

## TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 22nd JUNE 2005

### REPORT OF THE FINANCIAL SERVICES MANAGER

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

### TREASURY MANAGEMENT OUTTURN 2004/05 & UPDATE

#### EXECUTIVE SUMMARY

- External debt was marginally increased over the year to take advantage of cost reductions.
- Base rate remained level at 4.75% following 0.25% increase in Aug 04, future trend expected to follow downward path.
- Investment Income was up on previous year, £930k compared to £634k, with the General Fund share also up by £235k to £705k.
- Cash Flow surpluses have remained largely static with no change expected in the short to medium term.

#### 1. Purpose Of The Report

- 1.1 To update the Executive on the outturn position for treasury management activities for 2004/05, and the current position to date for the financial year 2005/06 on treasury management issues.

#### FINAL FIGURES 2004/05

#### 2. External Debt

- 2.1 The Analysis of debt for the year ending 31st March 2005 is as follows:

Total debt outstanding 1.4.2004	£ 19,129,550
Long term loans repaid during year	(1,513,031)
New loans taken out during year	2,000,000
Total debt outstanding 31.3.2005	19,616,519

- 2.2 Analysis of the Councils' Loan Debt: -

31 <sup>st</sup> March 2004 £		31 <sup>st</sup> March 2005 £
19,041,992	Public Works Loan Board	19,531,228
200	Local Market Bonds	200
80,858	SCC Annuity Loans	78,591
6,500	Parish Council / Local Trust Loans	6,500
19,129,550		19,616,519

2.3 External borrowing increased slightly over the year to take advantage of low borrowing rates, (even lower than borrowing from our own internal funds). This allowed for a marginal reduction in the cost of borrowing, and thus reduced the burden to the taxpayer.

### **3. Interest Rates**

3.1 As reported in the January update, the Bank of England has increased rates only once (0.25%, Aug 2004) in the last year. Intense debate and speculation, as to future movements has settled, with most City institutions and the market agreeing that 4.75%, the current base rate, is the peak of this cycle and future movement will be downward.

### **4. Borrowing Transactions**

4.1 No further borrowing has been undertaken since the £2m additional PWLB debt taken on in December 2004.

4.2 The average consolidated rate of interest on the total portfolio for 2004/05 was 5.91% (6.61% in 2003/04). This reflects the reduced cost of borrowing identified in paragraph 2.3 as well as maturing loans, taken on at a time of higher rates than the current average.

### **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. By this, the Council can use these investment returns to reduce the cost of services to the taxpayer. The funds available for investment has levelled out after a run of approximately 3-4 years of increases, this is largely due to the Council now having to pay over 75% of Right to Buy receipts to the Government. However, despite this the actual level of investments outstanding at 31/03/05 was still £16.14m (£14.1m in 2004). The detail of the outstanding investments can be found in Appendix A.

5.2 The average rate of interest achieved when investing surplus funds during 2004/05 was 4.18% - 5.4% (3.30% - 4.70% 2003/04), with the increase reflecting a period of relatively stable base rates, coupled with market speculation as to the timing and movement of future interest rates.

5.3 Interest earned on these investments amounted to just under £930,000 (£634,000, 03/04) of which approximately £705,000 (£470,000 03/04) was allocated to the General Fund. Realistically, these returns cannot be expected to continue into the future, in the context of reducing base rates, nevertheless, 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.

## **THE CURRENT YEAR**

### **6. Outlook for Interest Rates**

6.1 As discussed above, base rates are expected to fall over the coming financial year. However, this impression may alter if world, European and / or UK economic growth accelerates and / or inflation gets out of control.

**7. Borrowing Strategy**

7.1 Despite relatively reduced levels of capital resources; there is no current anticipation of borrowing need in the coming year. Any borrowing undertaken will likely take the form of externalising our overall liability to reduce the cost of debt; as was achieved last December.

**8. Public Works Loan Board**

8.1 Loans to the value of approximately £1.5m will be repaid to the PWLB during 2005/06.

**9. Investment Transactions**

9.1 As at 8th June 2005 sums totalling £20,555,000 were invested as set out in Appendix B.

9.2 The average rate of interest achieved when investing surplus funds during 2005/06 to date ranges from 4.74 to 5.27%. This income source is on target to achieve budgeted levels.

**10. Effect on Corporate Priorities**

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

**11. Recommendation**

11.1 The Executive is requested to note the treasury management outturn for 2004/05, and the position to date for 2005/06.

**Background Papers:**

Treasury Management Update 2004/05, Executive 12<sup>th</sup> January 2005.

Treasury Management & Investments Strategy 2005/06, Executive 9<sup>th</sup> March 2005.

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**Appendix A**

**Investments Outstanding At 31<sup>st</sup> March 2005 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Derbyshire Building Society	1,000,000	4.77	01/02/05	01/04/05
West Bromwich Building Society	1,000,000	4.77	01/02/05	01/04/05
Newcastle Building Society	1,000,000	4.74	15/04/04	14/04/05
Cheshire Building Society	1,000,000	4.90	15/10/04	14/04/05
West Bromwich Building Society	1,000,000	4.83	28/02/05	29/04/05
Norwich & Peterborough Building Society	1,000,000	5.00	17/08/04	17/05/05
Cheshire Building Society	1,000,000	5.13	18/11/04	17/05/05
Nottingham Building Society	1,000,000	4.88	27/10/04	27/05/05
Principality Building Society	1,000,000	4.90	22/03/05	22/06/05
Nottingham Building Society	1,000,000	4.99	01/10/04	01/08/05
Principality Building Society	1,000,000	5.01	15/03/05	23/09/05
Derbyshire Building Society	1,000,000	4.98	24/03/05	26/09/05
Stroud & Swindon Building Society	1,000,000	5.40	19/11/04	18/11/05
Dexia Banque Int'l a Luxembourg SA	1,000,000	5.00	01/03/05	28/02/06
Coventry Building Society	1,000,000	5.03	31/03/05	31/03/06
Abbey National Business Reserve	170,000	Variable	N/A	On Demand
Royal Bank of Scotland Treasury Fund	970,000	Variable	N/A	On Demand
<b>TOTAL</b>	16,140,000			

**Appendix B**

**Investments Outstanding At 8<sup>th</sup> June 2005 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Principality Building Society	1,000,000	4.90	22/03/05	22/06/05
Derbyshire Building Society	1,000,000	4.88	01/04/05	22/06/05
West Bromwich Building Society	1,000,000	4.86	01/04/05	22/06/05
Scarborough Building Society	1,000,000	4.85	27/04/05	27/06/05
Cumberland Building Society	1,000,000	4.83	03/05/05	04/07/05
HSH Nordbank	1,000,000	4.77	17/05/05	18/07/05
Portman Building Society	1,000,000	4.77	01/06/05	28/07/05
Nottingham Building Society	1,000,000	4.78	27/05/05	29/07/05
Nottingham Building Society	1,000,000	4.99	01/10/04	01/08/05
Portman Building Society	1,000,000	4.78	01/06/05	01/08/05
Principality Building Society	1,000,000	5.01	15/03/05	23/09/05
Derbyshire Building Society	1,000,000	4.98	24/03/05	26/09/05
Stroud & Swindon Building Society	1,000,000	5.40	19/11/04	18/11/05
Dexia Banque Int'l a Luxembourg SA	1,000,000	5.00	01/03/05	28/02/06
Coventry Building Society	1,000,000	5.00	31/03/05	31/03/06
Cheshire Building Society	1,000,000	5.27	15/04/05	13/04/06
Stroud & Swindon Building Society	1,000,000	5.40	09/05/05	08/05/06
Abbey National Business Reserve	2,000,000	Various	N/A	On Demand
Royal Bank of Scotland Treasury Fund	1,555,000	Various	N/A	On Demand
<b>TOTAL</b>	<b>20,555,000</b>			