

## TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 21st JUNE 2006

### REPORT OF THE PRINCIPAL ACCOUNTANT

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

### TREASURY MANAGEMENT OUTTURN 2005/06 & 2006/07 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 05/06.
- Borrowing strategy remains unchanged as review shows no revenue benefit of restructure, however with Taunton Vision and Housing Transfer 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 2005/06, and the current position to date for the financial year 2006/07 on treasury management issues.

#### FINAL FIGURES 2005/06

#### 2. External Debt

- 2.1 The Analysis of debt for the year ending 31st March 2006 is as follows:

	£'000
Total debt outstanding 1.4.2005	19,616
Long term loans repaid during year	(1,513)
New loans taken out during year	1,000
Total debt outstanding 31.3.2006	19,103

- 2.2 Analysis of the Councils' Loan Debt: -

31 <sup>st</sup> March 2005 £'000		31 <sup>st</sup> March 2006 £'000
19,531	Public Works Loan Board	18,020
78	SCC Annuity Loans	76
7	Parish Council / Local Trust Loans / Local Market Bonds	7
	Temporary Market Loan	1,000
19,616		19,103

- 2.3 External borrowing was reduced over the year with the repayment of loans at maturity with the PWLB. The effect of this has been masked somewhat by the need to borrow temporarily during March, in order to cover a short term cash deficit. This temporary borrowing was repaid during April.

### **3. Interest Rates**

- 3.1 As reported in the January update, the Bank of England has decreased interest rates only once in the last financial year, from 4.75% to 4.5%, in August 2005. However, counter to the opinion expressed at that time, our advisers now believe that there will be no further reductions and that movement will be upward during 2006/07.

### **4. Borrowing Transactions**

- 4.1 £1m was borrowed temporarily during March 06 to cover a cash deficit at that time, common due to the 'drying up' of Council Tax payments etc at this time of year. The advent of the new financial year brought in more cash receipts of this type and the debt was repaid in April.
- 4.2 The average consolidated rate of interest on the total portfolio for 2005/06 was 5.75% (5.91% in 2004/05). This is due to 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. Through this, the Council can use these investment returns to reduce the cost of services to the taxpayer. The level of investments outstanding at 31/03/06 was £14.64m (£16.14m in 2005). 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 2005/06 was 4.50% - 5.4% (4.18% - 5.4% 2004/05).
- 5.3 Interest earned on these investments amounted to just over £961,000 (£930,000 04/05) of which approximately £762,000 (£705,000 04/05) 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 As noted above in 3.1, opinion has shifted, with no further expectations of reductions in base rate in the short and medium term future. This should assist in meeting budgeted targets for investment returns and may even produce enhanced returns. Any expectation for the latter will be reported through quarterly budget monitoring.

## **8. Borrowing Strategy**

- 8.1 Two reviews have been undertaken as to the potential benefit of restructuring our debt portfolio and / or externalising our debt, both of which would produce no revenue benefits and therefore not acted upon. Ongoing monitoring of the market and interest rates ensure that any changes are considered and potential for benefits are not missed. This approach ensures that TDBC can remain flexible in light of the massive impact of the Taunton Vision and Housing Transfer will have in this area until certainty over value and timings of sums involved become known.

## **9. Public Works Loan Board**

- 9.1 Loans to the value of approximately £10k will be repaid to the PWLB during 2006/07.

## **10. Investment Transactions**

- 10.1 As at 7th June 2006 sums totalling £21.49m were invested as set out in Appendix C.
- 10.2 The average rate of interest achieved when investing surplus funds during 2006/07 to date ranges from 4.14 to 5.15%. 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 2005/06, and the position to date for 2006/07.

### **Background Papers:**

Treasury Management Update 2005/06, Executive 11<sup>th</sup> January 2006.

Treasury Management & Investments Strategy 2006/07, Executive 8<sup>th</sup> March 2006.

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**Appendix A**

**Investments Outstanding At 31<sup>st</sup> March 2006 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Building Societies				
Cheshire	1,000,000	5.2700%	15-Apr-05	13-Apr-06
Leeds	1,000,000	4.5400%	16-Jan-06	18-Apr-06
Portman	1,000,000	4.5000%	15-Mar-06	18-Apr-06
Derbyshire	1,000,000	4.5100%	3-Mar-06	3-May-06
Stroud & Swindon	1,000,000	5.4000%	9-May-05	8-May-06
West Bromwich	1,000,000	4.5200%	28-Feb-06	19-May-06
Coventry	1,000,000	4.5100%	23-Mar-06	23-May-06
Scarborough	1,000,000	4.5200%	1-Mar-06	1-Jun-06
Stroud & Swindon	1,000,000	4.5200%	17-Mar-06	19-Jun-06
Yorkshire	1,000,000	4.6000%	31-Mar-06	29-Sep-06
Leeds	1,000,000	4.5800%	17-Mar-06	18-Dec-06
Norwich & Peterborough	1,000,000	4.6150%	17-Mar-06	16-Mar-07
Yorkshire	1,000,000	4.7000%	31-Mar-06	30-Mar-07
Other Institutions				
Bank of Scotland Base Plus Account	1,000,000	Variable	N/A	On Demand
Abbey National plc Business Reserve	10,000	Variable	N/A	On Demand
Royal Bank of Scotland Treasury Fund	780,000	Variable	N/A	On Demand
<b>TOTAL</b>	<b>14,790,000</b>			

## Appendix B

PRUDENTIAL INDICATOR	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000
	actual	out-turn	estimate	estimate	estimate
<b>Capital Expenditure</b>					
General Fund	£3,404,088	£4,196,369	£11,813,143	£1,839,500	£1,710,500
HRA	£5,568,192	£4,991,450	£4,472,000	£4,472,000	£4,472,000
TOTAL	£8,972,280	£9,187,819	£16,285,143	£6,311,500	£6,182,500
<b>Ratio of financing costs to net revenue stream</b>					
General Fund	-7.64%	-0.03%	1.09%	1.37%	1.97%
HRA	5.55%	5.00%	4.00%	3.31%	3.04%
<b>Net borrowing requirement</b>					
brought forward 1 April	£8,692,159	£5,029,550	£2,020,166	£2,010,166	£2,000,166
Carried forward 31 March	£5,029,550	£2,020,166	£2,010,166	£2,000,166	£1,990,166
in year borrowing requirement	-£3,662,609	-£3,009,384	-£10,000	-£10,000	-£10,000
<b>Capital Financing Requirement as at 31 March</b>					
General Fund	£5,808,354	£6,602,549	£7,375,173	£8,117,844	£8,859,844
HRA	£14,291,342	£14,291,342	£14,291,342	£14,291,342	£14,291,342
TOTAL	£20,099,696	£20,893,891	£21,666,515	£22,409,186	£23,511,186
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (band D)	1.04	1.18	1.37	1.80	2.70
<b>Authorised limit for external debt -</b>					
TOTAL	£40,000,000	£40,000,000	£40,000,000	£40,000,000	£40,000,000
<b>Operational boundary for external debt -</b>					
TOTAL	£30,000,000	£30,000,000	£30,000,000	£30,000,000	£30,000,000
<b>Upper limit for fixed interest rate exposure</b>					
Net interest re fixed rate borrowing/ investments	100%	100%	100%	100%	100%
<b>Upper limit for variable rate exposure</b>					
Net interest re variable rate borrowing/ investments	50%	50%	50%	50%	50%
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>					
	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%

**Appendix C**

**Investments Outstanding At 8<sup>th</sup> June 2006 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Building Societies				
Stroud & Swindon	1,000,000	4.5200%	17-Mar-06	19-Jun-06
West Bromwich	1,000,000	4.5600%	25-Apr-06	22-Jun-06
Coventry	1,000,000	4.5300%	13-Apr-06	29-Jun-06
Leeds	1,000,000	4.5700%	18-Apr-06	18-Jul-06
Chelsea	1,000,000	4.6200%	4-May-06	20-Jul-06
Derbyshire	1,000,000	4.6200%	11-May-06	24-Jul-06
Portman	1,000,000	4.6000%	28-Apr-06	31-Jul-06
Derbyshire	1,000,000	4.6400%	15-May-06	3-Aug-06
Scarborough	1,000,000	4.6500%	1-Jun-06	22-Aug-06
Stroud & Swindon	1,000,000	4.6500%	1-Jun-06	22-Aug-06
West Bromwich	1,000,000	4.6600%	1-Jun-06	18-Sep-06
Yorkshire	1,000,000	4.6000%	31-Mar-06	29-Sep-06
Cheshire	1,000,000	4.6700%	28-Apr-06	31-Oct-06
Leeds	1,000,000	4.5800%	17-Mar-06	18-Dec-06
Cheshire	1,000,000	4.6500%	5-Apr-06	5-Jan-07
Norwich & Peterborough	1,000,000	4.6150%	17-Mar-06	16-Mar-07
Yorkshire	1,000,000	4.7000%	31-Mar-06	30-Mar-07
Other Institutions				
Abbey National Business Reserve	2,000,000	Variable	N/A	On Demand
Royal Bank of Scotland Treasury Fund	1,490,000	Variable	N/A	On Demand
Bank of Scotland Base Plus Account	1,000,000	Variable	N/A	On Demand
<b>TOTAL</b>	21,490,000			