

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 20th JUNE 2007

REPORT OF THE PRINCIPAL ACCOUNTANT

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

TREASURY MANAGEMENT OUTTURN 2006/07 & 2007/08 UPDATE

EXECUTIVE SUMMARY

- Debt position remains relatively benign in respect of cost and repayment profile.
- Interest rates static but expectation for future upward trend.
- Debt costs and investment income show positive variances for 06/07.
- Borrowing strategy remains unchanged as review shows no revenue benefit of further restructuring, however with Taunton Vision and ISIS service transformation on the horizon; this will be kept under review.

1. Purpose Of The Report

- 1.1 To update the Executive on the outturn position for treasury management activities for 2006/07, and the current position to date for the financial year 2007/08 on treasury management issues.

FINAL FIGURES 2006/07

2. External Debt

- 2.1 The Analysis of debt for the year ending 31st March 2007 is as follows:

	£'000
Total debt outstanding 31.3.2006	19,103
Loans repaid during year	(10,011)
New loans taken out during year	<u>9,000</u>
Total debt outstanding 31.3.2007	<u>18,092</u>

- 2.2 Analysis of the Councils' Loan Debt: -

31 st March		31 st March
2006		2007
£'000		£'000
18,020	Public Works Loan Board (PWLB)	18,012
76	SCC Annuity Loans	73
7	Parish Council / Local Trust Loans / Local	7
	Market Bonds	
1,000	Temporary Market Loan	0
<u>19,103</u>		<u>18,092</u>

- 2.3 External long-term borrowing was marginally reduced over the year with the partial repayment of annuity type loans with the PWLB. In addition during December 2006 the Authority undertook significant refinancing of £8m of PWLB debt (see 4.2 below).

3. Interest Rates

- 3.1 The bank of England raised interest rate three times over 2006/07, from 4.5% (Aug 06) to 5.25% (Jan 07). The last time rates were as high as this was July 2001 and the effect has been to benefit the Councils investment returns, boosting them by £150k over budgeted levels. In income terms this is the equivalent level of income that is raised by a 2.9% increase in Council Tax.

4. Borrowing Transactions

- 4.1 £1m was borrowed temporarily in February / March 07 to cover a short term cash flow deficit. This was borrowed for 12 days at a cost of £1,700.
- 4.2 In December and in consultation with our treasury advisors Sector, a benefit was identified in repaying some (£8m) of the Council existing debt and re-borrowing it at a lower rate. This was undertaken and it is estimated to have saved the Authority approximately £17k per annum. This was done at a cost of lengthening the maturity profile of the Councils debt. Officers anticipate that, in reality, this debt will be repaid before the maturity date and at no extra cost than would otherwise have been incurred, with the possibility that further benefits could accrue.
- 4.3 The average consolidated rate of interest on the total portfolio for 2006/07 was 5.38% (5.75% in 2005/06).

5. Investment Transactions

- 5.1 Temporary surpluses in cash flow, as well as cash reserves, can be invested for periods of up to 2 years. Through this, the Council can use these investment returns to reduce the cost of services to the taxpayer. The level of investments outstanding at 31/03/07 was £11.4m (£14.64m in 2006). The detail of the outstanding investments can be found in Appendix A.
- 5.2 The range of interest rate achieved when investing surplus funds during 2006/07 was 4.4% - 5.54% (4.50% - 5.4% 2005/06).
- 5.3 Interest earned on these investments amounted to just over £918,000 (£961,000 05/06) of which approximately £739,000 (£762,000 05/06) was allocated to the General Fund. Every effort is undertaken to maximise these returns and officers will continue to monitor rates in conjunction with our advisors, Sector, and seek to make positive investment decisions, seizing upon opportunities as they arise.

6. Prudential Indicators

- 6.1 Details of the Prudential Indicators can be found in Appendix B.

THE CURRENT YEAR

7. Outlook for Interest Rates

- 7.1 At the time of reporting, the Bank of England has maintained interest rates at 5.5% for June, having raised them in May, and the 'markets' pricing in rises in excess of 6% before the year is out. Most of the smart money is indeed on a further rise, anticipating this will happen either in July or August.
- 7.2 Much will depend on how inflation is kept on track and the Bank of England inflation report in August. Naturally, any interest rate rise benefits the Council in terms of its investment returns on cash resources and officers will seek to maximise this return as the market ebbs and flows (and hopefully occasional overreacts) to data and information, as it arises in the economic environment.

8. Borrowing Strategy

- 8.1 Long term interest rates have also been rising, however this has had a much more benign impact on the Council as decisions to borrow and refinance are taken with reference not only to rates but need to borrow for capital purposes, the premiums / discounts available on early redemption of debt and future trends of both of the above.
- 8.2 The Council's debt portfolio currently attracts heavy premiums and therefore there is limited scope for restructuring debt on more favourable terms. Nevertheless, some £3m of debt is 'internal' that is to say it is borrowed from our own reserves and funds. Recent advice from Sector suggests that now would be a good time to externalise this debt, which would reduce the average cost of borrowing. At the time of writing (07/06/07) the details of this deal were being finalised and are anticipated to be concluded by 14/06/07. A verbal update will be given at the Executive.

9. Public Works Loan Board

- 9.1 Loans to the value of approximately £6k (annuity loans) will be repaid to the PWLB during 2007/08.

10. Investment Transactions

- 10.1 As at 7th June 2007 sums totalling £15.2m were invested as set out in Appendix C.
- 10.2 The average rate of interest achieved when investing surplus funds during 2007/08 to date ranges from 5.38% to 5.8%. This income source is on target to achieve budgeted levels.

11. Effect on Corporate Priorities

- 11.1 Treasury Management impacts on all aspects of the Council's revenue and capital finances and therefore affects all Corporate Priorities.

12. Recommendation

- 12.1 The Executive is requested to note the treasury management outturn for 2006/07, and the position to date for 2007/08.

Background Papers:

Treasury Management & Investments Strategy 2007/08, Executive 7th March 2007.

Contact Officers

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Appendix A

Investments Outstanding At 31st March 2007 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Building Societies				
Portman	1,000,000	5.33	15/03/07	04/01/07
Stroud & Swindon	1,000,000	5.48	29/03/07	29/05/07
Progressive	1,000,000	5.54	20/03/07	20/07/07
Newcastle	1,000,000	4.70	11/09/06	10/09/07
Scarborough	1,000,000	5.34	23/11/06	22/11/07
Nationwide	1,000,000	5.53	09/01/07	09/01/08
Chelsea	1,500,000	5.50	20/12/06	20/06/08
Other Institutions				
Bank of Scotland Call Account	600,000	Variable	N/A	On Demand
Abbey National plc Business Reserve	1,300,000	Variable	N/A	On Demand
Royal Bank of Scotland Treasury Fund	2,000,000	Variable	N/A	On Demand
TOTAL	11,400,000			

Appendix B

PRUDENTIAL INDICATOR	2005/06 £'000 out-turn	2006/07 £'000 out-turn	2007/08 £'000 estimate	2008/09 £'000 estimate	2009/10 £'000 estimate
Capital Expenditure					
General Fund	£4,196,369	£6,157,238	£2,240,200	£1,725,200	£3,442,100
HRA	£4,991,450	£4,618,105	£4,907,700	£5,062,400	£5,265,400
TOTAL	£9,187,819	£10,775,343	£7,147,900	£6,787,600	£8,707,500
Ratio of financing costs to net revenue stream					
General Fund	-0.03%	-3.85%	-5.48%	-3.51%	-2.98%
HRA	5.00%	4.24%	3.93%	3.73%	3.55%
Net borrowing requirement					
brought forward 1 April	£3,959,700	£5,897,121	£6,689,377	£7,189,377	£7,689,377
Carried forward 31 March	£5,897,121	£6,689,377	£7,189,377	£7,689,377	£8,189,377
in year borrowing requirement	£1,937,421	£792,256	£500,000	£500,000	£500,000
Capital Financing Requirement as at 31 March					
General Fund	£6,400,779	£6,797,529	£7,637,288	£8,137,288	£8,637,288
HRA	£14,291,342	£14,451,342	£14,291,342	£14,291,342	£14,291,342
TOTAL	£20,692,121	£21,248,871	£21,928,630	£22,428,630	£22,928,630
Incremental impact of capital investment decisions					
	£ p	£ p	£ p	£ p	£ p
Increase in council tax (band D)	0.99	0.47	0.50	0.50	0.50
Authorised limit for external debt -					
TOTAL	£40,000,000	£40,000,000	£40,000,000	£40,000,000	£40,000,000
Operational boundary for external debt -					
TOTAL	£30,000,000	£30,000,000	£30,000,000	£30,000,000	£30,000,000
Upper limit for fixed interest rate exposure					
Net interest re fixed rate borrowing/ investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net interest re variable rate borrowing/ investments	50%	50%	50%	50%	50%
Upper limit for total principal sums invested for over 364 days (per maturity date)					
	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%

Appendix C

Investments Outstanding At 7th June 2007 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Building Societies				
Portman	1,000,000	5.55	04/06/07	20/06/07
Derbyshire	1,000,000	5.58	03/04/07	03/07/07
Progressive	1,000,000	5.54	20/03/07	20/07/07
Newcastle	1,000,000	4.70	11/09/06	10/09/07
Scarborough	1,000,000	5.34	23/11/06	22/11/07
Nationwide	1,000,000	5.53	09/01/07	09/01/08
Kent Reliance	1,000,000	5.38	02/04/07	01/04/08
Stroud & Swindon	1,000,000	5.80	04/04/07	04/04/08
Norwich & Peterborough	1,000,000	5.15	27/04/07	25/04/08
Kent Reliance Norwich & Peterborough	1,000,000	5.44	01/05/07	01/05/08
Norwich & Peterborough	1,000,000	5.35	01/06/07	30/05/08
Chelsea	1,500,000	5.50	20/12/06	20/06/08
Other Institutions				
Royal Bank of Scotland Treasury Fund	1,100,000	Variable	N/A	On Demand
Bank of Scotland Call Account	1,600,000	Variable	N/A	On Demand
TOTAL	15,200,000			