenue over ten years following the date of repayment. For 2011-12 £5,558 has been added to investment income relating to this discount (as shown in 1.8 above).

2.4 In order to take advantage of historically low interest rates, most of the new loans were for relatively short maturity periods. The exception to this was when the 50 year maturity rate dropped below 4.00% for a week at the end of August. It is rare for the 50 year rate to drop below 4.00% (this was the only time in 2010/11) and so the council borrowed £5 million for 50 years at 3.95%.

2.5 At 31 March 2011 the average interest rate payable on the council's borrowing was 4.02% compared to 4.35% at 31 March 2010.

2.6 Significant savings have been made on borrowing costs as a result of:

- Slippage in the capital programme;
- Borrowing for shorter maturity periods at reduced rates; and
- Rescheduling debt – replacing more expensive longer term loans with cheaper shorter-term debt.

2.7 As a result of the above, the council achieved savings of £1.389 million in 2010/11, £351,000 relating to MRP (set –aside for principal repayment) and £1.038 million for interest payments.

3. Summary of Investments and Borrowing at 31 March 2011

	31 March 2011	**31 March 2010**
	£m	**£m**
Borrowing		
PWLB borrowing	128.1	113.1
Bank loans	12.0	12.0
Short-term loans (now repaid)	5.5	-
Gross Borrowing	**145.6**	**125.1**
Investments	**26.4**	**12.9**
Net Borrowing	**119.2**	**112.2**

Treasury management income	**£417,187**	**£254,277**

Borrowing costs		
Loan Interest	£5,479,164	£5,178,426
Minimum Revenue Provision	£8,827,236	£8,308,032
	£14,306,400	**£13,486,458**

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Year ended 31 March 2011

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS **As recommended by CIPFA Prudential Code for Capital Finance**	**2009/10 Actual**	**2010/11 Strategy**	**2010/11 Actual Outturn**
Capital Expenditure (£'000)	£84,677	£77,904	£70,315
Ratio of financing costs to net revenue stream **Due to new accounting requirements for PFI schemes, the actual figures for 2009/10 and 2010/11 include PFI interest*	*10.70%	9.90%	*11.41%
Capital Financing Requirement as at 31st March (£'000) *(Includes liabilities relating to Private Finance Initiatives)*	£196,665	£222,100	£208,226
PRUDENTIAL INDICATOR **Treasury Management Prudential Indicators**	**2009/10 Final**	**2010/11 Strategy**	**2010/11 Final**
Authorised Limit for External Debt -			
Borrowing (£'000)	£190,000	£200,000	£200,000
Other Long Term Liabilities (£'000)	£30,000	£30,000	£30,000
Total (£'000)	£220,000	£230,000	£230,000
Operational Boundary for External Debt -			
Borrowing (£'000)	£174,000	£190,000	£180,000
Other Long Term Liabilities (£'000)	£30,000	£30,000	£30,000
Total (£'000)	£204,000	£220,000	£210,000
Upper Limit for Fixed Interest Rate Exposure Net principal re: fixed rate borrowing/investments	100%	100%	100%
Upper Limit for Variable Rate Exposure Net principal re: variable rate borrowing/investments	25%	25%	25%
Upper limit for total principal sums invested for over 364 days (£'000)	£10,000	£10,000	£10,000

Maturity structure of total fixed rate borrowing as at 31 March 2011	**2010/11 Strategy**		**Actual as at 31 March 2011**	
	Lower Limit	Upper Limit	Amount £'m	Upper Limit %
Under 12 months	0%	20%	17.84	12.73%
12 months and within 24 months	0%	20%	3.33	2.38%
24 months and within 5 years	0%	30%	14.29	10.20%
5 years and within 10 years	0%	40%	19.81	14.14%
10 years and within 20 years	0%	40%	26.83	19.15%
20 years and over	40%	100%	58.00	41.40%
Total loans			140.10	100.00%

Notes
1. In the above analysis the council's two bank loans totalling £12 million are stated as payable within 12 months because if the lenders choose to increase interest rates the council may well repay these loans. However, if the interest rates are not increased the council may hold these loans until their maturity in 2054.

2. Total borrowing does not include £5.5 million of short-term loans repayable before the end of May 2011.

INTERNAL TREASURY MANAGEMENT PERFORMANCE INDICATOR			
Performance at keeping council's current account balance at less than £100,000 (debit or credit) overnight:			
	Target	**Actual**	**Interest cost**
Number of times £100,000 exceeded	Less than 10	5 (4 credits plus 1 debit)	Credit interest foregone £55 (using average rate of 0.97%) and debit interest paid of £50 (at 1.50%)
The council's aim is to maintain a nil net cleared overnight balance on its accounts with National Westminster bank as current account balances do not earn interest. In practice this is hard to achieve because some receipts are credited directly to the bank and this can happen quite late on in the day.			