

# Taunton Deane Borough Council

## Executive – 16 June 2010

### Treasury Management Outturn 2009/10 and 2010/11 Update

#### Report of the Strategic Finance Officer

(This matter is the responsibility of Executive Councillor Hall)

#### 1. Executive Summary

- Interest received was £173k of which £138k was allocated to the General Fund
- Interest rates remain at an all time low
- Investment activities remain restricted due to the current economic climate

#### 2. Background

- 2.1 The purpose of this report is to update the Executive on the outturn position for treasury management activities for 2009/10, and the current position to date for the financial year 2010/11 on treasury management issues

#### 3. External Debt

- 3.1 The Analysis of debt for the year ending 31st March 2010 is as follows:

	£'000
Total debt outstanding 1.4.2009	15,000
Short term loans repaid during year	(6,000)
New loans taken out during year	6,000
<b>Total debt outstanding 31.3.2010</b>	<b>15,000</b>

- 3.2 Analysis of the Councils' Loan Debt: -

31 <sup>st</sup> March 2009 £'000		31 <sup>st</sup> March 2010 £'000
6,000	Public Works Loan Board (PWLB)	6,000
3,000	Barclays Bank	3,000
0	SCC Annuity Loans	0
0	Parish Council / Local Trust Loans	0
6,000	Variable Rate PWLB ( 1 year)	6,000
<b>15,000</b>		<b>15,000</b>

#### 4. Interest Rates

- 4.1 The Bank of England maintained the low rate of 0.5% during 2009/10. This has been to aid stability to the economy during the period of recession. The level of interest rates and the associated impact on Money Market Rates is shown in Appendix C.

#### 5. Borrowing Transactions

- 5.1 A short-term £6m borrowing from the PWLB fell payable in November 2009 and was replaced with one year variable rate borrowing from the PWLB.
- 5.2 The average consolidated rate of interest on the total portfolio for 2009/10 was 4.27% (5.01% in 2008/09).

#### 6. Investment Transactions

- 6.1 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 31/03/10 was £8.6m (£5.3m in 2009):

<b>31<sup>st</sup> March 2009 £'000</b>		<b>31<sup>st</sup> March 2010 £'000</b>
0	Long Term Investments	0
5,300	Short Term Investments	8,600
<b>5,300</b>		<b>8,600</b>

The detail of these investments can be found in Appendix A.

- 6.2 The average range of interest rates achieved when investing surplus funds during 2009/10 was 0.25% - 6.38% (0.6% - 6.38% 2008/09), again demonstrated by the Money Market Rates in Appendix C.
- 6.3 Interest earned on these investments amounted to £173k (£914k in 2008/09) of which approximately £138k (£735k in 2008/09) was allocated to the General Fund, and the balance to the HRA.
- 6.4 Credit criteria, counterparty risk and selection: The Council's investment activities remained restricted during 2009/10. The Council continued to apply a higher minimum credit criteria (in the double-A category at the very least) for its investments. In doing so, the Council demonstrated its adherence to the overriding principles of security and liquidity which are the cornerstone of its investment policy and objective. The Council accepted the diminution in investment return from investing with highly rated counterparties as an acceptable risk-reward trade-off.

## **7. Prudential Indicators**

- 7.1 At the time of reporting full prudential indicators for 2009/10 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**

### **8. Outlook for Interest Rates**

- 8.1 Our treasury advisors central forecast currently is that interest rates will slowly rise towards the end of this calendar year, although the impact of the emergency budget, which will be announced on 22<sup>nd</sup> June 2010 is an unknown factor and there is a risk that this forecast is likely to change.
- 8.2 Six months on from the emergence from the recession confidence remains low. In this current financial climate our treasury advisors are still counselling caution and the central plank of our current lending policy is to ensure the liquidity and preservation of principal. Consequently, we are not assuming returns in excess of current budget at this time. This will be reviewed quarterly.

### **9. Borrowing Strategy**

- 9.1 It is not envisaged that any additional borrowing will be undertaken during 2010/11 other than the potential replacement of the short-term variable rate PWLB loan.

### **10. Public Works Loan Board**

- 10.1 The short term variable rate loan of £6m will be repaid to the PWLB in November 2010.

### **11. Investment Transactions**

- 11.1 As at 3rd June 2010 sums totalling £19m were invested as set out in Appendix B.
- 11.2 The average rate of interest achieved when investing surplus funds during 2010/11 to date ranges from 0.75% - 1.85%.

### **12. Legal Comments**

Not applicable to this report

**13. Links to Corporate Aims**

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

**14. Environmental and Community Safety Implications**

Not applicable to this report

**15. Equalities Impact**

Not applicable to this report

**16. Risk Management**

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

**17. Partnership Implications**

17.1 Southwest One continue to provide Treasury Management function 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 2009/10.

**18. Recommendations**

The Executive is requested to note the treasury management outturn for 2009/10, and the position to date for 2010/11.

**Contact:** Maggie Hammond  
01823 358698  
m.hammond@tauntondeane.gov.uk

**Appendix A****Investments Outstanding At 31<sup>st</sup> March 2010 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Nationwide BS	2,000,000	1.22	03/12/09	03/12/10
Lloyds	1,000,000	1.82	15/12/09	15/12/10
Barclays	1,000,000	1.45	05/01/10	05/01/11
Lloyds	1,000,000	1.82	26/02/10	28/02/11
Abbey National Business Reserve	1,600,000	Variable	N/A	On Demand
Royal Bank of Scotland Business Reserve	2,000,000	Variable	N/A	On Demand
<b>TOTAL</b>	<b>8,600,000</b>			

**Appendix B****Investments Outstanding At 3rd June 2010 (In Maturity Order)**

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Nationwide	2,000,000	1.22	03/12/09	03/12/10
Lloyds	1,000,000	1.82	15/12/09	15/12/10
Barclays	1,000,000	1.45	05/01/10	05/01/11
Lloyds	1,000,000	1.82	26/02/10	28/02/11
Barclays	2,500,000	1.34	01/04/10	01/04/11
Lloyds	1,500,000	1.85	01/04/10	01/04/11
Nationwide	1,000,000	1.25	12/04/10	12/04/11
Royal Bank of Scotland call account	3,000,000	0.75	15/04/10	On Demand
Abbey National Business Reserve	2,000,000	variable	N/A	On Demand
Royal Bank of Scotland Business Reserve	2,000,000	variable	N/A	On Demand
Standard Life Business Reserve Account	2,000,000	variable	N/A	On Demand
<b>TOTAL</b>	<b>19,000,000</b>			

## Appendix C

### Bank Rate, Money Market Rates

Source: Bloomberg

Date	Bank Rate %	7 -day LIBID %	1-month LIBID %	3-month LIBID %	6-month LIBID%	12-month LIBID %	2yr swap Bid %	3yr swap Bid %	5yr swap Bid %
01/04/2009	0.500	0.500	0.800	1.400	1.800	1.820	1.973	2.361	2.954
30/04/2009	0.500	0.350	0.600	1.200	1.600	1.700	2.010	2.440	2.998
31/05/2009	0.500	0.350	0.450	1.050	1.250	1.600	1.890	2.498	3.243
30/06/2009	0.500	0.400	0.600	0.950	1.200	1.600	2.277	2.959	3.650
31/07/2009	0.500	0.400	0.500	0.900	1.200	1.300	2.133	2.873	3.603
31/08/2009	0.500	0.350	0.400	0.450	0.700	1.000	1.915	2.595	3.310
30/09/2009	0.500	0.460	0.350	0.520	0.500	0.850	1.805	2.485	3.210
31/10/2009	0.500	0.460	0.370	0.550	0.840	1.000	1.878	2.520	3.208
30/11/2009	0.500	0.350	0.370	0.450	0.650	1.050	1.727	2.315	3.009
31/12/2009	0.500	0.350	0.370	0.450	0.650	1.200	1.986	2.630	3.363
31/01/2010	0.500	0.350	0.370	0.450	0.700	1.100	1.693	2.298	3.063
28/02/2010	0.500	0.350	0.420	0.500	0.800	1.240	1.525	2.078	2.878
31/03/2010	0.500	0.250	0.420	0.510	0.810	1.260	1.520	2.050	2.808
Minimum	<b>0.500</b>	0.2500	0.3500	0.4500	0.5000	0.8500	1.5200	2.0495	2.8075
<b>Average</b>	<b>0.500</b>	<b>0.3785</b>	<b>0.4631</b>	<b>0.7215</b>	<b>0.9769</b>	<b>1.2862</b>	<b>1.8715</b>	<b>2.4692</b>	<b>3.1764</b>
Maximum	0.500	0.5000	0.8000	1.4000	1.8000	1.8200	2.2770	2.9590	3.6500
Spread	0.500	0.2500	0.4500	0.9500	1.3000	0.9700	0.7570	0.9095	0.8425

*Please note that the minimum, maximum and average rates/yields are those daily rates/yields during the year.*