

## Cabinet – 17 September 2008

### Annual review of Treasury Management Policy Statement and Annual Report on Treasury Management Activity for 2007/8

**Portfolio:** Councillor A Griffiths, Finance and Personnel

**Service:** Corporate Finance

**Wards:** All

**Key decision:** No

**Forward plan:** No

#### 1. Summary of report

- 1.1 This report details the council's borrowing and investment activities in 2007/8 and seeks approval for the revised treasury management policy statement for 2008/9 onwards. In 2007/8 Walsall council's long term borrowing increased by £17.5m and investments increased by £32.1m such that net borrowing decreased by £14.60 million over the last year. The average rate for borrowing during 2007/8 was 4.99% (4.68% excluding other local authority debt). If Walsall Council had borrowed at the average rate for the IPF benchmarking group (i.e.: 5.5%), this would have increased spend by £1.85 million. This demonstrates that Walsall's treasury management function continues to provide excellent value for money. Investment performance improved relative to other councils and additional investment income was recouped.
- 1.2 In order to comply with the CIPFA Code of Treasury Management, the council should once again updating it's treasury management policy statement and treasury management practices (TMPs). These are contained for approval in **Appendix A** and include amendments to the responsible posts under delegated powers to reflect changes to the staffing structure of the finance service.

#### 2. Recommendations

- 2.1 That Cabinet approve the revised treasury management policy statement and practices set out in **Appendix A**.
- 2.2 That Cabinet note the 2007/8 treasury management activities and performance statistics in **Appendix B** and the monitoring of Walsall's prudential indicators as at 31.03.08 and 31.07.08 contained in **Appendix C**.

### **3. Background information**

- 3.1 The council has a number of key policies and objectives for borrowing and investment. The policies are laid out in the Treasury Management Policy statement attached as **Appendix A**. The objectives for borrowing are aimed at minimising the revenue cost of borrowing whilst maintaining a balanced loan portfolio. The council's objectives for investments are the prudent investment of council monies in sterling with secure institutions at the best possible rates of interest. Details of these objectives are provided within the Treasury Management Report attached as **Appendix B**.
- 3.2 To ensure that Walsall's treasury management activities are affordable, prudent and sustainable use prudential indicators are maintained and reviewed during the year. Details of these indicators are contained within **Appendix C**. A set of local indicators are also maintained to provide additional assurance.
- 3.3 There was considerable market turbulence during the year which reflected the turnaround in interest rate sentiment as a result of the sub-prime crisis in the US. This had effects on both the council's borrowings and investments.
- 3.4 The council's borrowings increased by £17.5m in the year with the council succeeding to borrow at competitive rates in a volatile market. Total debt at year end was £266m (£237.9m excluding other local authority debt) at an average rate of 4.99% (4.68% excluding other local authority debt).
- 3.5 In comparison with other councils, Walsall borrows at a lower rate (4.68%) than other the average of other councils (5.50%). If we had borrowed at this average rate interest costs would have been £1.85m higher in 2007/08.
- 3.6 The council's investments increased by £32.1m split between long term (£5m) and short term (£27.1m). The council took advantage of the lack of inter-bank borrowing and rise in interest rates created by the sub-prime crisis. A result of this is that the average investment return rate for the council has increased by nearly 1%. The balance of total investments at the year end was £91.2m at an average rate of 5.82%.
- 3.7 Walsall achieved a better return on its investments (5.88%) than the average of other councils (5.80%). If Walsall only achieved this average rate of return income generated would have been £0.082m less.
- 3.8 Further details of the council's treasury management performance can be found as **Appendix B**.

#### **4. Resource considerations**

- 4.1 **Financial:** The treasury management policy statement is a key document for the operation, review and performance assessment of treasury management and is reviewed annually. It forms part of the council's financial framework and supports delivery of the medium term financial strategy. The Council's treasury management function compares well against West Midlands benchmarks; a useful value for money indicator.
- 4.2 **Legal:** The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. The council adopted the original treasury management code in 1992 and the revised Code in 2002.
- 4.3 **Staffing:** There are no staffing implications as a result of this report.

#### **5. Citizen impact**

Capital investment can impact on the quality of service provision across the borough.

#### **6. Community safety**

None directly related to this report.

#### **7. Environmental impact**

None directly related to this report.

#### **8. Performance and risk management issues**

- 8.1 **Risk:** The treasury management policy seeks to manage the risk of adverse fluctuations in interest rates and safeguard the financial interests of the council. The Prudential Code allows the council to manage financial risks by permitting additional borrowing to fund capital investment, subject to risk-assessed controls by use of a series of pre-determined performance indicators
- 8.2 **Performance management:**
- 8.2.1 The treasury management function participates in a local and national benchmarking group which compares Walsall council's treasury management performance with those of other councils. Performance is regularly reviewed by the treasury management panel. Activities are planned in 2008/9 to further improve the service and performance through the use of Logotech, a treasury management system specifically designed for Local Authorities. It is also envisaged that if market conditions are appropriate, to reschedule £20 million

other local authority debt which is currently administered by Dudley Council, resulting in a saving to the council.

8.2.2 All Prudential indicators (Prls) as at 31.03.08 were complied with.

## **9. Equality implications**

None directly related to this report.

## **10. Consultation**

The issues in the report have been considered collectively by CMT, the Chief Finance Officer and the cabinet portfolio holder for resources.

### **Background papers:**

Annual Treasury Management and Investment Strategy – Prudential Indicators 2007/8 –  
Cabinet – 06 February 2008  
Various financial working papers.

### **Contact officers:**

Michael Tomlinson, Corporate Financial Systems and Treasury Manager,  
☎ 01922.652911, [tomlinsonm@walsall.gov.uk](mailto:tomlinsonm@walsall.gov.uk)

Vicky Buckley - Head of Corporate Finance,  
☎ 01922.652349, [buckleyv@walsall.gov.uk](mailto:buckleyv@walsall.gov.uk)



Signed:  
James T Walsh  
Chief Finance Officer  
18 August 2008



Signed:  
Councillor A Griffiths  
Finance and Personnel  
5 September 2008

### TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA Code recommends that authorities should:

- i. Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- ii. Policies and practices should make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.
- iii. Acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, the treasury management policies and practices should reflect this.

In order to do this, the council should once again adopt a treasury management policy statement as shown below and create and adopt treasury management practices (TMPs). There are amendments to the responsible posts under delegated powers, which reflect changes to the staffing structure of the finance service.

- A treasury management policy statement, stating policies and objectives of its treasury management activities.
- Suitable TMPs, setting out the manner in which the council will seek to achieve those policies and objectives, prescribing how the council will manage and control those activities.
- The contents of the policy statement and TMPs will follow the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect this council's particular circumstances.

# THE TREASURY MANAGEMENT POLICY STATEMENT 2007/8 ONWARDS

**Walsall Council** defines its treasury management activities as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.”

**Walsall Council** regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

**Walsall Council** acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

## TREASURY MANAGEMENT FUNCTION

The approved activities of the treasury management function are as follows:

**Activities:**

- Borrowing
- Investment of temporary surplus funds and other balances
- Setting and reviewing the treasury management strategy
- Cash flow management
- Management of school investments
- Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management.

## TMP 1 – TREASURY RISK MANAGEMENT

The Section 151 Officer (CFO) shall:

- Ensure that appropriate arrangements are in place for the design, implementation and monitoring of all arrangements related to the identification, management and control of treasury management risk.
- Report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council’s objectives in this respect.
- In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives will be set out in schedules.

**Liquidity**

Objective: Adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the council at all times to have the level of funds available

which are necessary for the achievement of its service objectives.
<b>Interest Rates</b> <u>Objective:</u> Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.
<b>Exchange Rates</b> <u>Objective:</u> Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
<b>Inflation</b> <u>Objective:</u> Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.
<b>Credit and Counterparties</b> <u>Objective:</u> To secure the principal sums invested. A counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with whom funds may be deposited
<b>Rescheduling &amp; Refinancing of Debt</b> <u>Objective:</u> All borrowing, private financing and partnership arrangements will be negotiated, structured and documented. The maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.  Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.
<b>Legal and Regulatory</b> <u>Objective:</u> Compliance with statutory powers and regulatory requirements for all treasury management activities. The council will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.  In framing its credit and counterparty policy under <b>TMP1.1.5 Credit and Counterparty risk management</b> , the council will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.  The council will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.
<b>Fraud, Error and Corruption, and Contingency Management</b> <u>Objective:</u> Identification of circumstances which may expose the council to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Employ suitable systems and procedures and maintain effective contingency management arrangements.
<b>Market Risk</b> <u>Objective:</u> Protection from adverse market fluctuations in the value of the principal sums invested.

<b>TMP 2 – BEST VALUE AND PERFORMANCE MEASUREMENT</b>
The council actively works to promote best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.
<b>TMP 3 – DECISION- MAKING AND ANALYSIS</b>

Full records will be maintained of its treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

#### **TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

Only approved instruments, methods and techniques will be used, within the limits defined in **TMP1 Risk Management**.

##### **Sources of Borrowing**

There shall be no restriction in principle on sources or methods of borrowing other than those imposed by law. The sources or methods of borrowing at any time will be determined by the current approved treasury management strategy.

##### **Other Sources of Finance**

The Assistant Director of Finance shall arrange operating leases and similar arrangements for items of equipment, vehicles, etc., where the acquisition or use of such items has been approved in line with the council's contract and procedure rules.

##### **Approved Organisations for Investments**

The Assistant Director of Finance shall approve and revise from time to time, a list of organisations within the statutory definitions of approved investments, which would be eligible to receive investments from the council. Apart from the Government, and, in any emergency, the council's own bank, the maximum limit for investment with any single organisation shall be £15 million, £5 million or £3 million in accordance with each individual institution's credibility.

##### **Interest Rate Exposure**

The limits on temporary borrowing and the proportion of interest at variable rates are set by Council, in accordance with Section 45 of the Local Government & Housing Act 1989.

#### **TMP 5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

Treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and audit of the treasury management function.

If and when the council intends, due to a lack of resources or other circumstance, to depart from these principles, the section 151 Officer will ensure that the reasons are properly reported in accordance with **TMP6 Reporting Requirements & Management Information Arrangements** and the implications properly considered and evaluated.

- The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover.



- The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Section 151 Officer in respect of treasury management are set out. The Section 151 Officer will fulfil all such responsibilities in accordance with the Policy Statement and TMPs and the Standard of Professional Practice on Treasury Management.

<b>Activity</b>	<b>Prepared By</b>	<b>Delegation / Accountability</b>
Approval of Treasury Management Policy and Strategy.	Head of Corporate Finance / Assistant Director of Finance	Cabinet - Policy Statement Council - Strategy
Review the debt portfolio and reschedule loans when considered appropriate	Corporate Financial Systems and Treasury Manager	Assistant Director of Finance / Head of Corporate Finance
Undertake budget monitoring and initiate actions when necessary	Corporate Financial Systems and Treasury Manager	Head of Corporate Finance
Authorisation of loan interest payments	Finance Assistant – treasury management	Principal Loans Accountant
Approval of overnight investments	Principal Loans Accountant	Principal Loans Accountant
Preparation of borrowings documentation	Finance Assistant – treasury management	Principal Loans Accountant
To arrange borrowing from time to time for the council's purposes. Sources of funds will comprise temporary loans, loans from Public Works Loan Board, other mortgages and bonds, money bills, bank overdraft and internal funds of the council, subject to any restrictions which may be made by statute, by Council or by cabinet	Corporate Financial Systems and Treasury Manager	Assistant Director of Finance / Head of Corporate Finance
To arrange finance and operating leases as required in accordance with council's capital programme	Corporate Financial Systems and Treasury Manager	Assistant Director of Finance / Head of Corporate Finance
To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in Section 66 of the Local Government and Housing Act 1989, subject to any restrictions which may be	Finance Assistant – treasury management	Principal Loans Accountant

made by statute, by Council or by cabinet		
Daily cash flow forecast	Finance Assistant – treasury management	Principal Loans Accountant
Update loan records	Finance Assistant – treasury management	Principal Loans Accountant

### **RESERVE POWERS**

Any powers available to officers under these financial regulations may at any time be exercised by the Chief Executive or a member of the Corporate Management Team, except where otherwise provided.

Officers authorised to sign cheques requiring manual signature and to sign other financial documents:

J Walsh	Assistant Director of Finance and CFO
V Buckley	Head of Corporate Finance
A Jarrett	Head of Service Finance
S. Simcox	Head of Finance - Social Care & Inclusion
M. Harmitt	Head of Finance – Children’s and Young People
M Tomlinson	Corporate Financial Systems and Treasury Manager
D Mortiboys	Corporate Finance Manager
S Wootton	Finance Manager – Regeneration and Neighbourhood.
CMT	Chief Executive / Executive Directors

### **To release money transfer system payments only :**

T. Evans	Group Accountant
K. Griffin	Group Accountant
N. Imber	Group Accountant
C. Knowles	Group Accountant
M.Law	Group Accountant
R. Whalley	Group Accountant
N Roth	Group Accountant

### **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

Regular reports will be prepared for consideration by cabinet on:

- The implementation of its Treasury Management Policies/Practices
- Annual report on treasury management activities for the preceding year;
- Treasury Management Strategy for the year, reviewed at least once during the year;

**Regular monitoring reports on prudential and local indicators will be prepared for the Treasury Management panel**

<b>Report</b>	<b>Frequency</b>	<b>When</b>	<b>To:</b>
Review of Treasury Management Strategy	Annual	February/ March	Cabinet and Council

Material changes	Immediately		Cabinet and Council
Review of Treasury Management Policy and Annual Reports	Annual	September / October	Cabinet
TM budget monitoring	Quarterly  Monthly	July, Oct, Jan, April	Assistant Director of Finance (CFO) Treasury Management Panel Head of Corporate Finance for inclusion in overall corporate financial monitoring reports to CMT and cabinet which are first reviewed by the CFO
TM performance indicators	Quarterly  Monthly	July, Oct, Jan, April	Assistant Director of Finance (CFO) Treasury Management Panel Head of Corporate Finance
Cash flow summary	Monthly		Corporate Financial Systems and Treasury Manager
Borrowing transactions	Monthly		Corporate Financial Systems and Treasury Manager
Government statistical return	Monthly		Office of the Deputy Prime Minister
Daily cash balance forecast	Daily		Principal Loans Accountant

#### **TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Section 151 Officer will prepare for Cabinet and full Council will approve and, if necessary from time to time, will amend, an annual treasury management budget which will bring together all costs involved in running the treasury management function and associated income.

The council will account for its treasury management activities in accordance with appropriate accounting practices, standards and statutory and regulatory requirements.

The council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

In line with market convention loans office staff, when dealing, are required to commit the council to terms of borrowing and investment transactions by telephone. Although these transactions are not legally binding until confirmed in writing, if subsequently dishonoured, this may damage the council's reputation.

Electronic funds transfer requires the involvement of three officers, at least one of whom shall be on the list in **TMP 5**.

#### **TMP 8 – CASH AND CASH FLOW MANAGEMENT**

All council monies shall be aggregated for treasury management purposes and will be under the control of the Section 151 Officer. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1 Liquidity risk management**.

### **TMP 9 – MONEY LAUNDERING**

Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.

### **TMP 10 – STAFF TRAINING AND QUALIFICATIONS**

The council will appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The council's treasury manager will be CCAB qualified.

### **TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS**

When external service providers are employed, the Section 151 Officer will ensure it does so for reasons which have been subjected to a full evaluation of the costs and benefits. The terms of appointment and the methods by which service providers' value will be assessed will be properly agreed and documented.

The council does not currently require external investment managers, but recognises it may do so in the future for general or specific advice on a range of matters. These future services would be procured using the council's prevailing regulations relating to obtaining supplies and services.

The council employs external treasury advisors to provide economic outlooks and information relevant to making robust investment and borrowing decisions.

### **TMP 12 – CORPORATE GOVERNANCE**

This authority is committed to the pursuit and achievement of proper corporate governance throughout its business and services and to establish principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The council has adopted and has implemented the key recommendations of the Code. The Section 151 Officer will monitor and when necessary, report upon the effectiveness of these arrangements.

A forum for the monitoring of Governance arrangements is the Treasury Management Panel. The Treasury Management Panel meets quarterly chaired by the CFO or deputy CFO. It will receive reports on the monitoring of Prudential and Local Indicators and approve drafts of strategy and policy cabinet/council reports. It will also initiate work and projects to further ensure strong compliance of internal controls and effective Treasury performance.

**REVIEW OF TREASURY MANAGEMENT ACTIVITY FOR 2007/8****1 Background**

- 1.1 Councils are required by regulation to have regard to the Prudential Code. The Code requires councils to comply with the CIPFA Code of Practice for Treasury Management. The council adopted the original Code in 1992 and the revised Code in 2002. This Code recommends that the council present an annual report to members covering the previous year's activity.
- 1.2 The authority's current treasury management and investment strategy approved by cabinet on 7 February 2007 contains the following objectives:

**KEY OBJECTIVES FOR BORROWING**

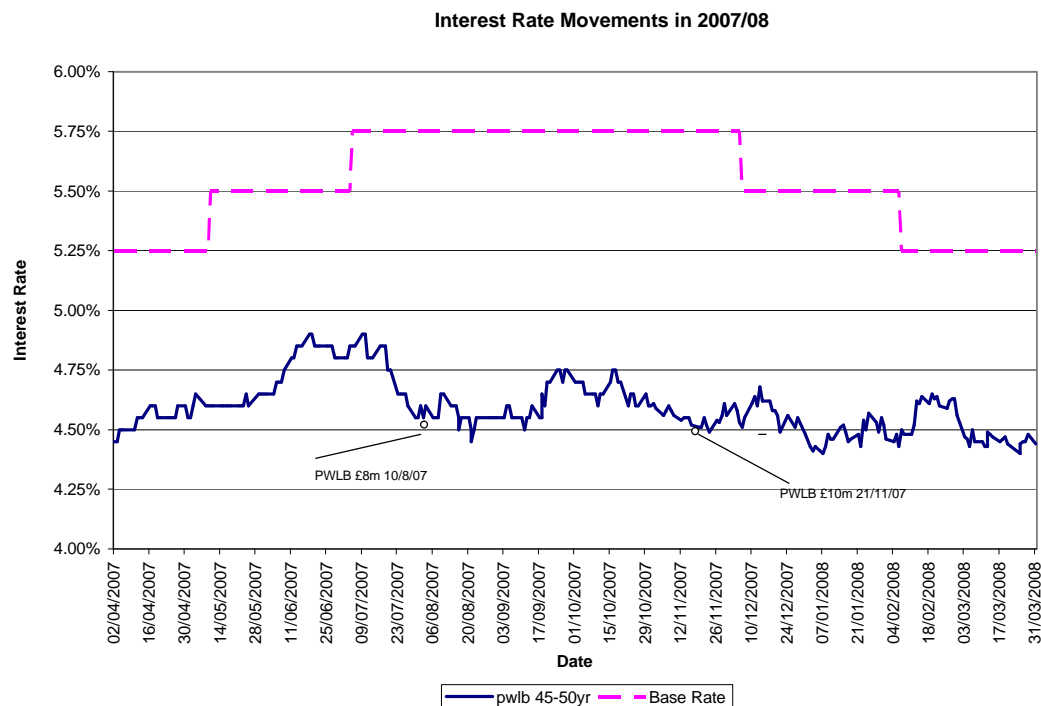
Our borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio
- To manage the council's debt maturity profile, ensuring no single future year has a disproportionate level of repayments
- To maintain a view on current and possible future interest rate movements and borrow accordingly
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

**KEY OBJECTIVES FOR INVESTMENT**

- The general policy objective for this council is the prudent investment of its treasury balances
  - The council's investment priorities are:
    - The security of capital and
    - Liquidity of its investments
  - All investments will be in sterling
  - The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.
- 1.3 Investments of less than 364 days are made regularly in managing cash flow. Investments of more than 1 year are undertaken and these are specifically monitored.
- 1.4 A review of TM activities should be undertaken with an understanding of the economic climate for the year. The following graph (see Diagram 1) shows a profile of short term interest rates (bank base rate) and long term interest rates (PWL 45-50 year).

## Diagram 1



## 2 Economic Review

### 2.1. Borrowing - Longer-term interest rates

The consensus at the beginning of 2007/8 was that longer-term fixed interest rates, 50 years, was that they would remain static at around 4.5% for the whole year. Diagram 1 indicates that Walsall took new borrowing at an average rate of 4.5%. The PWLB 45-50 year rate started the year at 4.45% and fell to a low of 4.38% in March 2008. The high point, of which there were several, for 45-50 year was 4.90% before finishing the year at 4.42%. The volatility in yields was a direct reflection of the massive turnaround in interest rate sentiment brought about by the sub-prime crisis in the US. A radical change to the PWLB rate structure was introduced by the Debt Management Office on 1<sup>st</sup> November when they moved to single basis point moves in their rates and introduced a separate repayment rate at the same time, at a level significantly below the rate at which they would lend new money.

### 2.2 Investments - Shorter-term interest rates

The UK Bank of England base rate started 2007/8 at 5.25%, The expectation was for it to remain at this level and possibly reduce further to 4.75% later in 2007/8. However base rate increased to 5.5% on 10 May 2007, inflation being above target. Base rate rose again on 5 July 2007 to 5.75% and the markets expected the bank rate to rise again when the August inflation report showed bank rates needed to rise again. However August was the peak of interest rates as what has become known as "the credit crunch" hit the markets and the global economy. The crunch originated in America through the sub prime housing market in which world-wide investors had investment packages, attracted by high

yields. Fears grew that these investment bonds would become worthless and this would lead to bankruptcies in the banking sector. As a result banks became reluctant to lend to each other. The Bank of England injected some funds into the market and in September 2007 announced that it had lent Northern Rock billions of pounds since Northern Rock could not get funding through the money markets. The base rate was cut in December 2007 to 5.5% as concerns about the economy and the credit crunch mounted. The new year began with stock markets falling. America cut its rates again and the Bank of England followed suit on 7 February by reducing base rate to 5.25%.

### 3 Review of 2007/8 activities

3.1 Table 1 shows borrowing and investments administered as at 31 March 2008 and 31 March 2007.

<b>Table 1: Borrowing and investment 2007/08</b>	<b>Borrowing £ million</b>	<b>Investments £ million</b>	<b>Net Borrowing £ million</b>
31 March 2008	265.7	(91.2)	174.5
31 March 2007	248.2	(59.1)	189.1
Change in year	17.5	(32.1)	(14.6)

The increase in borrowing was to fund the 2007/8 and part of 2008/9 capital programme council's are allowed to borrow in advance of future years capital programme.

### 3.2 Borrowing

Table 2 shows how our borrowing increased by £17.5m during 2007/8. Diagram 1 Interest Rate Movements in 2007/08 shows the points when the new borrowing was taken. The aim was to try and take these loans at the optimum time and at a competitive rate. It is visible that we achieved this.

<b>Table 2: Changes in Borrowings 2007/8</b>	<b>Opening Balance £ million</b>	<b>Average Rate</b>	<b>Movement in Year £ million</b>	<b>Closing Balance £ million</b>	<b>Average Rate</b>
PWLB	97.28	4.85%	18.00	115.28	4.80%
Market Loans	122.00	4.57%	0.00	122.00	4.59%
Bonds	0.17	5.51%	0.09	0.26	5.45%
Temporary Loans	0.29	4.59%	0.05	0.34	6.03%
<b>Total excluding OLA debt</b>	<b>219.74</b>	<b>4.69%</b>	<b>18.14</b>	<b>237.88</b>	<b>4.68%</b>
Other L A Debt	28.42	7.63%	(0.58)	27.84	7.63%
<b>Total including OLA debt</b>	<b>248.16</b>	<b>5.03%</b>	<b>17.56</b>	<b>265.78</b>	<b>4.99%</b>

### 3.3 Investments

Over the year our investment balance has increased by £32.1m. The split of this between long term and short term investments is shown in Table 3 below.

<b>Table 3: Changes in Investments during 2007/8</b>	<b>Opening Balance £ million</b>	<b>Average Rate</b>	<b>Movement in Year £ million</b>	<b>Closing Balance £ million</b>	<b>Average Rate</b>
Other Long Term Investments	(15.0)	4.95%	(5.0)	(20.0)	5.58%
Short Term Investments	(44.1)	4.90%	(27.1)	(71.2)	5.87%
Total	(59.1)	4.91%	(32.1)	(91.2)	5.82%

During 2007/8 the council has taken out an additional £5.0m long term investments at a return rate of 6.11%. In addition to this £4.0m came to the end of its term but was reinvested at a rate of 5.97%. The average rate of return over 2007/8 for new long term investments was 6.05%. Our short term investments have increased over the year due to higher balances available for investment. In addition to our having increased funds available during the year our rate of return on investments has increased due to economic forces within the banking sector.

Walsall has thus been able to take advantage of the lack of inter bank borrowing and the rise in interest rates. The average investment return rate for the council has increased by nearly 1%.

### **3.4 Market Loans – Risk Management**

The council's borrowing portfolio contains some market loans with LOBO options attached. This is where the lender has the option to change the interest rate on the loan and the borrower has the choice to accept the proposal or repay. To balance the benefits of these loans and the exposure to rate changes on the debt portfolio the authority has a strategy to reduce the number of exposure points in a given year. During 2007/8 the authority reduced the number of interest rate change points in the 5 year period from 2008 to 2012 from 14 to 12 through the rescheduling of one loan. This will help maintain the comparatively low average rate on the authority's debt and remains a key strategic treasury management objective. However, these variable loans do represent a risk to the authority in a period of high interest rates. The possible effect of an increase in interest rates is monitored regularly. Prl 11 – maturity ranges will be reviewed in light of this risk management approach.

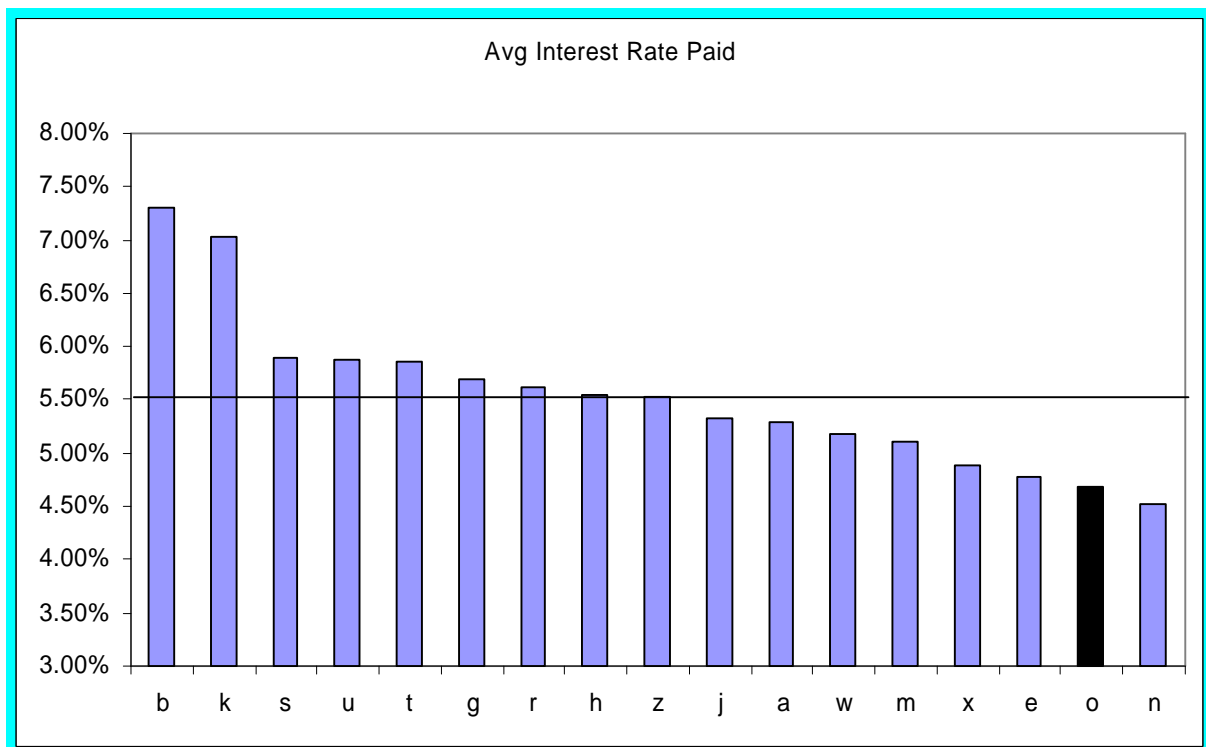
## **4. Comparison with other councils**

- 4.1.1 Table 3 compares interest paid and received during 2007/8 (excluding other local authority debt). with that of our family group. This shows that we were below the average interest rate on borrowing. If we had borrowed at the average rate for all family group councils, Walsall would have paid £1.85 million more interest than was actually paid. It also shows that our rate of return on investments was slightly above average. If we had achieved the average investment rate of the councils that make up our family group, £0.082m less income would have been generated.

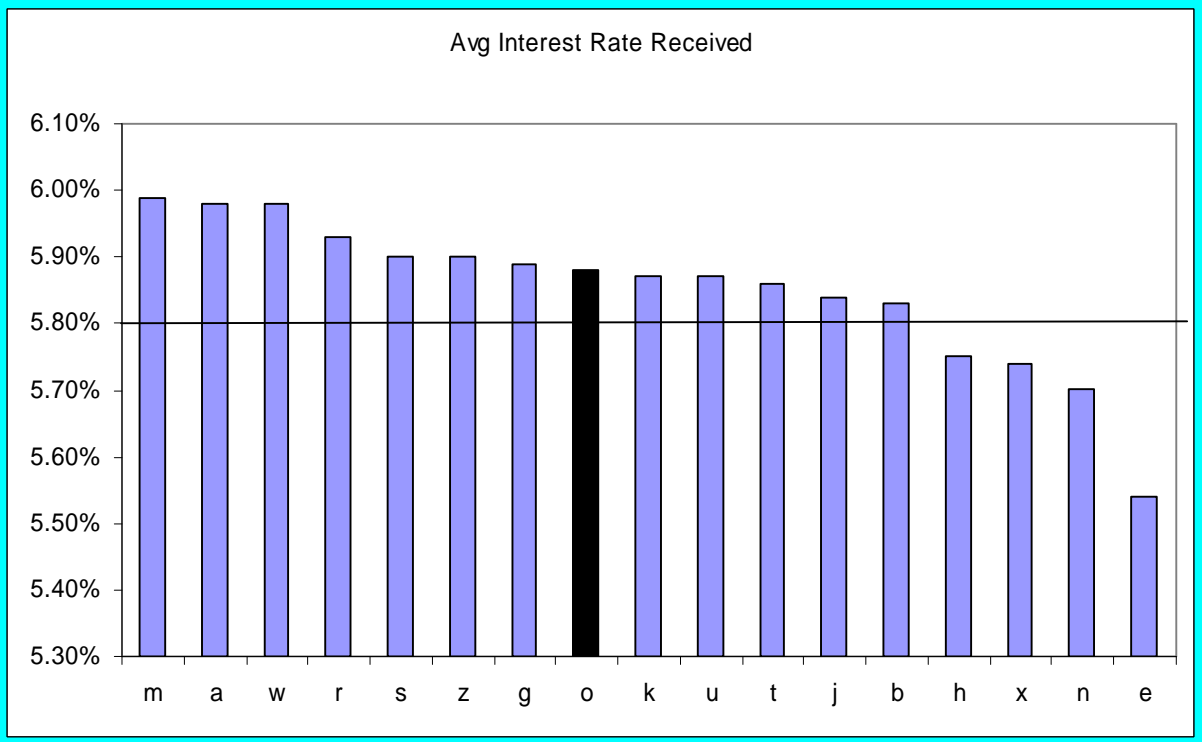


	Walsall Council 2007/8 £m	Family Group 2007/8		
		Average %	Upper %	Lower %
Interest paid	10.73			
Interest received	(6.07)			
<b>Net interest cost</b>	<b>4.66</b>			
<b>Average interest rates:</b>				
On borrowing	4.69%	5.50%	7.31%	4.52%
On investment	5.88%	5.80%	5.95%	5.54%

- 4.2 The following graph shows our position in comparison with our family group members within the IPF benchmarking group, for average rate on interest paid. The black column represents Walsall Council. The horizontal line is the family average.



- 4.3 The following graph shows our position in comparison with our family group members within the IPF benchmarking group. The black column represents Walsall. The horizontal line is the family average.



## EXPLANATION OF TECHNICAL TERMS USED IN THIS REPORT AND ITS APPENDICES

1. TERM	DEFINITION
Bills	Also known as Bills of Exchange. Written order to pay sum on given date to a named person.
Bond	A government or public company's document undertaking to repay borrowed money usually with a fixed rate of interest.
Borrowing	Obtaining money for temporary use that has to be repaid.
Capital receipts	The proceeds from the disposal of land or other assets. Capital receipts can be used to fund new capital expenditure but cannot be used to finance revenue expenditure
Cash flow management	The management of the authority's receipts and payments to ensure the authority can meet its financial obligations.
Credit arrangements	Are defined in section 48 of the 1989 Act – they comprise diverse forms of leases and contractual arrangements whereby authorities obtain credit other than by the borrowing of money.
Dividends	Sum to be payable as interest on loan.
Investments	The employment of money with the aim of receiving a return.
Local bonds	A local authority's document undertaking to repay borrowed money usually with a fixed rate of interest.
Long term borrowing	Borrowing of money for a term greater than one year.
Market convention	The rules and regulations by which all brokers and dealers should abide by. It includes standards of practice and calculation conventions for interest. They are defined in the London Code of Conduct ("The London Code") published by the Bank of England.
Operating leases	Fixed assets held and occupied , used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility
Other local authority debt	Debt that is owed by one local authority to another local authority.
Prudential code	The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by, contains specified performance indicators.
Redeemable stock	Stocks that are recovered by particular terms.
Short term borrowing	Borrowing of money for a term of up to 364 days.
Stock	Subscribed capital of trading company, or public debt of nation, municipal corporation etc regarded as transferable property
Supported Borrowing	The amount of borrowing that Government believes is required by an authority in any one year to provide its capital programme. Financial support is provided for this through Formula Grant.
Temporary borrowing	Borrowing of money for a term of up to 364 days.
Treasury management	The management of the local authority's cash flows, its borrowings and its investments, management of associated risks, and pursuit of the optimum performance or return consistent with those risks.
Treasury policy statement	A statement of key policies followed in pursuit of effective treasury management, including borrowing limits and strategy.
Unsupported Borrowing	Borrowing undertaken by an authority above its supported borrowing level to support the capital programme. Can only be undertaken if it is proven to be prudent to do so.
Variable debt	This is money which has been borrowed at a variable interest rate, and as such is subject to interest rate changes.