

ITEM No ...9.....

REPORT TO: POLICY & RESOURCES COMMITTEE - 12 JUNE 2017
REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2016/2017
REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES
REPORT NO: 176-2017

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2016 to 31 March 2017.

2 RECOMMENDATION

The Committee is asked to note the information contained herein and agree the limits in Appendix 1.

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2016/2017 were that a saving of £1.6m was made against the 2016/2017 budget provision for capital financing costs in HRA and General Services. This was mainly due to the proactive use of short-term borrowing in line with the Treasury Management Strategy and prudential indicators and also from expenditure reprofiling in both capital plans.

4 BACKGROUND

At its meeting on 13 March 2017 the Policy and Resources Committee approved the Council's Treasury Policy Statement setting out the policies which govern all borrowing and lending transactions carried out by the Council (Article VII of the minute of meeting of the Policy and Resources Committee of 13 March, 2017, Report 82-2017 refers).

The Treasury Policy Statement requires that the Policy and Resources Committee will receive and consider the Treasury Management strategy in advance of each new financial year and subsequently an annual monitoring report on the activities in that year.

This monitoring report covers the Treasury Management activity over the financial year 2016/2017.

5 DEBT POSITION

The Council's long-term debt position at the beginning and end of the financial year was as follows:-

		<u>1 April 2016</u>		<u>31 March 2017</u>	
		<u>Principal</u>	<u>Average</u>	<u>Principal</u>	<u>Average</u>
		<u>£m</u>	<u>Rate</u>	<u>£m</u>	<u>Rate</u>
			<u>%</u>		<u>%</u>
Fixed Rate Funding	PWLB	369.4	5.1	388.9	4.9
	Market	25.0	4.3	10.0	4.1
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>15.0</u>	<u>4.6</u>	<u>30.0</u>	<u>4.5</u>
		<u>409.4</u>	<u>5.0</u>	<u>428.9</u>	<u>4.9</u>

6 THE TREASURY MANAGEMENT STRATEGY FOR 2016/2017

The Expectation for Interest Rates - The interest rate views incorporated within the Fund's treasury strategy statement were based upon officers' views along with advice from our treasury advisers supported by a selection of City forecasts. The view on base rates was that they would increase from 0.50% to 0.75% by March 2017, this predicted increase did not materialise.

The Treasury Management Strategy for 2016/2017 indicated that the Council's borrowing requirement for capital expenditure would be approximately £43m.

7 ACTUAL BORROWING AND LENDING FOR 2016/2017

7.1 Interest Rates

Bank of England base rate started the financial year at 0.50% and reduced to 0.25% on 4 August 2016 and remained unchanged for the remainder of the financial year. Long-term PWLB rates (45-50 years) started at 3.15% but moved between 2.05% and 3.31% throughout the year. These rates do not include the reduction of 0.20% certainty rate and 0.40% project rate funding that Dundee City Council is eligible for.

7.2 Borrowing

7.2.1 Long-Term

Long-term borrowing of £30.0m was undertaken during the year with repayment of existing loans totalling £10.5m. The net borrowing was low due to more use of short term borrowing and slippage within both capital programmes. The new borrowing was drawn down in the financial year as follows -

Date	Amount (£)	Rate %	Term (Years)	Maturity Date
10/06/2016	5,000,000	2.68	45.5	15/06/2061
20/06/2016	5,000,000	2.47	44.5	15/08/2060
04/07/2016	5,000,000	2.32	46.0	15/06/2062
24/02/2017	5,000,000	2.51	50.0	15/02/2067
08/03/2017	5,000,000	2.44	43.5	31/03/2060
28/03/2017	5,000,000	2.41	49.5	15/08/2066
	<u>30,000,000</u>			

These loans had an average interest rate of 2.47% and an average term of 46.5 years.

7.2.2 Short-Term

In order to indicate the level of short-term borrowing, shown below are the lowest and highest daily amounts outstanding each month, together with the short-term borrowing position at the end of every month and the range of interest rates at which borrowings were made:-

Month	Lowest Amount Outstanding £m	Highest Amount Outstanding £m	End of month Amount Outstanding £m	Interest Rate Range %	
				Min	Max
April 2016	47.8	52.3	47.8	No market loans taken	
May	47.8	57.8	57.8	0.55	0.58

June	52.8	57.8	57.8	0.50	0.50
July	52.8	57.8	52.8	No market loans taken	
August	47.8	52.8	47.8	No market loans taken	
September	47.8	52.8	52.8	0.27	0.40
October	52.8	57.8	57.8	0.33	0.40
November	52.8	57.8	57.8	0.34	0.40
December	57.8	62.8	62.8	0.40	0.48
January 2017	62.8	62.8	62.8	0.50	0.50
February	62.8	72.8	72.8	0.33	0.60
March	63.8	74.8	68.8	0.25	0.50

The IORB rate which is paid on non-General Fund cash balances is based on the 7-day rate and averaged 0.45% throughout the year.

It can be seen from the above that short-term borrowing was undertaken throughout the year in line with Treasury Strategy Statement on short term borrowing.

8 LENDING

Balances on reserves and variations in cash flow requirements mean that there will be surplus funds which will be invested for short periods (maximum of 364 days).

Short term investments will be restricted to only those institutions identified in the Council's Approved Counter-parties list provided they have maintained their credit rating. An analysis of the lending position to 31 March 2017 shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
				Min	Max
April 2016	4.3	22.9	6.1	0.46	0.53
May	3.5	19.1	3.7	0.51	0.54
June	2.5	20.5	8.5	0.46	0.53
July	5.8	29.1	5.8	0.46	0.57
August	2.2	20.7	2.2	0.21	0.52
September	3.7	19.3	4.8	0.21	0.43
October	2.8	21.6	2.8	0.21	0.37
November	2.2	19.2	2.2	0.21	0.35
December	2.9	23.6	6.2	0.21	0.32
January 2017	1.7	21.1	1.7	0.21	0.30
February	5.5	18.6	9.1	0.21	0.30
March	2.7	19.3	2.7	0.21	0.29

The lending activity shown above related solely to short-term positions. All of these loans were in compliance with the Treasury Strategy Statement provisions on such lending with regards to amounts and institutions involved.

9 SPECIFIED INVESTMENTS

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Executive Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance and Perpetuity of Lairs. These investments may have a higher risk threshold and can be subject to market fluctuation. Investment activity throughout 2016/17 financial year is summarised as follows:

Value of funds invested at 1 April 2016	£8,867,607
Investments made in year	-
Value of funds invested in 2016/17	<u>£8,867,607</u>
Value of funds at 31 March 2017	<u>£9,452,712</u>
Capital Growth/(Decrease) of Investments	<u>£585,105</u>
Income from Investments	<u>£348,425</u>
Return/(Loss) on Investments in 2016/17	<u>£933,530</u>

The year has been one of positive returns in both absolute terms and against benchmarks. The specified investment portfolio has not only maintained, but increased in value, whilst continuing to provide the required budgetary income.

10 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2016/2017 Revenue Budget, the Council set its Loans Fund interest rate at 4.10%. The actual interest rate payable was 4.06%.

11 PRUDENTIAL CODE INDICATORS

The Treasury Management activity at the year end was maintained within the prudential code limits. All borrowing was maintained within the authorised borrowing limit throughout the year. All lending was in compliance with the Treasury Policy Statement provisions, with regard to amounts and institutions involved.

12 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

13 CONSULTATION

The Council Management Team have been consulted in the preparation of this report.

14 BACKGROUND PAPERS

None

MARJORY STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

2 JUNE 2017

PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS

Adoption of Revised CIPFA Treasury Management Code of Practice

Yes

Upper limit for variable and fixed rate exposure

	Net principal re variable rate borrowing / investments	Net principal re fixed rate borrowing / investments
2016/17	30%	100%
2017/18	30%	100%
2018/19	30%	100%
2019/20	30%	100%
2020/21	30%	100%

Actual External Debt (31/03/2017)

Actual borrowing	<u>£'000</u> 497,697
Actual other long term liabilities	72,093
Actual external debt	569,790

Maturity structure of fixed rate borrowing 2016/17

Period	Lower %	Upper %
Under 12 months	0	10
12 months & within 24 months	0	15
24 months & within 5 years	0	25
5 years & within 10 years	0	25
10 years +	50	95
Upper limit for total principal sums invested for over 364 days	n/a	No sums will be invested longer than 364 days

External debt, excluding investments, with limit for borrowing and other long term liabilities separately identified

	Authorised Limit			Operational Boundary		
	Borrowing £000	Other £000	Total £000	Borrowing £000	Other £000	Total £000
2016/17	526,000	72,000	623,000	501,000	72,000	573,000
2017/18	595,000	70,000	665,000	570,000	70,000	640,000
2018/19	617,000	68,000	685,000	592,000	68,000	660,000
2019/20	617,000	66,000	683,000	592,000	66,000	658,000

PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

	Capital Expenditure			Ratio of financing costs to net revenue stream	
	Non-HRA £000	HRA £000	Total £000	Non-HRA %	HRA %
2016/17	82,249	18,230	100,479	7.8	40.7
2017/18	115,547	14,090	129,637	8.3	40.1
2018/19	35,339	14,655	49,994	8.9	40.4
2019/20	28,420	13,965	42,385	8.4	40.4

	Net Borrowing Requirement (NBR)			Capital Financing Requirement (CFR)			
	1 April £000	31 March £000	Movement £000	Non-HRA £000	HRA £000	Total £000	Movement £000
2016/17	461,292	495,786	34,494	332,858	173,191	506,049	22,261
2017/18	496,000	559,000	63,000	407,000	178,000	585,000	78,000
2018/19	559,000	581,000	22,000	427,000	180,000	607,000	22,000
2019/20	581,000	580,000	(1,000)	426,000	180,000	606,000	(1,000)

	NBR v CFR Difference	Incremental Impact of Capital Investment Decisions	
	Total £000	Increase in council tax (band D) per annum £ (Note 1)	Increase in average housing rent per week £
2016/17	10,263	0.77	0.21
2017/18	26,000	8.32	0.07
2018/19	26,000	10.73	(0.04)
2019/20	26,000	10.42	(0.22)

Note 1 - The above figures reflect the incremental impact of the capital investment decisions within this Capital Plan on the Council Tax, with all other items held constant. In reality the Council will manage its Capital Financing Cost budget in the same way as other revenue budget headings to avoid a detrimental impact on Council Tax Levels.