WIRRAL COUNCIL

CABINET - 26 JULY 2007

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT ANNUAL REPORT 2006-07

1. **EXECUTIVE SUMMARY**

1.1. This annual report on Treasury Management for the 2006-07 financial year complies with the reporting requirements of the Code of Practice for Treasury Management in Local Authorities.

2. **INTRODUCTION**

2.1. Treasury Management covers the maintenance of Wirral Council debt through the Consolidated Loans and Investment Account (CLIA) and the inherited debt of Merseyside County Council through the Merseyside Residuary Debt Fund (MRDF).

2.2. The respective balance sheets for the two accounts with corresponding notes by way of explanation are in the appendices whilst an analysis of the major transactions for the year is provided in the following sections.

3. **CONSOLIDATED LOANS AND INVESTMENT ACCOUNT**

3.1 Capital

3.1.1

			£000
PWLB Debt	-	Balance at 01.04.06	13,729
	-	Net borrowing	12,000
	-	Balance at 31.03.07	25,729
Money Market debt	-	Balance at 01.04.06	141,439
	-	Net borrowing	0
		Fair value adjustment	544
		Balance at 31.03.07	141,985

3.1.2. An increasingly important issue for many local authorities is how to account for interest costs on variable interest Lender Option Borrower Option (LOBO) loans with the private sector. Traditionally most local authorities, including Wirral, have accounted for interest on the basis of payments due in the period – i.e. in the early years accounting for initial low rates of interest whilst later years are charged with the higher costs as the rate of interest increases with the LOBO.

3.1.3 However, the Audit Commission and CIPFA have been questioning this practice, in relation to Financial Reporting Standard 4 which states that the finance costs of debt should be allocated to periods over the term of the debt at a constant rate. In essence it is an attempt to equalise the interest costs charged to revenue over the life of the loan. This negates what was originally anticipated to be interest savings in the early years but will now produce corresponding savings in the later years of these particular loans. These additional early years costs have been fully budgeted for since 2004-05.

3.1.4. Since April 2004 this has meant an additional £2.484 million being charged to revenue (£544,000 in 2006-07). This represents the fair value debt adjustment and is added to the value of outstanding debt.

3.1.5. Because of the likely costs involved no debt restructuring has taken place in the year.

3.2. Revenue out-turn

3.2.1

	Estimate	Actual
	£000	£000
PWLB interest	810	646
Money Market interest	7,510	7,426
Fair value LOBO interest	650	544
Short-term interest	(1,600)	(2,730)
Minimum Revenue Provision	6,103	6,103
Premia	157	157
Contribution to Reserve	1,569	1,569
	15,199	13,715

3.2.2. The Authority is required to set aside a minimum revenue contribution for the repayment of external loans and £6.1 million was charged to the General Fund.

3.2.3 The use of borrowing for 2006-07 to fund the capital programme was less than anticipated due to the slippage of expenditure and the consequent need to borrow. Also the Council successfully attracted additional grant funding and contained the Housing Market Renewal Initiative expenditure removing the need to use the resources Cabinet agreed could be brought forward from 2007/08. This, combined with better cash flow management, and the benefits of rising interest rates during 2006-07, the Council being a net investor, resulted in interest savings.

3.2.4 There has been considerable debate as to how local authorities should account for both accumulated and new premia that result from the premature repayment of long-term debt. Together with most local authorities Wirral adopts the approach of charging the cost to revenue over the life of any associated replacement loan. In 2006-07 this amounted to £157,000.

3.2.5 In April 2007 the Government amended the Capital Financing Regulations and introduced strict guidance regarding the treatment of premia. Any premia that are incurred as a result of debt restructuring that takes place after 1 April 2007 must be charged in full to revenue in the year in which they are incurred. Historic premia currently shown in the balance sheet may, however, be written off over the life of replacement loans i.e. the current practice. Given this tolerance I consider the level of the debt financing reserve to be adequate and will enable some future restructuring to take place as considered necessary.

4. MERSEYSIDE RESIDUARY DEBT FUND

4.1 Capital

				£000
4.1.1.	PWLB Debt	-	Balance at 01.04.06	68,823
		-	Net repayment	(274)
		-	Balance at 31.03.07	68,549
	Money Market debt	-	Balance at 1.04.06	36,600
		-	Net borrowing	0
		-	Balance at 31.03.07	36,600

4.2 Revenue

4.2.1.

	Estimate £000	Actual £000
PWLB interest	4,737	4,737
Money Market interest	2,269	2,256
Pre 1974 interest	198	156
Premia and other interest	430	415
Management	30	26
	7,664	7,590

4.2.2. The equated interest rate in relation to actual principal repayments outstanding for all the constituent authorities for 2006-07 was 7.72% compared with 7.38% for the previous year.

4.2.3. Interest and principal is charged to the constituent authorities on the basis determined by the Secretary of State upon Local Government Re-organisation in Merseyside. The Wirral share for 2006-07 was £1.251 million which was £7,000 below the budget.

5. PRUDENTIAL INDICATORS

5.1 The Local Government Act 2003 introduced a new system of capital financing and control. As a consequence CIPFA developed the Prudential Code for Capital Finance that set out a number of indicators for affordability and prudence. A comparison against the estimated indicators is provided below

5.2 Capital Financing Requirement (CFR)

Represents a measure of the underlying need to borrow

Estimated	£213,769,000
Actual @ 31 March 2007	£206,497,000

The reduction is attributable to the slippage in the 2006-07 capital programme.

5.3 Authorised Borrowing Limit (ABL)

Estimated ABL	£211,000,000
Actual Borrowing @ 31 March 2007	£177,242,000

Represents the level of borrowing that is affordable, but not necessarily sustainable. The gap between the actual CFR and actual borrowing has increased during 2006-07 which in turn has produced savings in interest payments and allows greater flexibility in funding the 2007-08 capital programme.

5.4 Operational Boundary

This is used for routine financial management and is based on more reasonable expectations of maximum external debt. The above comments apply.

Estimated maximum	£206,000,000
Actual Borrowing @ 31 March 2007	£177,242,000

5.5 Interest Rate Exposure

These are the limits set which determine the range of interest rate exposures for fixed and variable rate debt.

Fixed	Estimated range	40% – 80%
	Actual	67%
Variable	Estimated range	20% – 60%
	Actual	33%

5.6 Maturity Structure

This represents the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing. During 2006-07 greater emphasis was placed on reducing short-term debt and borrowing longer term within the 2 to 5 year range. The structure reproduced below, and that calculated for 2007-08, indicate that any long term borrowing for 2007-08 should be within the 5 to 10 year range, depending on prevalent interest rates.

	Estimated Upper limit	Estimated Lower limit	Actual
Under 12 months	10%	0%	5%
12 months and within 24 months	10%	0%	1%
24 months and within 5 years	15%	0%	8%
5 years and within 10 years	35%	10%	7%
10 years and above	85%	40%	79%

6. INSURANCE FUND INVESTMENTS

6.1 There are a number of external investments that form part of the Insurance Fund. These range from Treasury Stock with a current market value of £1,031,196 (cost £684,794) to fund shareholdings with a market value of £584,599 (cost £144,172). Investment interest in the year amounted to £66,581, a return of 6.1% on the stock holding.

7. **STAFFING IMPLICATIONS**

7.1. There are no specific implications arising out of this report.

8. **LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1. There are no specific implications arising out of this report.

9. **LOCAL AGENDA 21 STATEMENT**

9.1. There are no specific implications arising out of this report.

10. **PLANNING IMPLICATIONS**

10.1. There are no specific implications arising out of this report.

11. **EQUAL OPPORTUNITIES IMPLICATIONS**

11.1. There are no specific implications arising out of this report.

12. **COMMUNITY SAFETY IMPLICATIONS**

12.1. There are no specific implications arising out of this report.

13. **HUMAN RIGHTS IMPLICATIONS**

13.1. There are no specific implications arising out of this report.

14. **BACKGROUND PAPERS**

14.1. Wirral Council Statement of Accounts.

15. RECOMMENDATION

15.1. That the Treasury Management Annual Report be agreed.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/172/07

APPENDIX 1

2005-2006 £000	BALANCE SHEET AS AT 31 MARCH 2007 CONSOLIDATED LOANS AND INVESTMENT ACCOUNT	2006-2007 £000
	LONG TERM ASSETS	
2,500	Long Term Investments	2,500
6,206	Deferred Charges (Note 1)	6,049
2,311	Long-Term Debtors (Note 2)	2,133
11,017	**TOTAL**	**10,682**
	CURRENT ASSETS	
970	Debtors (Note 3)	1,265
57,200	Investments (Note 4)	65,500
123,760	Cash and Bank (Note 5)	109,923
181,930	**TOTAL**	**176,688**
	CURRENT LIABILITIES	
25,100	Short Term Borrowing (Note 6)	9,529
2,012	Creditors (Note 7)	2,148
27,112	**TOTAL**	**11,677**
165,835	**TOTAL ASSETS LESS CURRENT LIABILITIES**	**175,693**
155,168	Long Term Borrowing (Note 8)	167,713
10,667	Internal Borrowing (Note 9)	7,980
165,835	**TOTAL**	**175,693**
0	**TOTAL ASSETS LESS LIABILITIES**	**0**

Notes :

1 The total amount of all premiums incurred from the premature repayment of replaced loans.

2 Outstanding debt of Wirral's pre 1974 constituent authorities.

3 Interest on temporary investments outstanding at 31 March

4 The book value of these investments.

5 Notional figure, which when taken with other Committees accounts will represent the authority's bank position.

6 Borrowing due for repayment by March the following year

7 Amount the authority owes in interest payments for the year

8 Borrowing due for repayment after the end of March the following year

9 The value of provisions and reserves invested by other Committees in the CLIA.

APPENDIX 2

2005-2006 £000	BALANCE SHEET AS AT 31 MARCH 2007 MERSEYSIDE RESIDUARY DEBT FUND	2006-2007 £000
	LONG TERM ASSETS	
770	Deferred Charges (Note 1)	701
94,794	Long-Term Debtors (Note 2)	89,831
95,564	**TOTAL LONG TERM ASSETS**	**90,532**
	CURRENT ASSETS	
4,469	Debtors (Note 3)	4,469
9,350	Cash and Bank (Note 6)	13,839
8,896		**18,308**
	CURRENT LIABILITIES	
325	Short Term Borrowing (Note 4)	3,530
1,201	Creditors (Note 5)	1,164
1,526	**TOTAL**	**4,694**
107,857	**TOTAL ASSETS LESS CURRENT LIABILITIES**	**104,146**
107,857	Long Term Borrowing (Note 7)	**104,146**
0	**TOTAL ASSETS LESS LIABILITIES**	**0**

Notes :

1 The total amount of all premiums incurred from the premature repayment of replaced loans.

2 Amounts due from these authorities in respect of repayments of principal and interest.

3 Amount owed by constituent bodies in respect of 2004-05 and 2005-06 accounts

4 Borrowing due for repayment by March the following year

5 The amount the authority owes in interest payments for 2004-2005 plus refunds to constituent authorities.

6 Notional figure, which when taken with other Committees accounts will represent the authority's bank position.

7 Borrowing due for repayment after the end of March the following year