

# Taunton Deane Borough Council

Executive - 18 June 2008

## Report of the Principal Accountant

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

## Treasury Management Outturn 2007/2008 and 2008/2009 Update

### EXECUTIVE SUMMARY

- Debt externalised and temporary borrowing increased to take outstanding amount to £23m.
- Economic worries and credit crunch continue to impact on interest rates, with Bank of England reluctant to move with any haste.
- Levels of investment and investment returns remain stable despite the turmoil.
- Refinancing opportunities limited by PWLB lending arrangement change.
- Uncertainty to remain until economic horizon becomes clear and market nervousness eases.

### 1. Purpose of the Report

- 1.1 To update the Executive on the outturn position for treasury management activities for 2007/08, and the current position to date for the financial year 2008/09 on treasury management issues.

### FINAL FIGURES 2007/08

### 2. External Debt

- 2.1 The Analysis of debt for the year ending 31st March 2008 is as follows:

	£'000
Total debt outstanding 1.4.2007	18,092
Long term loans repaid during year	(4,580)
New loans taken out during year	9,500
<b>Total debt outstanding 31.3.2008</b>	<b>23,012</b>

- 2.2 Analysis of the Councils' Loan Debt: -

31 <sup>st</sup> March 2007 £'000		31 <sup>st</sup> March 2008 £'000
18,012	Public Works Loan Board	18,005
0	Barclays Bank	3,000
73	SCC Annuity Loans	0
7	Parish Council / Local Trust Loans	7
0	Temporary Loans (PWLB)	2,000
<b>18,092</b>		<b>23,012</b>

### **3. Interest Rates**

- 3.1 Since the peak of 5.75% in July 2007, the Bank of England has reduced rates three times by 0.25% (Nov 07, Feb & April 08) to the current 5%. This has been in response to the economic changes that have taken place since last summer and the ongoing 'credit crunch' associated with the economic downturn.

### **4. Borrowing Transactions**

- 4.1 After consultation with our advisors, the decision to externalise £3m of the Council's debt was made. This was to take advantage of the expected long term lower cost of this debt and maintain a healthy working cash flow within the Council's accounts.
- 4.2 The average consolidated rate of interest on the total portfolio for 2007/08 was 6.19% (5.38% in 2006/07).

### **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 level of investments outstanding at 31/03/08 was £13.8m (£11.4m in 2007); the detail of these investments can be found in Appendix A.
- 5.2 The average rate of interest achieved when investing surplus funds during 2007/08 was 4.7% - 6.73% (4.48% - 5.54% 2006/07).
- 5.3 Interest earned on these investments amounted to just under £1.12m (£918k in 2006/07) of which approximately £710k (£770k in 2006/07) was allocated to the General Fund, and the balance to the HRA and some internal reserves and funds. For the General Fund this was below the amount forecast when setting the 2007/08 budget, back in February 2007, however budget monitoring predicted a reduction in investment returns and other mitigating actions by the Council minimised the financial impact of the economic downturn.

### **6. Prudential Indicators**

- 6.1 At the time of reporting full prudential indicators for 2007/08 are still being calculated as part of the Closedown process and will be reported to the Executive at the next available meeting.

## **THE CURRENT YEAR**

### **7. Outlook for Interest Rates**

- 7.1 Market pressure and sentiment seem to suggest that interest rates should be reducing over the coming year, to reflect the need to stimulate the economy and prevent a slip into recession. However, the Bank of England has remained cautious at the potential of inflation to continue to creep up if this policy is pursued and has kept rates on hold for the last two months.

7.2 Despite a current bank rate of 5%, the ongoing impact of the credit crunch has maintained market rates well in excess of this 'benchmark'. Recent experience backs this up with investment rates achieved as high as 5.75% for short dated maturities.

7.3 As the turmoil and uncertainty continues, there will be opportunities to enjoy rates in excess of the bank rate, however, caution has been advised by our Treasury advisors and officers are actively engaged in ensuring that liquidity and preservation of principal are central to our lending policy. Consequently, we are not assuming returns in excess of current budget at this time. This will be reviewed quarterly.

## **8. Borrowing Strategy**

8.1 The changes made to PWLB borrowing arrangements in November 2007, has caused a certain stagnation in our (and other authorities) ability to refinance borrowing as flexibly as before. Consequently, we see no immediate opportunity to neither refinance at this time nor anticipate doing so in the current financial year. This situation can only change if borrowing rates reduce to the historic lows seen in 2002/03 or the PWLB have a rethink. At this stage neither is likely.

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

9.1 Loans to the value of approximately £5k will be repaid to the PWLB during 2008/09.

## **10. Investment Transactions**

10.1 As at 6th June 2008 sums totalling £22.482m were invested as set out in Appendix B.

10.2 The average rate of interest achieved when investing surplus funds during 2008/09 to date ranges from 5.15% - 6.05%.

## **11. Recommendation**

11.1 The Executive is requested to note the treasury management outturn for 2007/08, and the position to date for 2008/09.

### **Background Papers:**

Treasury Management & Investments Strategy 2008/09, Executive 5<sup>th</sup> March 2008.

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# Appendix A

## Investments Outstanding At 31<sup>st</sup> March 2008 (In Maturity Order)

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Kent Reliance	1,000,000	5.38%	02-Apr-07	01-Apr-08
Stroud & Swindon	1,000,000	5.80%	04-Apr-07	04-Apr-08
West Bromwich	1,000,000	5.63%	10-Jan-08	10-Apr-08
Norwich and Peterborough	1,000,000	5.15%	27-Apr-07	25-Apr-08
Kent Reliance	1,000,000	5.44%	01-May-07	01-May-08
Norwich and Peterborough	1,000,000	5.35%	01-Jun-07	30-May-08
Chelsea	1,500,000	5.50%	20-Dec-06	20-Jun-08
Nottingham	1,000,000	5.62%	10-Jan-08	10-Jul-08
Cheshire	1,000,000	5.60%	10-Jan-08	10-Jul-08
Coventry	1,000,000	5.78%	12-Jul-07	14-Jul-08
Stroud & Swindon	1,000,000	5.37%	01-Aug-07	31-Jul-08
Nottingham	1,000,000	5.45%	10-Jan-08	12-Jan-09
Abbey National Business Reserve	1,177,000	Variable	N/A	On Demand
Bank of Scotland Reserve Account	124,000	Variable	N/A	On Demand
<b>TOTAL</b>	<b>13,801,000</b>			

**Appendix B****Investments Outstanding At 6<sup>th</sup> June 2008 (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	1,000,000	5.52%	01-May-08	19-Jun-08
Chelsea	1,500,000	5.50%	20-Dec-06	20-Jun-08
West Bromwich	1,000,000	5.70%	24-Apr-08	24-Jun-08
Nottingham	1,000,000	5.62%	10-Jan-08	10-Jul-08
Cheshire	1,000,000	5.60%	10-Jan-08	10-Jul-08
Derbyshire	1,000,000	5.93%	10-Apr-08	10-Jul-08
Coventry	1,000,000	5.78%	12-Jul-07	14-Jul-08
Stroud & Swindon	1,000,000	5.37%	01-Aug-07	31-Jul-08
Derbyshire	1,000,000	5.92%	16-Apr-08	15-Aug-08
Nationwide	2,000,000	5.75%	01-May-08	18-Aug-08
Britannia	1,000,000	5.75%	15-May-08	19-Aug-08
Principality	1,000,000	5.75%	05-Jun-08	22-Aug-08
Skipton	1,000,000	5.95%	07-Apr-08	08-Sep-08
Principality	1,000,000	5.90%	05-Jun-08	17-Sep-08
Stroud & Swindon	1,000,000	6.05%	04-Apr-08	06-Oct-08
Cheshire	1,000,000	6.01%	04-Apr-08	06-Oct-08
Nottingham	1,000,000	5.45%	10-Jan-08	12-Jan-09
Coventry	1,000,000	5.74%	09-Apr-08	08-Apr-09
Chelsea	500,000	5.75%	09-Apr-08	08-Apr-09
Abbey National Business Reserve	500,000	Various	N/A	On Demand
Royal Bank of Scotland Treasury Fund	1,982,000	Various	N/A	On Demand
<b>TOTAL</b>	<b>22,482,000</b>			