

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 19th NOVEMBER 2003

REPORT OF THE FINANCIAL SERVICES MANAGER

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

TREASURY MANAGEMENT UPDATE 2003/04

EXECUTIVE SUMMARY

- The Bank of England base rate is expected to rise to 3.75% in November 03, followed by two further rises to 4.25% by December 04.
- Investment income generated to end of quarter two, £110,000 over budget.
- Debt restructuring currently under review with view to reducing annual debt cost and 'smoothing' repayment profile of debt.
- Investments outstanding £18,115,000 (£16,800,000 on 11/06/03)
- Average return 3.73% on investments. (3.75% to 11/06/03)

1. Purpose of Report

- 1.1 To update the Executive on the current position for treasury management activities in 2003/04, and raise any issues related to this function over 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, the Bank of England, via the Monetary Policy Committee (MPC), has reduced base rate to 3.5% and maintained it at this level since then. In response to the results of the MPC meeting in October, showing a narrow 5-4 vote in keeping rates at 3.5%, our treasury advisors are expecting a rise, at the next meeting, on the 6th of November and have forecast two further rises in the Summer and Autumn of next year, taking rates to a predicted position of 4.25%.
- 2.2 The above forecast suggests that we can expect to benefit from a higher return from investment income in the remaining part of this financial year, and better returns than currently budgeted / expected should be achievable in 2004/5. These improvements will be monitored and reported during the remainder of the financial year.
- 2.3 In light of the above, at quarter two, we expect to exceed our original estimate of General Fund interest receipts by £110,000.

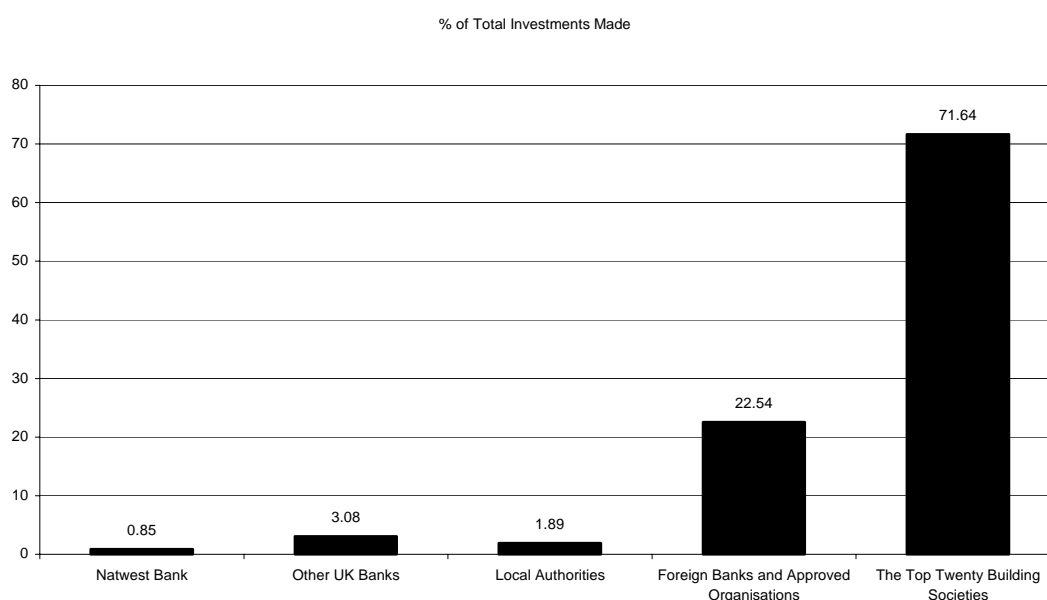
3. External Debt

3.1 Notwithstanding the potential impact of the 'Prudential Code', discussed in the last update report. Council officers are currently investigating the potential for restructuring some of our existing debt. This may involve repaying some debt early and re-borrowing at a reduced rate. This has an obvious beneficial impact on the cost of financing our debt and allows us to smooth the repayment period of our debt. This is an ongoing exercise and future opportunities will be exploited as they become apparent.

4. Investment Transactions

4.1 As at 3rd November 2003, sums totalling £18,115,000 were invested as set out in Appendix A.

4.2 The weighted average total of investments (£'s/day) was loaned proportionally to the following institutions between 1st April and 3rd November 2003: -



4.3 At the end of 2003/4 it is expected that at least £6 million will remain invested, with the remaining investments drawn down to meet cash flow demands.

4.4 The average rate of interest achieved on all new investments during 2003/04 to date is 3.73%. This slight reduction since the last Treasury Management report is due to many of our investments being 'short dated' (i.e. a period of only a few weeks in order to meet short term cash flows demands). The effect of an increasing base rate and lengthening periods of investment could push this average up by the end of the financial year.

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 2003/04 and the highlighted issues for the six months into 2004/05.

Background Papers: Executive 12th March 2003, Treasury Management Strategy Statement 2003/4; Executive 25th June 2003, Treasury Management Update.

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Appendix A

Investments At 3rd November 2003 (in Order of Maturity)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
HFC Bank plc	1,000,000	3.59	22/09/03	17/11/03
Skipton Building Society	1,000,000	3.54	15/10/03	17/11/03
Portman Building Society	1,500,000	3.53	15/10/03	17/11/03
West Bromwich Building Society	1,000,000	3.60	24/10/03	21/11/03
Stroud & Swindon Building Society	1,000,000	3.60	09/10/03	05/12/03
Staffordshire Building Society	1,000,000	3.61	15/10/03	15/12/03
Derbyshire Building Society	1,000,000	3.66	01/10/03	05/01/04
Cheshire Building Society	500,000	3.60	15/09/03	19/01/04
Staffordshire Building Society	1,000,000	3.90	03/11/03	17/03/04
Scarborough Building Society	1,000,000	3.93	03/11/03	17/03/04
Stroud & Swindon Building Society	1,000,000	3.96	03/11/03	17/03/04
Newcastle Building Society	1,500,000	3.77	01/10/03	07/04/04
Cheshire Building Society	1,000,000	3.40	01/05/03	29/04/04
Dexia Bank International a Luxembourg SA	1,000,000	3.50	01/08/03	30/07/04
National Australia Bank	1,500,000	3.86	15/08/03	13/08/04
Norddeutsche LG Bank	1,000,000	4.00	06/10/03	04/10/04
Standard Life Money Market Fund	700,000	Variable	N/A	On Demand
Abbey National Business Reserve	115,000	3.5	N/A	On Demand
Bank of Scotland Business Reserve	300,000	3.5	N/A	On Demand
TOTAL	18,115,000			