

ITEM No ...9.....

REPORT TO: POLICY & RESOURCES COMMITTEE – 14 NOVEMBER 2016

REPORT ON: TREASURY MANAGEMENT ACTIVITY 2016/2017 (MID-YEAR REVIEW)

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 317-2016

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2016 to 30 September 2016.

2 RECOMMENDATION

The Committee is asked to note the information contained herein.

3 FINANCIAL IMPLICATIONS

The Treasury Management activity during the first half of the current financial year indicates that the Loans Fund interest rate of 4.10%, assumed when setting the 2016/2017 Revenue Budget, will be achieved. A saving of £806,000 against budget provision for capital financing costs in HRA and General Services is being projected. Capital financing costs are continually monitored throughout the financial year.

4 BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its revenue cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

At its meeting on 14 March 2016, the Policy and Resources Committee approved the Council's Treasury Policy Statement (Report no. 89-2016, article XVI of minute refers) setting out the policies which would govern all borrowing and lending transactions carried out by the Council.

The Treasury Policy Statement requires that the Policy and Resources Committee will receive and consider the Treasury Management Strategy at the beginning of each new financial year.

On 14 March 2016, the Policy and Resources Committee approved the Council's Treasury Management Strategy for 2016/2017 (Report no. 90-2016, article XVII of minute refers).

This monitoring report covers the Treasury Management activity over the first six months of 2016/2017 financial year.

5 DEBT POSITION

The Council's gross debt position at the beginning and mid-point of the financial year was as follows:-

Funding type		1 April 2016		30 September 2016	
		Principal £m	Average Rate %	Principal £m	Average Rate %
Long-term Fixed Rate	PWLB	369.4	5.1	375.9	5.0
	Market	25.0	4.3	25.0	4.3
Long-term Variable Rate	PWLB	0.0	-	0.0	-
	Market	15.0	4.6	15.0	4.6
Total Long-term Debt		409.4	5.0	415.9	5.0
Short-term Fixed Rate	Market	52.3	0.6	52.8	0.5
Total Debt		461.7	4.5	468.7	4.5

6 ACTUAL BORROWING

6.1 Long-Term

Public Work Loans Board

<u>DATE TAKEN</u>	<u>AMOUNT (£)</u>	<u>RATE</u>	<u>YEARS</u>	<u>MATURITY</u>
10/06/2016	5,000,000.00	2.68%	45.5	15/06/2061
20/06/2016	5,000,000.00	2.47%	44.5	15/08/2060
04/07/2016	<u>5,000,000.00</u>	2.32%	46.0	15/06/2062
	<u>15,000,000.00</u>			

6.2 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
2016					
April	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

The Council's Treasury Strategy document provides that the amount of the overall borrowing which may be outstanding by way of variable rate exposure should be no greater than 30% of net borrowings included in Prudential Code Indicators (circa £140m).

7 ACTUAL 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 only to those institutions identified in the Council's Approved Counterparties list provided they have maintained a suitable credit rating.

The lending figures shown include funds held on behalf of Tay Road Bridge Joint Board, Tayside Valuation Joint Board and Tayside Contracts.

An analysis of the lending position to 30 September 2016 shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
				Min	Max
2016					
April	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

All of these lendings were in compliance with the Treasury Policy Statement.

8 OUTLOOK FOR THE SECOND HALF OF 2016/2017

Further borrowing will be required in the second half of the year to fund the capital programme. This will be a combination of longer term PWLB and shorter term market loans based on an overview of interest rates over different maturities and the impact on future years borrowing strategy. The Council's treasury advisor, Capita Asset Services, has provided the following interest rate forecast :-

Quarter ending	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2016	0.10	1.00	2.30	2.10
Mar 2017	0.10	1.00	2.30	2.10
Jun 2017	0.10	1.10	2.40	2.20
Sep 2017	0.10	1.10	2.40	2.20
Dec 2017	0.10	1.10	2.40	2.20
Mar 2018	0.10	1.10	2.40	2.20
Jun 2018	0.25	1.20	2.50	2.30
Sep 2018	0.25	1.20	2.50	2.30

9 PRUDENTIAL CODE INDICATORS

The Treasury Management activity at mid year was maintained within the prudential code limits. Updated indicators are shown in Appendix 1. Limits for future years have been amended to take account of current expectations.

10 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.

11 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

12 BACKGROUND PAPERS

None.

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

04 NOVEMBER 2016

DUNDEE CITY COUNCIL**1. CAPITAL EXPENDITURE INDICATORS****1.1 Level of Capital Expenditure**

This indicator measures affordability and gives a basic control of the Council's capital expenditure. To provide an accurate indicator of capital expenditure all receipts are excluded from the calculation, so figures are based on gross expenditure.

1.2 Ratio of Financing Costs to Net Revenue Stream

This also measures affordability. The measure includes both current and future commitments based on the Capital Plan and shows the revenue budget used to fund the capital financing costs associated with the capital expenditure programme.

Variations to the ratio imply that the proportion of loan charges has either increased or decreased in relation to the total funded from Government Grants and local taxpayers.

1.3 Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

This is also a measure of affordability. It shows the relative impact of the capital programme on the Council Tax. The indicator takes into consideration the effects of self-financing capital projects funded from existing Revenue Budgets, the effects of government funded projects and reflects the revenue impact of capital schemes on capital financing costs. The variation in the indicators shows the incremental impact of the capital investment decisions within this 5 Year Plan on the Council Tax, with all other items held constant. In reality the Council will manage its Capital Financing Costs budget in the same way as other revenue budget headings to avoid a detrimental impact on Council Tax.

2. TREASURY MANAGEMENT INDICATORS

The Annual Treasury Management Activity for 2015/2016 (including Prudential Indicators covering period 2015/2016 to 2020/2021) was reported to Policy & Resources Committee on 13 June 2016 (Report No 190-2016). These have now been updated to reflect projected expenditure included in the 2017-2022 Capital Plan.

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%
2021/22	30%	100%

Actual External Debt

	<u>£'000</u>
Actual borrowing as at 31/03/2016	461,695
Actual other long term liabilities as at 31/03/2016	74,035
Actual external debt as at 31/03/2016	535,730

Maturity structure of fixed rate borrowing 2015/16

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	521,000	72,000	593,000	496,000	72,000	568,000
2017/18	590,000	70,000	660,000	565,000	70,000	635,000
2018/19	612,000	68,000	680,000	587,000	68,000	655,000
2019/20	612,000	66,000	678,000	587,000	66,000	653,000
2020/21	620,000	64,000	684,000	595,000	64,000	659,000
2021/22	629,000	62,000	691,000	604,000	62,000	666,000

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	100,303	22,286	122,589	7.5	40.6
2017/18	138,883	20,936	159,819	7.7	40.1
2018/19	54,145	15,559	69,704	8.4	39.8
2019/20	29,329	15,307	44,636	8.0	40.4
2020/21	37,719	13,339	51,058	8.1	38.5
2021/22	39,560	13,365	52,925	n/a	38.3

	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	492,000	30,708	339,000	175,000	514,000	30,380
2017/18	492,000	561,000	69,000	406,000	177,000	583,000	69,000
2018/19	561,000	583,000	22,000	426,000	179,000	605,000	22,000
2019/20	583,000	583,000	0	426,000	179,000	605,000	0
2020/21	583,000	591,000	8,000	433,000	180,000	613,000	8,000
2021/22	591,000	600,000	9,000	443,000	179,000	622,000	9,000

	NBR v CFR Difference
	Total £000
2016/17	22,000
2017/18	22,000
2018/19	22,000
2019/20	22,000
2020/21	22,000
2021/22	22,000

Incremental Impact of Capital Investment Decisions	
Increase in council tax (band D) per annum £ (Note 1)	Increase in average housing rent per week £
(0.01)	(0.10)
(2.73)	0.29
1.75	0.09
11.12	0.01
12.04	(0.14)
11.49	(0.15)

Note 1 - The above figures reflect the incremental impact of the capital investment decisions within this 5 Year 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. In addition the Property Rationalisation programme will generate revenue savings which will offset the incremental impact of the additional capital expenditure.

