

## TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 23<sup>rd</sup> JUNE 2004

### REPORT OF THE FINANCIAL SERVICES MANAGER

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

### TREASURY MANAGEMENT UPDATE

#### EXECUTIVE SUMMARY

- External debt was reduced by over £3m during 2003/04.
- Interest rates followed an upward trend after bottoming out at 3.5% between July & Oct 2003.
- Investment Income was up on previous year, £634k compared to £540k, with the General Fund share also up by £70k to £470k.
- Future interest rates are expected to rise, peaking at around 4.75% during 2004, 2005 and 2006.
- New regulation and a requirement to adhere to CIPFA's 'Prudential Code' have given the Council greater flexibility in its' borrowing strategy and investments.
- Cash Flow surpluses have remained largely static, though interest rate trends suggest greater than budgeted investment income.
- Treasury Management Practices (TMP's) documentation has been altered to increase flexibility and effectiveness of day-to-day treasury operations.

#### 1. Purpose Of The Report

- 1.1 To update the Executive on the outturn position for treasury management activities for 2003/04, and the current position to date for the financial year 2004/05 on treasury management issues.

#### FINAL FIGURES 2003/04

#### 2. External Debt

- 2.1 The Analysis of debt for the year ending 31st March 2004 is as follows: -

	£
Total debt outstanding 1.4.2003	22,142,159
Long term loans repaid during year	(12,609)
Long term loans repaid early during year	(3,000,000)
Total debt outstanding 31.3.2004	19,129,550

## 2.2 Analysis of the Councils' Loan Debt:-

31 <sup>st</sup> March 2003 £		31 <sup>st</sup> March 2004 £
22,052,467	Public Works Loan Board	19,041,992
200	Local Bonds	200
82,992	Annuity Loans	80,858
6,500	Temporary Loans (Repayable on Demand)	6,500
22,142,159		19,129,550

2.3 As can be seen from the above, the Council repaid £3,000,000 external debt early. This was done to bring our debt in line with overall liabilities, whilst reducing the current and future interest burden on the General Fund.

## 3. Interest Rates

3.1 The Bank Base Rate continues to be reviewed on a monthly basis by the Monetary Policy Committee (MPC) at the Bank of England. The rate started at 3.75% in April 2003 and was dropped to 3.50% from July to October the same year. This downward trend was reversed in November (back to 3.75%) and ended the year at 4.00%, with the final change, taking place in February 2004.

## 4. Borrowing Transactions

4.1 In order to take advantage of the opportunity to repay debt early as mentioned above (30<sup>th</sup> January 04), the Council was faced with a temporary 9-day cash flow deficit; however, this was 'covered' by borrowing £1,000,000 and paying it back on the 9<sup>th</sup> February 2004. No other new borrowing was undertaken during the financial year.

4.2 The average consolidated rate of interest on the total portfolio for 2003/04 was 6.61%.

## 5. Investment Transactions

5.1 When necessary, any surplus funds were invested with approved institutions for periods of up to 364 days (revised at 01/04/04, see below) in accordance with the Treasury Policy Statement. As at the 31<sup>st</sup> March 2004 sums totalling £14,100,000 were invested as set out in Appendix A.

5.2 The average rate of interest achieved when investing surplus funds during 2003/04 ranged from 3.30% to 4.70%. These rates follow the rising pattern reflected in base rates and market sentiment.

5.3 Interest earned on this surplus amounted to just under £634,000 (£540,000, 02/03) of which approximately £470,000 (£400,000 02/03) was allocated to the General Fund. With surplus cash flows maintained broadly at the levels of earlier years, the increase in interest income can be attributed to more rapid interest rate increases than anticipated, and officer reaction to volatility within the markets. Officers continually monitor rates in conjunction with our advisors and seek to make investments as these opportunities arise. In the current rising market these opportunities should be frequent, especially whilst uncertainty over timing of interest rate raises remains.

## **THE CURRENT YEAR**

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

- 6.1 At the commencement of the financial year the Bank of England Base Rate was 4.0 %. This rate was increased to 4.25% in May, and at the time of writing there is strong expectation of a further rise in June. Our advisors anticipate further increases over the coming period, peaking at 4.75% between the winter of 2004 and the first quarter of 2006.

### **7. Borrowing Strategy**

- 7.1 The Councils Treasury Management Strategy has always been risk adverse and this will continue to be so in the future, whilst practice is still guided under the CIPFA Treasury Management Code of Practice. Since last years' annual outturn and update report, new regulations have been brought in regarding the issue of Council borrowing and investments. In future, all Councils will have regard to the 'Prudential Code' when considering their borrowing strategy and other treasury issues, which provides a framework, based on affordability and prudence. Flexibility will continue to be the key and both the current and forecast interest rates will continue to be monitored in conjunction with our treasury management advisers, Sector. Borrowing will be taken at a time considered to give the optimum opportunity within the overall debt portfolio, ensuring that the balance of variable and fixed rate debt is appropriate, the maturity profile is acceptable and that borrowing is within the new framework.

### **8. Public Works Loan Board**

- 8.1 The implementation of the 'Prudential Code' and a new regime of capital finance regulations have altered the capacity for the Council to borrow under a framework of affordability and prudence. This has changed the previously limiting criteria set by PWLB's quotas and all future borrowing from the PWLB will be based on the new framework parameters. The PWLB continues to be the main source of borrowing for this Council but officers have not ruled out borrowing from any other approved counterparty should this prove to be more advantageous.
- 8.2 The council has loans to the value of £1,511,000 maturing during 2004/05.

### **9. Borrowing Transactions**

- 9.1 No long or short term borrowing has been undertaken so far during the current financial year.

### **10. Investment Transactions**

- 10.1 As at 7th June 2004 sums totalling £19,025,000 were invested as set out in Appendix B. The Council has recently started to place investments in advance, in anticipation of future cash flow surpluses. These forward deals are limited to a maximum of two years. Appendix C details the forward-deals made so far this year.
- 10.2 The average rate of interest achieved when investing surplus funds during 2004/05 to date ranges from 4.16 to 5.40%. This income source is on target to achieve budgeted levels.

## **11. Changes to Treasury Management Practices**

11.1 In order to adapt to the changing regulatory environment and provide a risk assessed flexibility to Treasury operations; the following changes were made to the Treasury Management Practices (TMP's) documentation, with the approval of the Head of Resources:

- To avoid restricting the Council to a few borrowers, whom may not absorb our surplus cash at a given time, the exposure limit for all our counterparties was increased to £2m from £1.5m, or 25% of our total investment portfolio, whichever is the lower.
- An online brokering service was added to our list of authorised brokers to provide another option for investing funds.
- Further changes are anticipated in the forthcoming annual review of this documentation, particularly in the area of Money Laundering. Recent accounting guidance has been issued in response to the enactment of the 'Proceeds of Crime Act 2002' and 'Money Laundering Regulations 2003', detailing the measures and actions to be taken by individuals and organisations on discovering, or suspecting, unlawful acts. Although the guidelines were not intended for direct application to officers working in the Local Authority environment, good practice cannot be ignored and these will be built into our TMP's
- Current TMP's include the capacity to employ Cash Managers who would essentially invest Council cash on our behalf for a fee. The trigger-point for embarking on these services is where the returns we get (net of the fund managers fees) are greater than the current in-house provision. Recent meetings, with cash managers and our advisors, have been conducted in an attempt to ascertain any likely benefits of going down this route. At this time no conclusions have been drawn and an open mind has been maintained as to the future direction this issue may take. The Executive will be informed of any changes implemented.

## **12. Effect on Corporate Priorities**

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

## **13. Recommendation**

13.1 The Executive is requested to note the treasury management outturn for 2003/04, and the position to date for 2004/05.

### **Background Papers:**

Annual Investment Strategy 2004/5, Executive 11<sup>th</sup> February 2004.

Treasury Management Strategy Statement 2004/5, Executive 10<sup>th</sup> March 2004.

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Appendix A

Investments Outstanding At 31<sup>st</sup> March 2004 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Skipton Building Society	1,000,000	4.06	02/03/04	02/04/04
Newcastle Building Society	1,500,000	3.77	01/10/03	07/04/04
Portman Building Society	1,000,000	4.03	17/03/04	19/04/04
Scarborough Building Society	1,000,000	4.10	24/03/04	26/04/04
Scarborough Building Society	1,000,000	4.16	25/03/04	26/04/04
Cheshire Building Society	1,000,000	3.40	01/05/03	29/04/04
West Bromwich Building Society	1,000,000	4.11	02/03/04	04/05/04
Leeds & Holbeck Building Society	1,000,000	3.98	05/12/03	05/05/04
Dexia Banque Int'l a Luxembourg SA	1,000,000	3.50	01/08/03	30/07/04
National Australia Bank	1,500,000	3.83	15/08/03	13/08/04
Norddeutsche LG	1,000,000	4.00	06/10/03	04/10/04
Dexia Banque Int'l a Luxembourg SA	1,000,000	4.55	05/03/04	04/03/05
Abbey National Business Reserve	250,000	Variable	N/A	On Demand
Royal Bank of Scotland Treasury Fund	850,000	Variable	N/A	On Demand
<b>TOTAL</b>	14,100,000			

Appendix B

Investments Outstanding At 7<sup>th</sup> June 2004 (In Maturity Order)

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
West Bromwich Building Society	1,000,000	4.40	01/06/04	01/07/04
Portman Building Society	1,000,000	4.41	07/06/04	07/07/04
West Bromwich Building Society	500,000	4.38	07/06/04	07/07/04
Dexia Banque Int'l a Luxembourg SA	1,000,000	3.5	01/08/03	30/07/04
National Australia Bank	1,500,000	3.83	15/08/03	13/08/04
Stroud & Swindon Building Society	2,000,000	4.5	27/05/04	27/08/04
Leeds & Holbeck Building Society	1,000,000	4.46	01/04/04	01/10/04
Norddeutsche LG	1,000,000	4.00	06/10/03	04/10/04
Cheshire Building Society	1,000,000	4.26	06/04/04	06/10/04
Cheshire Building Society	1,000,000	4.50	01/04/04	08/10/04
Cumberland Building Society	1,000,000	4.52	30/04/04	29/10/04
Scarborough Building Society	1,000,000	4.70	04/05/04	02/11/04
Norddeutsche LG	1,000,000	4.68	26/05/04	26/11/04
Dexia Banque Int'l a Luxembourg SA	1,000,000	4.55	05/03/04	04/03/05
Newcastle Building Society	1,000,000	4.74	15/04/04	14/04/05
Abbey National Business Reserve	2,000,000	Various	N/A	On Demand
Royal Bank of Scotland Treasury Fund	750,000	Various	N/A	On Demand
Bank of Scotland Current Account	300,000	Various	N/A	On Demand
<b>TOTAL</b>	19,025,000			

**Appendix C**

**Forward Deals Conducted prior to 7<sup>th</sup> June 2004 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Stroud & Swindon Building Society	1,000,000	4.90	15/10/04	14/04/05
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
Stroud & Swindon Building Society	1,000,000	5.40	18/11/04	18/11/05
Stroud & Swindon Building Society	1,000,000	5.40	09/05/05	08/05/06
<b>TOTAL</b>	5,000,000			