

Taunton Deane Borough Council

Executive – 1 December 2010

Treasury Management Update 2010

Report of the Strategic Director (Shirlene Adam)

(This matter is the responsibility of Executive Councillor Williams)

1. Executive Summary

The following report provides a brief narrative on the Treasury activity of the Council in the first six months of 2010/2011, focussing primarily on debt and investments. In addition, there is a request to recommend to full Council the basis of the Minimum Revenue Provision (MRP) for 2011/2012.

2. Background

The purpose of this report is to update the Executive on treasury activities in the financial year to date and seek approval of the method for calculating MRP for 2011/2012.

3. External Debt

3.1 Analysis of the Council's Debt: -

31 March 2010 £'000		30 Sept 2011 £'000
6,000	Public Works Loan Board fixed rate	6,000
3,000	Barclays Bank	3,000
6,000	Temporary Loans (PWLB variable rate)	6,000
<hr/> 15,000		<hr/> 15,000

3.2 £6m will be repaid to the PWLB in November 2010 on maturity (£6m temporary borrowing). We are currently reviewing the options in conjunction with our Treasury Advisors due to the Comprehensive Spending Review and the impact of the increased rates on PWLB variable rate loans.

4. Interest Rates

- 4.1 The Bank of England has continued to maintain the low rate of 0.5% during the first half of 2010/2011. This has been to aid stability to the economy and aid growth following the period of recession the world economy has experienced.

5. Interest Rate Prospects

- 5.1 The path of the Bank of England's base rates reflects the fragility of the recovery from the recession, with growth likely to remain subdued. It is anticipated that the rate will remain at this low level for the remainder of the financial year with forecasts showing that it may remain flat for the majority of next year.

6. Borrowing Transactions

- 6.1 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.
- 6.2 The current amount of temporary borrowing may be rolled forward on 23rd November 2010 when repayment becomes due, however options are currently being looked at to provide the best option for any borrowing requirement.

7. Investment Transactions

- 7.1 The Council has continued to prioritise the security of its invested balances and has therefore restricted the use of new investments to the Debt Management Office, AAA-rated Money Market Funds and UK banks whose can avail of the UK Government' Credit Guarantee Scheme and whose long-term ratings are in the 'double-A' category.
- 7.2 Current outstanding investments amount to £20.8m. Details of these can be found in appendix A.
- 7.3 Due to the continued Bank of England low rate of interest of 0.5%, money market rates have also, over the past 6 months, continued to stay at historically low levels. The average rate of interest (for fixed term investments) achieved when investing surplus funds for the first six months of 2010/2011 has been in the range of 1.85% to 1.22%, with the weighted average at 1.49%. When the variable rate call accounts are included the weighted average was 0.98%. This equates to approximately £96k in interest income both received and receivable.
- 7.4 The Council has one outstanding soft loan with a balance of £20k with Tone Leisure. This loan matures on 31 March 2011.

8. Prudential Indicators

- 8.1 Prudential Indicators following the closure of accounts for 2009/2010 have now been calculated and estimates for 2010/2011 and beyond can now be found in Appendix B.

9. Minimum Revenue Provision

- 9.1 Before the start of each financial year, the Council is required to determine the basis on which it will make provision from revenue for the repayment of borrowing undertaken for the purpose of financing capital expenditure. This annual provision, known as Minimum Revenue Provision (MRP), is designed to ensure that authorities make prudent provision to cover the ongoing costs of their borrowing.
- 9.2 In 2008, the Government became less prescriptive offering Councils a number of options for calculating MRP.
- 9.3 The impact of the HRA reform and its impact on MRP is being monitored and any amendments required will be brought forward to the Executive.
- 9.4 For the current financial year 2010/2011, the Council determined to calculate MRP as follows:-
- for supported borrowing, 4% on outstanding debt; and
 - for unsupported borrowing, the debt associated with asset divided by the estimated useful life of the asset.
- It is proposed that this should be retained for 2011/2012.

10. Comprehensive Spending Review

- 10.1 In light of the CSR of 20 October 2010 the Council, with its advisors, are examining flexible solutions to challenges that have arisen. Any changes necessary will be incorporated into the 2011/2012 Treasury Management Strategy Statement that will go before Council early next year.

11. Legal Comments

Not applicable to this report

12. Links to Corporate Aims

The Treasury Management and Investment Strategy supports the delivery of the Corporate Aims.

13. Environmental and Community Safety Implications

Not applicable to this report

13. Equalities Impact

Not applicable to this report

14. Risk Management

This is set out in the Treasury Management and Investment Strategy and outlined in this report.

15. Partnership Implications

Southwest One continue to provide Treasury Management operations for Taunton Deane as part of the finance service delivered through the contract. They achieved the Performance Indicator targets for both Preservation of Investment Capital and Return on Investments during 2009/2010 and for the first six months of this year (2010/2011).

17. Recommendations

It is recommended that:-

- The Executive notes the treasury management position for the first six months of 2010/2011; and
- The Executive endorses the proposal, for approval by Full Council, that the basis of calculating MRP in 2010/2011 be retained for 2011/2012.

Contact Officers

Shirlene Adam

01823 356310

s.adam@tauntondeane.gov.uk

Lizzie Watkin

01823 357768

e.watkin@tauntondeane.gov.uk

Appendix A

Investments Outstanding at 1 October 2010 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Nationwide BS	2,000,000	1.22	03/12/2009	03/12/2010
Lloyds TSB plc	1,000,000	1.82	15/12/2009	15/12/2010
Barclays Bank plc	1,000,000	1.45	05/01/2010	05/01/2011
Lloyds TSB plc	1,000,000	1.82	26/02/2010	28/02/2011
Barclays Bank plc	2,500,000	1.34	01/04/2010	01/04/2011
Lloyds TSB plc	1,500,000	1.85	01/04/2010	01/04/2011
Nationwide BS	1,000,000	1.25	12/04/2010	12/04/2011
Clydesdale 15 days Notice Account	2,000,000	0.75	01/10/2010	12/11/2010
RBS call account	3,500,000	0.80	On Demand	
RBS (Nat West) Treasury Reserve	1,300,000	Variable	On Demand	
Standard Life Global Liquidity Fund	2,000,000	Variable	On Demand	
Invesco (STIC) Global	2,000,000	Variable	On Demand	
TOTAL	20,800,000			

Appendix B

PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
	outturn	estimate	estimate	estimate	estimate
Capital Expenditure					
General Fund	£4,562	£5,738	£3,724	£1,905	£1,865
HRA	£5,142	£6,058	£4,300	£4,399	£4,020
TOTAL	£9,704	£11,796	£8,024	£6,304	£5,885
Ratio of financing costs to net revenue stream					
General Fund	0.14%	1.08%	1.28%	1.33%	1.38%
HRA	1.89%	1.78%	1.77%	1.43%	1.20%
Net borrowing projection					
brought forward 1 April	£9,900	£7,786	£10,940	£12,879	£13,619
Carried forward 31 March	£7,786	£10,940	£12,879	£13,619	£14,430
in year borrowing requirement	-£2,114	£3,154	£1,939	£740	£811
Capital Financing Requirement as at 31 March					
General Fund	£8,586	£11,505	£13,175	£13,637	£14,159
HRA	£14,451	£14,451	£14,451	£14,451	£14,451
TOTAL	£23,037	£25,956	£27,626	£28,088	£28,610
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in council tax (band D)	1.54	2.18	0.90	-0.01	0.15
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%
Maturity Structure of Fixed Rate Borrowing (Upper and lower limits)					
under 12 months	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
12 months and within 24 months	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
24 months and within 5 years	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
5 years and within 10 years	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
10 years and above	20% to 100%	20% to 100%	20% to 100%	20% to 100%	20% to 100%
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%