

## TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 25<sup>th</sup> JUNE 2003

### REPORT OF THE FINANCIAL SERVICES MANAGER

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

#### TREASURY MANAGEMENT UPDATE

##### 1. Purpose Of The Report

- 1.1 To update the Executive on the outturn position for treasury management activities for 2002/03, and the current position to date for the financial year 2003/04 on treasury management issues.

#### FINAL FIGURES 2002/03

##### 2. Loans

- 2.1 The Accounts of the Loans Pool for the year ended 31st March 2003 have now been balanced and a summary of the year's transactions is as follows: -

Total debt outstanding 1.4.2002	£ 27,263,204
Long term loans repaid during year	(2,012,203)
	25,251,001
Increase in Internal borrowing	659,317
Total debt outstanding 31.3.2003	25,910,318

- 2.2 Analysis of the Councils' Loan Debt:-

31 <sup>st</sup> March 2002		31 <sup>st</sup> March 2003
£		£
24,062,660	Public Works Loan Board	22,052,467
200	Local Bonds	200
85,002	Annuity Loans	82,992
6,500	Temporary Loans (Repayable on Demand)	6,500
3,108,842	Internal Balances	3,768,159
27,263,204		25,910,318

##### 3. Interest Rates

- 3.1 The Bank Base Rate is currently reviewed on a monthly basis by the Monetary Policy Committee (MPC) at the Bank of England. At the commencement of the financial year the Bank Base Rate was 4.0 %. This rate remained in force until 6<sup>th</sup> February 2003 when it was reduced to 3.75%, remaining at this level since.

##### 4. Borrowing Transactions

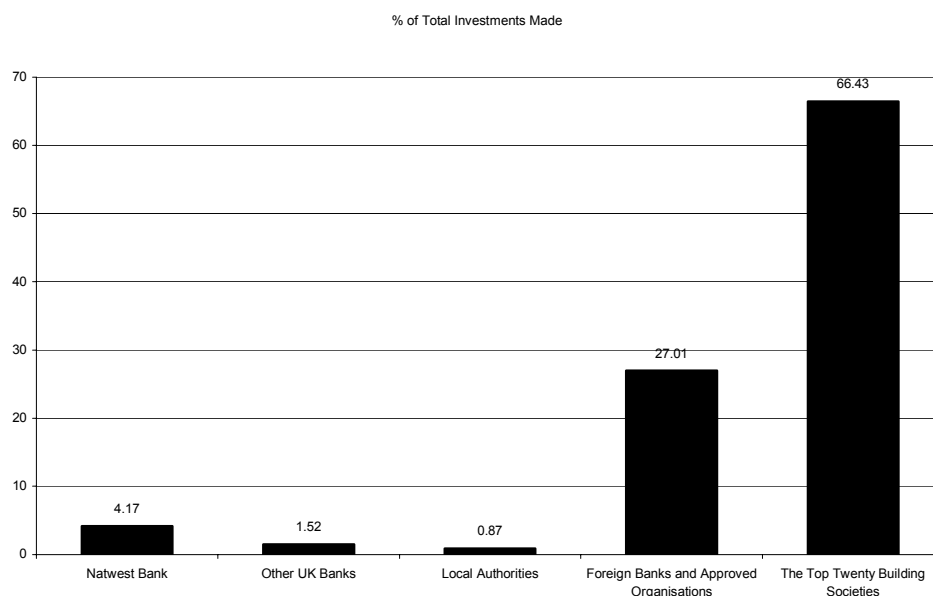
- 4.1 No external borrowing was taken on in the last financial year.

4.2 The average consolidated rate of interest on the total portfolio for 2002/03 was 6.55%.

## 5. Investment Transactions

5.1 When necessary, any surplus funds were invested with approved institutions for periods of up to 364 days in accordance with the Treasury Policy Statement. As at the 31<sup>st</sup> March 2003 sums totalling £13,450,000 were invested as set out in Appendix A.

5.2 The weighted average total of investments (£'s/day) was made proportionally to the following institutions during the 12-month period: -



5.3 The average rate of interest achieved when investing surplus funds during 2002/03 was 3.96 %.

5.4 Interest earned on this surplus amounted to just under £540,000 of which approximately £400,000 was allocated to the General Fund. This was £100,000 over revised estimates calculated mid-year and greatly eased the budgetary pressures felt elsewhere in the Council. The increase was due to an unanticipated increase in surplus cash funds itself due to more robust cash flow forecasting procedures implemented during financial year 2001/2. Further more detailed analysis will be conducted in future to ensure that surpluses like these are more readily detectable and accounted for in future budgetary exercises.

## THE CURRENT YEAR

### 6. Outlook for Interest Rates

6.1 The past financial year has witnessed unwillingness from the Bank of England's Monetary Policy Committee to move interest rates due to uncertainty of the short and medium term economic forecast.

This is counter to the more aggressive and recent reduction of rates in Europe (see Appendix B) which coupled with the Treasury's "not now" stance to joining the Euro, means that we should not expect any direct impact on our own rates and consequent returns on Council investments and borrowing costs, in the immediate future. For the moment aggregate opinion within the financial community, including the Council's advisors is that rates should rise within the current financial year following a further 0.25% reduction in the coming months.

**7. Borrowing Strategy**

7.1 The Councils Treasury Management Strategy is risk adverse. Flexibility is the key and both the current and forecast interest rates will continue to be monitored in conjunction with our treasury management advisers, Sector. Borrowing will be taken at a time considered to give the optimum opportunity within the overall debt portfolio ensuring that the balance of variable and fixed rate debt is appropriate and the maturity profile is acceptable. Currently officers are awaiting the implementation of the 'Prudential Code', which is expected to alter the way, which Councils' borrow. Implementation is expected in financial year 2004/5 with further information on the implementation process due July 2003. Updates on the implications this has on borrowing strategy and other treasury issues will be made once the detail of the code is known.

**8. Public Works Loan Board**

8.1 Longer term borrowing is usually taken from the PWLB and the maximum annual borrowing is limited by quota. The formula for determining the quota levels for 2003/2004 remains unchanged from 2002/2003 and the quota will be an amount equivalent to the sum of –

(a) Basic and Supplementary Credit Approvals used in 2003/04 and

(b) Repayments due in 2003/04 on loans borrowed from the Board.

8.2 The council has loans to the value of £10,000 maturing during 2003/04. Estimated quota entitlement for borrowing during this year is £1,842,027. It is not anticipated any borrowing will be undertaken until the detail of the Prudential Code is known as discussed in 7.1 above.

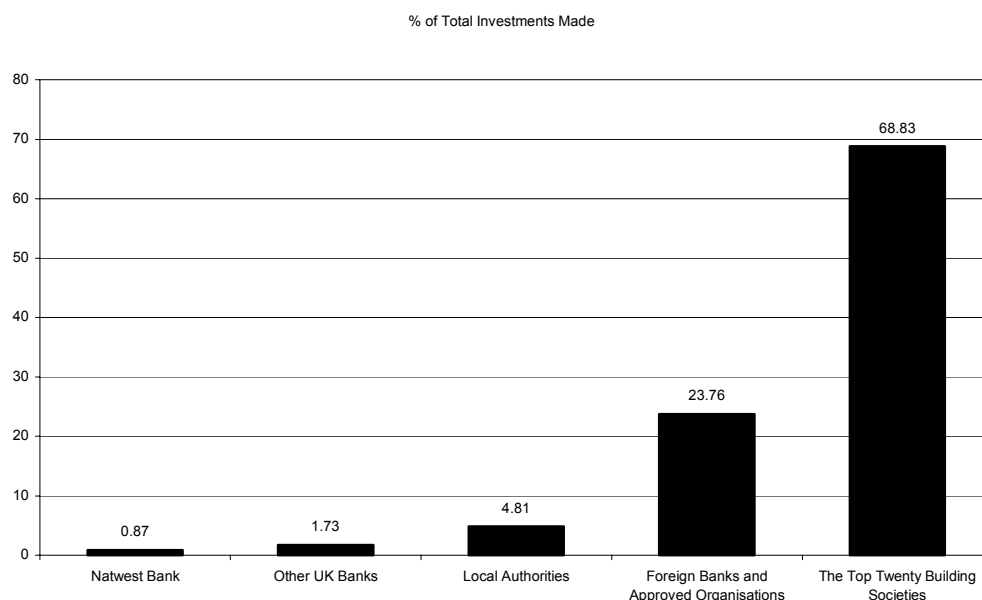
**9. Borrowing Transactions**

9.1 No long or short term borrowing has been undertaken so far during the current financial year.

**10. Investment Transactions**

10.1 As at 11th June 2003, sums totalling £16,800,000 were invested as set out in Appendix C.

- 10.2 The weighted average total of investments (£'s/day) was made proportionally to the following institutions during the current year to 11<sup>th</sup> June 2003: -



- 10.3 The average rate of interest achieved when investing surplus funds during 2003/04 to date is 3.75%. This equates to £165,000, which is approximately 30% of budgeted investment income.

## 11. EFFECT ON CORPORATE PRIORITIES

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

## 12. RECOMMENDATION

- 12.1 The Executive is requested to note the treasury management outturn for 2002/03, and the position to date for 2003/04.

**Background Papers:** Agenda Item No. 5, Executive 12<sup>th</sup> March 2003, Treasury Management Strategy Statement 2003/4

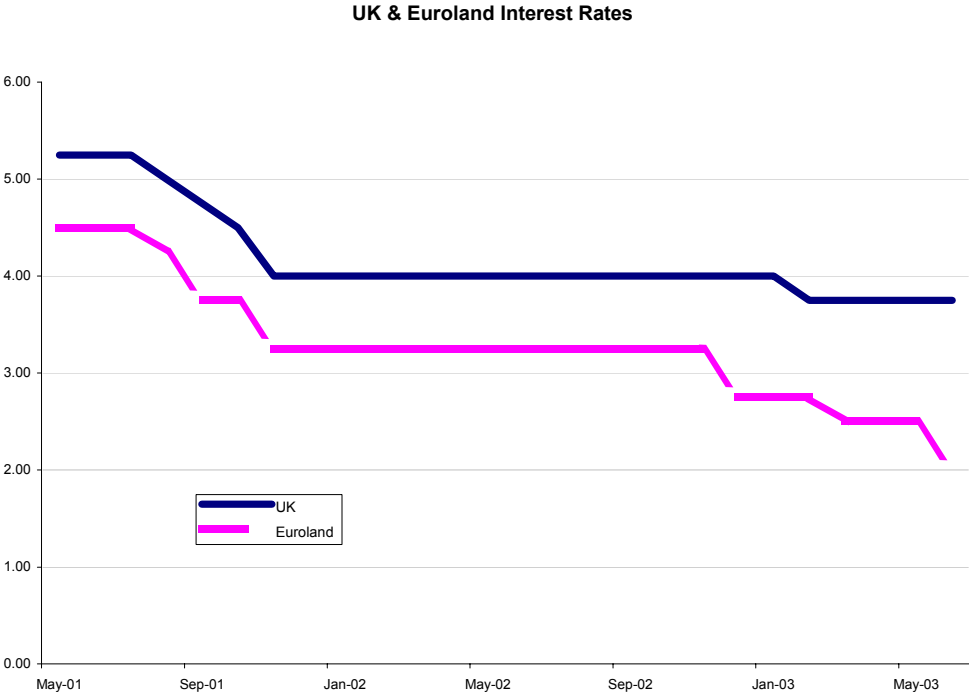
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Appendix A

Investments At 31<sup>st</sup> March 2003

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
Newcastle Building Society	1,000,000	3.90	03/02/03	03/04/03
Reigate & Banstead BC	200,000	3.38	05/03/03	10/04/03
Coventry Building Society	1,000,000	4.94	17/10/02	16/04/03
Nationwide Building Society	1,500,000	3.60	17/02/03	17/04/03
Derbyshire Building Society	1,000,000	3.61	28/02/03	17/04/03
Stroud & Swindon Building Society	1,000,000	3.57	17/03/03	02/05/03
West Bromwich Building Society	750,000	3.86	03/02/03	06/05/03
West Bromwich Building Society	600,000	3.89	05/02/03	06/05/03
Chelsea Building Society	1,000,000	3.60	13/02/03	13/05/03
Leeds & Holbeck Building Society	1,000,000	3.62	20/02/03	21/05/03
National Australia Bank	1,500,000	3.98	15/11/02	15/08/03
Abbey National Business Reserve	1,500,000	3.69	N/A	On Demand
Bank of Scotland Business Reserve	1,400,000	3.70	N/A	On Demand
<b>TOTAL</b>	13,450,000			

**Chart of Interest Rates in UK & Euroland  
May 2001-June 2003**



Investments Outstanding At 11<sup>th</sup> June 2003

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
HSH Nordbank (Germany)	500,000	3.56	09/06/03	16/06/03
Portman Building Society	1,500,000	3.50	01/05/03	20/06/03
HFC Bank (Subsidiary of HSBC)	1,500,000	3.51	01/05/03	20/06/03
Nationwide Building Society	1,500,000	3.60	15/05/03	20/06/03
HSH Nordbank (Germany)	1,000,000	3.57	20/05/03	20/06/03
UK Debt Management Office	1,000,000	3.64	09/06/03	20/06/03
Skipton Building Society	1,000,000	3.56	02/06/03	21/07/03
Coventry Building Society	1,000,000	3.55	02/06/03	21/07/03
National Australia Bank	1,500,000	3.98	15/11/02	15/08/03
West Bromwich Building Society	1,500,000	3.59	13/05/03	19/08/03
Reigate & Banstead Borough Council	500,000	3.45	02/05/03	20/10/03
Cheshire Building Society	1,000,000	3.40	01/05/03	29/04/04
Reigate & Banstead Borough Council	300,000	3.40	02/05/03	On Demand
Abbey National Business Reserve	1,500,000	3.69	N/A	On Demand
Bank of Scotland Business Reserve	1,500,000	3.70	N/A	On Demand
<b>TOTAL</b>	16,800,000			