

REPORT TO: POLICY & RESOURCES COMMITTEE - 12 SEPTEMBER 2011

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2010/2011

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 415-2011

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2010 to 31 March 2011.

2 RECOMMENDATION

The Committee is asked to note the information contained herein and agree the limits in Appendices 1 and 2.

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2010/2011 were that a saving of £1,239,000 in interest was made against the 2010/2011 General Revenue Budget provision and £292,000 in the Housing Revenue Account. This was due to departmental borrowing being lower than anticipated.

4 BACKGROUND

At its meeting on 22 March 2010 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.

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 2010/2011.

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 2010</u>		<u>31 March 2011</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	275.6	5.7	292.1	5.7
	Market	20.0		10.0	
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>20.0</u>	<u>4.7</u>	<u>30.0</u>	<u>4.5</u>
		<u>315.6</u>	<u>5.7</u>	<u>332.1</u>	<u>5.6</u>

6 THE TREASURY MANAGEMENT STRATEGY FOR 2010/2011

The Expectation for Interest Rates - The interest rate views incorporated within the Council'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 remain stable at 0.50% throughout the year. Longer term fixed interest rates were expected to be in a range of 4.75% to 5.00% during the year.

The Treasury Management Strategy for 2010/2011 indicated that the Council's borrowing requirement for capital expenditure would be approximately £57m.

7 ACTUAL BORROWING AND LENDING FOR 2010/2011

7.1 Interest Rates

Base rate stayed at 0.50% throughout the year. Long-term PWLB rates (45-50 years) started at 4.65% but moved between 3.92% and 5.50% before ending the year at 5.25%.

7.2 Borrowing

7.2.1 Long-Term

Long-term borrowing of £17.5m was undertaken during the year. This was partly used to repay existing loans. The net borrowing of £16.5m was less than anticipated, this was partly the result of a deliberate treasury management decision to use short-term balances. These balances were earning low returns and were also subject to risk of default. It was therefore, deemed to be more prudent and cost-effective to reduce these rather than take on any new borrowing. It was also lower than expected because more short-term borrowing was taken to take advantage of the particularly low rates. The £17.5m was drawn down at various points throughout the year.

These loans had an average interest rate of 2.95% and an average term of 6.5 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:-

		LOWEST AMOUNT OUTSTANDING £M	HIGHEST AMOUNT OUTSTANDING £M	POSITION AT END OF MONTH £M	INTEREST RATE RANGE %
2010	April	5.5	5.6	5.6	Interest on Revenue
	May	3.1	5.6	3.1	Balances (IORB)
	June	3.1	3.1	3.1	IORB
	July	3.1	3.1	3.1	IORB
	August	3.1	8.1	8.1	0.60
	September	8.1	8.1	8.1	IORB
	October	8.1	8.1	8.1	IORB
	November	8.1	17.6	17.6	0.50 to 1.00
	December	17.6	17.6	17.6	IORB
	2011 January	17.6	24.6	24.6	0.50 to 0.90
	February	24.6	29.6	24.6	0.75
	March	24.6	24.6	24.6	IORB

The IORB rate is based on the 7-day rate and averaged 0.42% throughout the year.

The Council's Treasury Strategy document provides that the amount of the overall borrowing which may be outstanding by way of fixed rate short-term borrowing should be no greater than circa £35m. It can be seen from the above that short-term borrowing was undertaken in the second half of the year due to the benefits of a particularly low interest rate against that for longer 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 2011 shows:

LENDING		HIGHEST DAILY AMOUNT LENT £M	POSITION AT END OF MONTH £M	INTEREST RATE RANGE %
2010	April	25.3	12.3	0.80 to 0.90
	May	34.0	14.7	0.25 to 0.90
	June	43.5	25.7	0.25 to 0.90
	July	25.7	8.3	0.25 to 0.90
	August	29.2	10.9	0.80 to 0.90
	September	25.4	11.9	0.80 to 0.90
	October	20.1	4.9	0.85 to 0.90
	November	23.4	14.7	0.85 to 0.90
	December	25.4	4.5	0.80 to 0.90
2011	January	31.9	13.4	0.80 to 0.90
	February	24.4	11.3	0.80 to 0.90
	March	26.7	12.4	0.80 to 0.90

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

9 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2010/2011 Revenue Budget, the Council set its Loans Fund interest rate at 4.80%. The actual interest rate payable was 4.83%.

10 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.

11 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.

12 **CONSULTATION**

The Chief Executive and Depute Chief Executive (Support Services) have been consulted on this report.

13 **BACKGROUND PAPERS**

None

MARJORY STEWART
DIRECTOR OF FINANCE

1 SEPTEMBER 2011

APPENDIX 1**DUNDEE CITY COUNCIL****PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS**Adoption of Revised CIPFA Treasury Management Code of Practice 2009 **Finance Committee 22/03/10 Report No 162-2010****Upper limit for variable rate exposure** %

Net principal re variable rate borrowing/investments	2010/11	<input type="text" value="30"/>
	2011/12	<input type="text" value="30"/>
	2012/13	<input type="text" value="30"/>
	2013/14	<input type="text" value="30"/>

Upper limit for fixed interest rate exposure %

Net principal re fixed rate borrowing/investments	2010/11	<input type="text" value="100"/>
	2011/12	<input type="text" value="100"/>
	2012/13	<input type="text" value="100"/>
	2013/14	<input type="text" value="100"/>

Actual external debt (£000) 2010/11 **Maturity structure of fixed rate borrowing 2011/12**

Where the periods are	Lower %	Upper %
Under 12 months	<input type="text" value="0"/>	<input type="text" value="10"/>
12 months & within 24 months	<input type="text" value="0"/>	<input type="text" value="15"/>
24 months & within 5 years	<input type="text" value="0"/>	<input type="text" value="25"/>
5 years & within 10 years	<input type="text" value="0"/>	<input type="text" value="25"/>
10 years +	<input type="text" value="50"/>	<input type="text" value="95"/>

Upper limit for total principal sums invested for over 364 days N/A

No sums will be
invested longer
than 364 days

Authorised limit for external debt with limit for borrowing and other long term liabilities identified

	Borrowing £000	Other £000	Total £000
2010/11	386,186	84,605	470,791
2011/12	413,000	83,000	496,000
2012/13	441,000	81,000	522,000
2013/14	442,000	79,000	521,000

Operational boundary for external debt with limit for borrowing and other long term liabilities separately identified

	Borrowing £000	Other £000	Total £000
2010/11	361,186	84,605	445,791
2011/12	388,000	83,000	471,000
2012/13	416,000	81,000	497,000
2013/14	417,000	79,000	496,000

PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS**Capital expenditure**

	Non-HRA £000	HRA £000	Total £000
2010/11	55,033	26,962	91,995
2011/12	77,560	23,158	100,718
2012/13	50,339	22,134	72,743
2013/14	12,995	21,425	34,420

Ratio of financing costs to net revenue stream

	Non-HRA %	HRA %
2010/11	6.4	37.6
2011/12	6.4	38.7
2012/13	6.4	41.8
2013/14	6.5	44.2

Net borrowing requirement

	b/f 1 April £000	c/f 31 March £000	In Year £000
2010/11	312,303	348,886	36,583
2011/12	349,000	388,000	39,000
2012/13	388,000	416,000	28,000
2013/14	416,000	417,000	1,000

Estimates of capital financing requirement

	General Services £000	HRA £000	Total £000	Annual Movement £000
2010/11	230,049	157,725	387,774	32,573
2011/12	270,000	170,000	440,000	52,226
2012/13	292,000	175,000	467,000	27,000
2013/14	290,000	178,000	468,000	1,000

Difference between net borrowing and capital financing requirement

	Total £000
2010/11	38,888
2011/12	52,000
2012/13	51,000
2013/14	51,000

Incremental impact of capital investment decisions

(Increase in Council Tax per Report 144-2011 - Treasury Management Strategy & Annual Investment Strategy 2011/2012)

	Increase in Council Tax (Band D) per annum (£)	Increase in average housing rent per week (£)
2010/11	0.19	2.19
2011/12	2.52	2.02
2012/13	4.63	1.21
2013/14	8.55	0.92