

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 12th JANUARY 2005

REPORT OF THE FINANCIAL SERVICES MANAGER

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

TREASURY MANAGEMENT UPDATE 2004/05

EXECUTIVE SUMMARY

- The Bank of England base rate is currently at 4.75% with the expectation of downward movement to 4.25% by end of 2006.
- Investment income generated to end of quarter two, £110,000 over budget, with no further increases anticipated.
- £2m of debt externalised to take advantage of cheaper borrowing.
- Investments outstanding £24,700,000 on 04/01/05 (£19,025,000 on 07/06/04)
- Average return on investments remains in excess of 4.00%. (4.16% -5.40% June 2004)

1. Purpose of Report

- 1.1 To update the Executive on the current position for treasury management activities in 2004/05, and to raise any issues regarding the remainder of this financial year and into the next financial year.

2. Interest Rates

- 2.1 Since the last Treasury Management report in June 2004, the Bank of England, via the Monetary Policy Committee (MPC), has increased base rate from 4.50% to 4.75%, in August 2004, and maintained it at this level since then. The general consensus is that interest rates have now peaked and that any future movement should be downward. Sector, the Council's treasury management advisors, have indicated that this trend will commence early in 2005, moving towards a forecast level of 4.25% by the end of 2006.

- 2.2 As current rates are above original expectation, there has been an increase in investment income, as reported in quarter 1 budget monitoring (upward revision of £110,000). In line with 2.1, this trend is not expected to continue and no further increases are being forecast at this stage of the year.

3. External Debt

- 3.1 On the advice of Sector, and in order to take advantage of low borrowing rates coupled with a forecast increase in those same rates, in mid December, officers 'externalised' (replaced actual debt borrowed from our internal resources with borrowing from the Public Works Loan Board) £2m worth of debt, for a period of 25 years at 4.65%.

3.2 By doing this, the Council was able to reduce the interest cost of borrowing and ensures that actual external debt levels more closely match our underlying requirement to borrow for capital purposes.

4. Investment Transactions

4.1 As at 4th January 2005, sums totalling £24,700,000 were invested as set out in Appendix A.

4.2 At the end of 2004/5 it is expected that at least £6-8 million will remain invested, with the remaining investments drawn down to meet cash flow demands between now and 31/03/05.

4.3 The average rate of interest achieved on all new investments during 2004/05 to date still remains well in excess of 4.00%. This is in line with the levels stated in the last report of between 4.16% and 5.40%.

5. Effect on Corporate Priorities

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

6. Recommendation

6.1 The Executive is requested to note the treasury management position to date for 2004/05.

Background Papers: Executive 11th February 2004, Annual Investment Strategy; Executive 10th March 2004, Treasury Management Strategy Statement 2004/5; Executive 23rd June 2004, Treasury Management Update.

Contact: - Steve Murphy
Principal Accountant
Tel: 01823 331 448
E-mail: j.murphy@tauntondeane.gov.uk

Appendix A

Investments At 4th January 2005 (in Order of Maturity)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Leeds & Holbeck Building Society	1,000,000	4.85	01/10/04	06/01/05
Leeds & Holbeck Building Society	1,000,000	4.82	19/10/04	19/01/05
Stroud & Swindon Building Society	1,000,000	4.81	27/10/04	27/01/05
Derbyshire Building Society	1,000,000	4.81	01/11/04	01/02/05
West Bromwich Building Society	1,000,000	4.81	01/11/04	01/02/05
Dexia Banque a Luxembourg SA	1,000,000	4.77	04/01/05	04/02/05
Newcastle Building Society	1,000,000	4.77	15/12/04	15/02/05
Derbyshire Building Society	1,000,000	4.76	15/12/04	15/02/05
Skipton Building Society	1,000,000	4.75	15/12/04	15/02/05
Scarborough Building Society	1,000,000	4.79	22/11/04	22/02/05
West Bromwich Building Society	1,000,000	4.78	26/11/04	28/02/05
Dexia Banque a Luxembourg SA	1,000,000	4.55	05/03/04	04/03/05
Principality Building Society	1,000,000	4.79	04/01/05	22/03/05
Newcastle Building Society	1,000,000	4.70	15/04/04	14/04/05
Cheshire 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
Nottingham Building Society	1,000,000	4.88	27/10/04	27/05/05
Nottingham Building Society	1,000,000	4.99	01/10/04	01/08/05
Stroud & Swindon Building Society	1,000,000	5.40	19/11/04	18/11/05
Abbey National Business Reserve	2,000,000	4.75	N/A	On Demand
Bank of Scotland Business Reserve	1,030,000	4.81	N/A	On Demand
Royal Bank of Scotland	1,670,000	4.00	N/A	On Demand
TOTAL	24,700,000			