

Taunton Deane Borough Council

Executive – 2 December 2009

Treasury Management Update 2009/2010 and Minimum Revenue Provision for 2010/2011

Report of the Principal Accountant

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

EXECUTIVE SUMMARY

The following report provides a brief narrative on the Treasury activity of the Council in the first six months of 2009/10, focussing primarily on debt and investments. In addition, there is a request to recommend to full Council the basis of the Minimum Revenue Provision (MRP) for 2010/11

1. Purpose of the Report

- 1.1 To update the Executive on treasury activities in the financial year to date and seek approval of the method for calculating MRP for 2010/11.

2. External Debt

- 2.1 Analysis of the Council's Debt: -

31 March 2009		30 Sept 2009
£'000		£'000
18,003	Public Works Loan Board fixed rate	6,000
3,000	Barclays Bank	3,000
2,000	Temporary Loans (PWLB variable rate)	6,000
23,003		15,000

- 2.2 £6m will be repaid to the PWLB in November 2009 on maturity (£6m temporary borrowing). As the cost of borrowing at variable rates from the PWLB has fallen to below 1% the current plan is to replace the £6m maturing loan with a 1-year PWLB variable rate loan.

3. Interest Rates

- 3.1 The Bank of England has reduced interest rates seven times from 5.25% at 1st April 2009 to the current all time low of 0.5% at 26th October 2009. This has been in response to the well publicised "credit crunch" which led to the current recession.

4. Interest Rate Prospects

- 4.1 The Bank of England's stance on interest rates has been driven by concerns over the very poor state of UK growth and it is anticipated that the rate will remain at 0.5% for at least the remainder of the financial year with forecasts showing that it may not start to increase until December 2010.
- 4.2 With the most recent reports of a contraction of a further 0.4% in the UK's Gross Domestic Product, the recession appears to be deeper and longer lasting than predictions; this means that tax revenues will be lower and the pressures on expenditure higher causing problems for both central and local government.

4. Borrowing Transactions

- 4.1 There are no plans currently to borrow further. The Council's capital programme is fully financed either with cash resources, or borrowing made in earlier periods.
- 4.2 The current amount of temporary borrowing may be rolled forward on 23rd November 2009 when repayment becomes due.

5. Investment Transactions

- 5.1 The Council has continued to prioritise the security of its invested balances and has therefore restricted the use of new investments to the Debt Management Office, AAA-rated Money Market Funds and UK banks whose can avail of the UK Government' Credit Guarantee Scheme and whose long-term ratings are in the 'double-A' category.
- 5.2 Current outstanding investments amount to £17.34m. Details of these can be found in appendix A.
- 5.3 Alongside the reduction in the Bank Rate to 0.5%, money market rates have also, over the past 6 months, moved to historically low levels. The average rate of interest achieved when investing surplus funds for the first six months of 2009/10 has been in the range of 6.28% - 0.25%, with the weighted average at 1.21%. This equates to approximately £102k in interest income both received and receivable. The higher rates were on investments made in FY 2008-09 and carried forward into FY 2009-10.
- 5.4 The Council has one outstanding soft loan with a balance of £59,170.72 with Tone Leisure. This loan matures on 31.3.2011.

6. Prudential Indicators

- 6.1 Prudential Indicators following the closure of accounts for 2008/09 have now been calculated and estimates for 2009/10 and beyond can now be found in Appendix B

7. Minimum Revenue Provision

- 7.1 Before the start of each financial year, the Council is required to determine the basis on which it will provision from revenue for the repayment of borrowing undertaken for the purpose of financing capital expenditure. This annual provision, known as Minimum Revenue Provision (MRP), is designed to ensure that authorities make prudent provision to cover the ongoing costs of their borrowing.
- 7.2 In 2008, the Government became less prescriptive offering Councils a number of options for calculating MRP.
- 7.3 For the financial year 2009/10, the Council determined to calculate MRP as follows:-
- for supported borrowing, 4% on outstanding debt; and
 - for unsupported borrowing, the debt associated with asset divided by the estimated useful life of the asset.

It is proposed that this should be retained for 2010/11.

8. Recommendation

- 8.1 It is recommended that:-
- Executive notes the treasury management position for the first six months of 2009/10; and
 - Executive endorses the proposal, for approval by full Council, that the basis of calculating MRP in 2009/10 be retained for 2010/11.

Background Papers:

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

Treasury Management Outturn 2008/09 and Update 2009/10, Executive 17 June 2009.

Department of Communities & Local Government, web link to commentary regarding MRP regulation.

<http://www.local.communities.gov.uk/finance/capital/amdregletcon.pdf>

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Appendix A

Investments Outstanding at 1 October 2009 (In Maturity Order)

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Nationwide BS	2,000,000	3.25	3/12/2008	3/12/2009
Clydesdale Bank plc	2,000,000	0.76	20/7/2009	16/10/2009
Nationwide BS	1,500,000	0.77	3/8/2009	22/10/2009
Lloyds TSB plc	500,000	1.00	17/8/2009	17/11/2009
Lloyds TSB plc	1,000,000	1.00	18/8/2009	18/11/2009
Abbey National	1,000,000	0.71	18/8/2009	16/11/2009
Barclays Bank plc	1,000,000	0.70	19/8/2009	19/11/2009
Lloyds TSB plc	1,000,000	1.05	28/8/2009	30/11/2009
Lloyds TSB plc	1,000,000	1.10	15/9/2009	15/12/2009
Barclays Bank plc	1,000,000	0.45	17/9/2009	17/12/2009
Barclays Bank plc	1,000,000	0.40	29/9/2009	18/1/2010
Invesco Money market Fund	2,000,000	Variable		On Demand
Abbey Business Reserve	1,000,000	Variable		On Demand
RBS Money Market Fund	1,340,000	Variable		On Demand
TOTAL	17,340,000			

Appendix B

PRUDENTIAL INDICATOR	2007/08 outturn	2008/09 estimate	2009/10 estimate	2010/11 estimate	2011/12 estimate
Capital Expenditure					
General Fund	£4,010,000	£6,361,000	£1,955,000	£1,759,000	£2,324,000
HRA	£4,399,000	£5,951,000	£5,555,000	£4,560,000	£4,384,000
TOTAL	£8,409,000	£12,312,000	£7,510,000	£6,319,000	£6,708,000
Ratio of financing costs to net revenue stream					
General Fund	-2.22%	-2.61%	0.91%	0.60%	0.23%
HRA	3.03%	1.95%	1.23%	1.34%	1.49%
Net borrowing projection					
brought forward 1 April	£6,634,000	£9,425,000	£10,131,000	£10,751,000	£11,371,000
Carried forward 31 March	£9,425,000	£10,131,000	£10,751,000	£11,371,000	£11,991,000
in year borrowing requirement	£2,791,000	£706,000	£620,000	£620,000	£620,000
Capital Financing Requirement as at 31 March					
General Fund	£6,893,000	£9,324,000	£9,572,000	£9,810,000	£10,038,000
HRA	£14,451,000	£14,451,000	£14,451,000	£14,451,000	£14,451,000
TOTAL	£21,344,000	£23,755,000	£24,023,000	£24,261,000	£24,489,000
Incremental impact of capital investment decisions					
Increase in council tax (band D)	£0.65	£0.65	£0.43	£0.32	£0.78
Authorised limit for external debt -					
TOTAL	£40,000,000	£40,000,000	£40,000,000	£40,000,000	£40,000,000
Operational boundary for external debt -					
TOTAL	£30,000,000	£30,000,000	£30,000,000	£30,000,000	£30,000,000
Upper limit for fixed interest rate exposure					
Net interest re fixed rate borrowing/ investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net interest re variable rate borrowing/ investments	50%	50%	50%	50%	50%
Maturity Structure of Fixed Rate Borrowing (Upper and Lower Limits)					
under 12 months	8.7%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
12 months and within 24 months	0.0%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
24 months and within 5 years	0.0%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
5 years and within 10 years	8.7%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
10 years and above	82.6%	20% to 100%	20% to 100%	20% to 100%	20% to 100%
Upper limit for total principal sums invested for over 364 days (per maturity date)					
	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%