

Taunton Deane Borough Council

Executive - 15 October 2008

Report of the Principal Accountant

This matter is the responsibility of Executive Councillor Henley (Leader of the Council)

Treasury Management Update 2008/2009 and Minimum Revenue Provision

Executive Summary

- The following report provides a brief narrative on the Treasury activity of the Council in the first six months of 2008/09, focussing primarily on debt and investments. In addition, there is a short description and request to approve / recommend, to the next full Council, officers preferred options in relation to Minimum Revenue Provision (MRP), as required by recent changes to regulation surrounding this item.

1. Purpose of the Report

- 1.1 To update the Executive on Treasury activities in the financial year to date and seek approval of the methods for calculating Minimum Revenue Provision (MRP).

2. External Debt

- 2.1 Analysis of the Councils' Debt: -

31st March 2008 £'000		30th Sept 2008 £'000
18,005	Public Works Loan Board	18,003
3,000	Barclays Bank	3,000
7	Parish Council / Local Trust Loans	0
<u>2,000</u>	Temporary Loans (PWLb)	<u>2,000</u>
<u>23,012</u>		<u>23,003</u>

- 2.2 A further £2.003m will be repaid to the PWLB in March 2009 (£2m temporary borrowing) leaving the anticipated closing position at exactly £21m.

3. Interest Rates

- 3.1 Since the update report in June this year, the Bank of England has maintained rates at 5.00%.

4. Interest Rate Prospects

- 4.1 The Bank of England's stance on interest rates have been driven by concerns over inflation (currently CPI 4.7%) which is anticipated to rise further in the short term before easing towards, but probably remaining over, the 2% target during 2009/10.
- 4.2 Despite the above, the current 'credit crunch' and concerns over the exposure to 'toxic waste' of even the most sound and respected institutions, has resulted in a reluctance of banks to lend to one another, pushing lending rates for the period of one month to one year (typical TDBC lending period) in the range of 6.15% - 6.50%. Until this situation is resolved, rates available in the market will continue to be well in excess of bank base.

4. Borrowing Transactions

- 4.1 There are no plans currently to borrow further. The Council's capital programme is fully financed either with cash resources, or borrowing made in earlier periods.
- 4.2 Temporary borrowing remains a possibility should cash flows require it but at the time of reporting officers do not consider this to be likely in the immediate future.

5. Investment Transactions

- 5.1 Current outstanding investments amount to £24.185m. Details of these can be found in appendix A.
- 5.2 The average rate of interest achieved when investing surplus funds for the first six months of 2008/09 has been in the range of 4.10% - 6.38%, with the weighted average at 5.83%. This equates to approximately £720k in interest income both received and receivable.

6. Prudential Indicators

- 6.1 Prudential Indicators following the closure of accounts for 2007/08 have now been calculated and estimates for 2008/09 and beyond can now be found in Appendix B

7. Minimum Revenue Provision (MRP)

- 7.1 On the 31st March 2008, the Government introduced amended legislation to deal with the statutory requirement for authorities to make an annual provision from revenue, for the repayment of borrowing undertaken for purposes of financing capital expenditure. This annual provision, known as Minimum Revenue Provision (or MRP) is a largely technical calculation, with the intention of government to make it easier to deal with, and more in line with proper accounting practices.
- 7.2 Rather than prescribe an approach, the Government has offered four options, two for situations where borrowing is undertaken with support

from Central Government, meaning where money is given to support the cost of the interest payments on debt, and a further two options where borrowing is undertaken by authorities without this support. In practical terms these options are academic at this authority, being simple variants along similar themes and have little impact on the 'bottom line'. The choice may have a greater impact at other authorities, hence the availability of options.

7.3 Options:

- For supported borrowing authorities can choose between the technically demanding and cumbersome method in current use (option 1) or a simple 4% on outstanding debt (option 2).
- For unsupported borrowing however, the options are; (3) debt associated with asset purchased / created, divided by the expected life of the asset (Asset Life Method) or (4) use depreciation as a proxy for the provision to be made.

7.4 Treasury officers recommend that options 2 & 3 are selected as the most appropriate methods for this authority given that they are the simplest to understand and calculate and that there is no material impact on the Council's 'bottom line'

8. Recommendation

- 8.1 The Executive is requested to note the treasury management position for the first six months of 2008/09.
- 8.2 Treasury officers also request that the Executive approve the options recommended in section 7, with a view to recommending these for adoption at the next Full Council Meeting.

Background Papers:

Treasury Management & Investments Strategy 2008/09, Executive 5th March 2008.

Treasury Management Outturn 2007/08 and Update 2008/09, Executive 18th June 2008.

Department of Communities & Local Government, web link to commentary regarding MRP regulation.

<http://www.local.communities.gov.uk/finance/capital/amdregletcon.pdf>

Contact Officer: Steve Murphy
Principal Accountant (01823) 328860
E-Mail:
j.murphy@tauntondeane.gov.uk

Appendix A

Investments Outstanding At 1st October 2008 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Stroud & Swindon B S	1,000,000	6.05%	04-Apr-08	06-Oct-08
Cheshire B S	1,000,000	6.01%	04-Apr-08	06-Oct-08
DMO (UK Gov't)	2,000,000	4.10%	01-Oct-08	16-Oct-08
Allied Irish Bank	1,000,000	5.68%	31-Jul-08	20-Oct-08
DMO (UK Gov't)	2,000,000	4.40%	01-Oct-08	31-Oct-08
West Bromwich B S	1,000,000	5.79%	06-Aug-08	14-Nov-08
West Bromwich B S	1,000,000	5.70%	20-Aug-08	14-Nov-08
Britannia B S	1,000,000	5.71%	20-Aug-08	14-Nov-08
Britannia B S	1,000,000	5.71%	01-Sep-08	01-Dec-08
Yorkshire B S	1,000,000	5.71%	05-Sep-08	05-Dec-08
Principality B S	1,000,000	5.83%	22-Aug-08	15-Dec-08
Bank of Ireland	1,000,000	5.77%	12-Sep-08	31-Dec-08
Skipton B S	1,000,000	5.78%	02-Sep-08	02-Jan-09
Nottingham B S	1,000,000	5.45%	10-Jan-08	12-Jan-09
Allied Irish Bank	1,000,000	5.83%	12-Sep-08	22-Jan-09
DEPFA Bank	1,000,000	5.80%	12-Sep-08	22-Jan-09
Coventry B S	1,000,000	5.74%	09-Apr-08	08-Apr-09
Chelsea B S	500,000	5.74%	09-Apr-08	08-Apr-09
Royal Bank of Scotland	1,000,000	6.38%	25-Jun-08	25-Jun-09
Abbey Business Reserve	2,000,000	Variable	On Demand	
RBS Money Market Fund	1,685,000	Variable	On Demand	
TOTAL	24,185,000			

Appendix B

PRUDENTIAL INDICATOR	2007/08 Out turn	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate
Capital Expenditure	£'000	£'000	£'000	£'000
General Fund	3,761	3,946	1,566	3,177
Housing Revenue Account	4,399	5,082	5,265	5,450
Authority Total	8,160	9,028	6,831	8,627
Ratio of financing costs to net revenue stream	%	%	%	%
General Fund	-0.57	-1.54	-1.51	-1.46
Housing Revenue Account	2.83	4.49	4.25	4.02
Net borrowing requirement	£'000	£'000	£'000	£'000
Brought forward 1 st April	6,689	5,405	7,940	7,940
Carried Forward 31 st March	5,405	7,940	7,940	7,940
In-year borrowing requirement	-1,284	2,535	0	0
Capital Finance Requirement	£'000	£'000	£'000	£'000
General Fund	6,642	8,911	8,555	8,212
Housing Revenue Account	14,451	14,451	14,451	14,451
Authority Total	21,093	23,362	23,006	22,663
Incremental impact of capital investment decisions	£ / p	£ / p	£ / p	£ / p
Increase in Council Tax (Band D Equivalent)	0	0	5.59	5.44
Authorised limit for external debt	£'000	£'000	£'000	£'000
Authority total	40,000	40,000	40,000	40,000
Operational boundary for external debt	£'000	£'000	£'000	£'000
Authority total	30,000	30,000	30,000	30,000
	V % / F %	V % / F %	V % / F %	V % / F %
Upper limits for variable / fixed rated borrowing and investments	50 / 100	50 / 100	50 / 100	50 / 100
Upper limit for total principal sums invested with a single counterparty	£2m / 20%	£2m / 20%	£2m / 20%	£2m / 20%