

Taunton Deane Borough Council

Executive - 17 June 2009

Treasury Management Outturn 2008/2009 and 2009/2010 Update

Report of the Management and Financial Accounting Operations Manager

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

EXECUTIVE SUMMARY

- Debt restructured to reduce outstanding amount to £15m.
- Interest rates at an all time low and likely to remain so.
- Investment returns will inevitably reduce in line with rates.
- 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 2008/09, and the current position to date for the financial year 2009/10 on treasury management issues.

FINAL FIGURES 2008/09

2. External Debt

- 2.1 The Analysis of debt for the year ending 31st March 2009 is as follows:

	£'000
Total debt outstanding 1.4.2008	23,012
Long term loans repaid during year	(14,012)
New loans taken out during year	6,000
Total debt outstanding 31.3.2009	15,000

- 2.2 Analysis of the Councils' Loan Debt: -

31 st March 2008 £'000		31 st March 2009 £'000
18,005	Public Works Loan Board (PWLB)	6,000
3,000	Barclays Bank	3,000
0	SCC Annuity Loans	0
7	Parish Council / Local Trust Loans	0
2,000	Variable Rate PWLB (1 year)	6,000
23,012		15,000

3. Interest Rates

- 3.1 The Bank of England has reduced rates seven times during the year from 5.25% at 1st April 2008 to the current all time low of 0.5% at 31st March 2009. This has been in response to the well publicised 'credit crunch' which led to the current recession. This decline in interest rates and the associated impact on Money Market Rates is shown in Appendix C.

4. Borrowing Transactions

- 4.1 After consultation with our advisors, the decision was made to restructure £12m of the Council's debt in November 2008. Fixed rate borrowing of £12m was repaid. £6m of this was replaced with one year variable rate borrowing from the PWLB. It is anticipated that the remaining £6m will be borrowed in 2009/10. This was to take advantage of the expected long term lower cost of this debt.
- 4.2 The average consolidated rate of interest on the total portfolio for 2008/09 was 5.01% (6.19% in 2007/08).

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 31/03/09 was £5.3m (£13.8m in 2008):

31st March 2008 £'000		31st March 2009 £'000
0	Long Term Investments	0
13,831	Short Term Investments	5,300
<u>17,831</u>		<u>5,300</u>

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

Investments have partly diminished due to the repayment of PWLB borrowings. These are likely to increase in 2009-10 when the final £6m new borrowing is undertaken as part of the debt restructuring process.

- 5.2 The average range of interest rates achieved when investing surplus funds during 2008/09 was 0.6% - 6.38% (4.7% - 6.73% 2007/08), again demonstrated by the Money Market Rates in Appendix C.
- 5.3 Interest earned on these investments amounted to £914k (£1.12m in 2007/08) of which approximately £735k (£710k in 2007/08) 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 2008/09 budget, back in February 2008, however budget monitoring predicted a reduction in investment returns

and other mitigating actions by the Council minimised the financial impact of the economic downturn.

- 5.4 Credit criteria, counterparty risk and selection: Financial markets and financial institutions remained in a state of heightened risk as the impact of the financial crisis continued to adversely affect the global economy. The Council's investment activities were restricted as a consequence in order to demonstrably address the prevailing higher risk backdrop. The Council applied 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 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.
- 5.5 During September and October 2008 when confidence in the markets was extremely fragile and counterparty risk at its most elevated, the Council responded by placing new and maturing investments with the Debt Management Agency Deposit Facility (guaranteed by HM Treasury) and with highly liquid AAA-rated Money Market Funds.
- 5.6 Thereafter the Council restricted new lending to UK institutions which could avail of the Government's 2008 Credit Guarantee Scheme (CGS*) and with long-term ratings in the 'double-A' category. The institutions meeting this criteria were: Abbey National, Barclays Bank, Clydesdale Bank, HSBC Bank, Lloyds TSB Bank and Bank of Scotland (both part of the Lloyds Banking Group), Nationwide Building Society and Royal Bank of Scotland,**The CGS was announced in October 2008 to stabilise the UK banking system and provide solvency support for the "systemically critical" banking institutions in the UK. The government's CGS is not an explicit guarantee for deposits but is main platform to maintain the solvency of institutions critical to the UK's financial stability.)*
- 5.7 Icelandic institutions: The Council confirms that Icelandic banks (Glitnir, Kaupthing and Landsbanki) or their UK subsidiaries (Heritable Bank and Kaupthing Singer and Friedlander) did not feature on the Council's lending list. No investments were therefore placed with any of these banks.

6. Prudential Indicators

- 6.1 At the time of reporting full prudential indicators for 2008/09 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 Our treasury advisors central forecast is that interest rates will remain unchanged over the coming year, although there is a small upside risk of a modest increase in the final quarter.

7.2 In the current financial climate our treasury advisors are 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 (which is significantly lower than previous years) at this time. This will be reviewed quarterly.

8. Borrowing Strategy

8.1 It is not envisaged that any additional borrowing will be undertaken other than the completion of the debt restructuring which commenced in November 2008.

9. Public Works Loan Board

9.1 The short term variable rate loan of £6m will be repaid to the PWLB in November 2009.

10. Investment Transactions

10.1 As at 3rd June 2009 sums totalling £14.5m 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 0.30% - 1.33%.

11. Recommendation

11.1 The Executive is requested to note the treasury management outturn for 2008/09, and the position to date for 2009/10.

Background Papers:

Treasury Management & Investments Strategy 2009/10, Executive 1st April 2009.

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Appendix A

Investments Outstanding At 31st March 2009 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Coventry BS	1,000,000	5.74%	09-Apr-08	08-Apr-09
Chelsea BS	500,000	5.75%	09-Apr-08	08-Apr-09
Royal Bank of Scotland	1,000,000	6.38%	25-Jun-08	25-Jun-09
Nationwide BS	2,000,000	3.25%	03-Dec-08	03-Dec-09
Abbey National Business Reserve	800,000	Variable	N/A	On Demand
TOTAL	5,300,000			

Appendix B

Investments Outstanding At 3rd June 2009 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Abbey National	1,000,000	1.33%	14-Apr-09	12-Jun-09
Lloyds	1,000,000	0.58%	12-May-09	12-Jun-09
Abbey National	1,000,000	1.33%	15-Apr-09	19-Jun-09
Lloyds	1,000,000	0.63%	13-May-09	19-Jun-09
Barclays	1,000,000	0.45%	21-May-09	22-Jun-09
Royal Bank of Scotland	1,000,000	6.38%	25-Jun-08	25-Jun-09
Barclays	1,000,000	0.50%	27-May-09	29-Jun-09
Royal Bank of Scotland	1,000,000	0.70%	01-Jun-09	20-Jul-09
Clydesdale	2,000,000	0.76%	01-Jun-09	20-Jul-09
Nationwide BS	2,000,000	3.25%	03-Dec-08	03-Dec-09
Invesco	2,000,000	Various	N/A	On Demand
Royal Bank of Scotland Treasury Fund	500,000	Various	N/A	On Demand
TOTAL	14,500,000			

Appendix C

Bank Rate, Money Market Rates

Date	Bank Rate %	7-day LIBID %	1-month LIBID %	3-month LIBID %	6-month LIBID %	12-month LIBID %	2yr Swap Bid %	3-yr Swap Bid %	5-yr Swap Bid %
01-Apr-08	5.250	5.3500	5.7000	5.9400	5.9000	5.7500	5.1210	5.0540	5.0401
30-Apr-08	5.000	5.1000	5.4000	5.7600	5.7600	5.7400	5.3940	5.3610	5.2850
30-May-08	5.000	5.0700	5.3800	5.7900	5.9100	6.0800	5.9670	5.9140	5.7550
30-Jun-08	5.000	5.1000	5.3000	5.8000	6.0800	6.3700	6.2440	6.2190	6.0620
31-Jul-08	5.000	5.0500	5.3000	5.7000	5.8500	6.1000	5.5910	5.5760	5.5010
29-Aug-08	5.000	5.0800	5.3000	5.6900	5.8400	5.9500	5.3380	5.3150	5.2370
30-Sep-08	5.000	5.5000	5.8500	6.1000	6.2000	6.3000	5.3140	5.2540	5.1870
31-Oct-08	4.500	4.2500	5.4500	5.8000	5.7000	5.9400	4.2470	4.3850	4.5970
28-Nov-08	3.000	2.3500	2.8000	3.8500	4.0000	3.5500	3.1310	3.3270	3.6350
31-Dec-08	2.000	1.5000	2.0500	2.0000	2.7100	2.8300	2.5898	2.8610	3.1351
30-Jan-09	1.500	1.1500	1.4500	2.0000	2.1500	2.0500	2.0310	2.3680	2.9490
27-Feb-09	1.000	0.6000	1.2500	1.9000	2.0500	2.2000	2.2670	2.5890	3.1125
31-Mar-09	0.500	0.5500	0.8000	1.4500	1.6200	1.8200	2.0490	2.4550	3.0000
Minimum	0.500	0.3500	0.7000	1.4500	1.6200	1.8200	1.9480	2.2660	2.8220
Average	3.626	3.5320	4.0121	4.4879	4.6069	4.6858	4.2798	4.3783	4.5055
Maximum	5.250	5.5000	6.1000	6.2500	6.2500	6.5000	6.5040	6.4970	6.2700
spread	4.750	5.1500	5.4000	4.8000	4.6300	4.6800	4.5560	4.2310	3.4480

Source: Bloomberg

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