

REPORT TO: POLICY & RESOURCES COMMITTEE - 10 SEPTEMBER 2007

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2006/2007

REPORT BY: HEAD OF FINANCE

REPORT NO: 428-2007

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2006 to 31 March 2007.

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 2006/2007 were that a saving of £1,125,000 in interest was made against the 2006/2007 General Fund Revenue Budget provision and £348,000 in the Housing Revenue Account. The actual interest rate payable was lower at 5.52% against a budget of 6.05%. There was also a benefit of higher than expected interest received on revenue balances.

4 SUSTAINABILITY POLICY IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

At its meeting on 14 March 2005 the Finance Committee approved the Council's Treasury Policy Statement setting out the policies which would govern all borrowing and lending transactions carried out by the Council.

The Treasury Policy Statement requires that the Finance Committee (now Policy & 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 2006/2007.

7 DEBT POSITION

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

		<u>1 April 2006</u>		<u>31 March 2007</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	266.7)	6.2	261.3)	6.2
	Market	1.6)		1.2)	
Variable Rate Funding	PWLB	0.0)		0.0)	
	Market	<u>40.2</u>	<u>3.4</u>	<u>40.2)</u>	<u>3.4</u>
		<u>308.5</u>	<u>5.9</u>	<u>302.7</u>	<u>5.9</u>

8 THE TREASURY MANAGEMENT STRATEGY FOR 2006/2007

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 fall to 4.00% by the end of 2006 and edge up thereafter. Longer term fixed interest rates were expected to be stable during the first half of the year then climb to 4.5% by the end.

The Treasury Management Strategy for 2006/2007 indicated that the Council's borrowing requirement for the year would be limited.

9 ACTUAL BORROWING AND LENDING FOR 2006/2007

9.1 Interest Rates

Base rate started the year at 4.5% and rose to 5.0% by November. It finished the financial year at 5.25%. Long-term PWLB rates (45-50 years) started at 4.20% but fell to 4.05% before rising to 4.45% at the end of the year.

9.2 Borrowing

9.2.1 Long-Term

Long-term borrowing during the year was made via the Public Works Loans Board (PWLB) where the rates offered on longer-term borrowing offered a more favourable opportunity.

A summary of the long-term borrowing between 1 April 2006 and 31 March 2007 is as follows:-

PWLB Borrowing	£20.0m
Market Borrowing	-
Average Period to Maturity	44.63 years
Average Interest Rate	4.21%

PWLB loans with a total value of £20m and an average rate of 4.32% were repaid prematurely. This generated a discount of over £550,000 which reduced the interest cost during the year.

9.2.2 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:-

<u>Month</u>	<u>Lowest Amount Outstanding</u> <u>£m</u>	<u>Highest Amount Outstanding</u> <u>£m</u>	<u>Borrowing Position at End of Month</u> <u>£m</u>	<u>Interest Rate Range</u> <u>%</u>
April 2006	0.7	0.7	0.7	No market loans taken
May	0.7	0.7	0.7	"
June	0.6	0.7	0.6	"
July	0.6	0.6	0.6	"
August	0.6	0.6	0.6	"
September	0.6	0.6	0.6	"
October	0.6	1.2	0.6	4.78
November	0.6	0.6	0.6	No market loans taken
December	0.6	0.6	0.6	"
January 2007	0.6	0.6	0.6	"
February	0.6	0.6	0.6	"
March	0.6	0.7	0.7	"

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 £31m. It can be seen from the above that there was very little short-term borrowing undertaken due to the Council's positive cash flow position during the year.

10 LENDING

On occasions the Council will have surplus funds for relatively short periods and it is normal policy for the Council to lend these sums to approved counterparties.

An analysis of the lending position to 31 March 2007 shows:

<u>Month</u>	<u>Highest Daily Amount Lent</u> <u>£m</u>	<u>Lending Position at End of Month</u> <u>£m</u>	<u>Interest Rate Range</u> <u>%</u>
April 2006	43.5	24.0	4.200 - 4.620
May	49.4	37.2	4.200 - 4.600
June	53.2	34.1	4.380 - 4.600
July	43.7	34.5	4.200 - 4.600
August	38.9	22.7	4.400 - 4.840
September	54.9	30.5	4.550 - 4.850
October	44.2	22.0	4.600 - 4.870
November	47.6	37.8	4.600 - 5.345
December	55.8	29.9	4.900 - 5.190
January 2007	34.5	17.2	4.860 - 5.280
February	29.4	19.5	5.090 - 5.320
March	32.5	20.4	5.000 - 5.340

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

11 **CONSOLIDATED LOANS FUND INTEREST RATE**

When setting the 2006/2007 Revenue Budget, the Council set its Loans Fund interest rate at 6.05%. However, increased interest received on lending and a reduction in interest rate paid led to a budget saving of £1,125,000 in General Fund and £348,000 in Housing Revenue Account. The interest rate for 2007/08 has been set at 5.9%.

12 **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. Appendix 1 shows the actual outcomes for 2006/07 where appropriate. Indicators for future years have been updated to take account of current expectations.

During the year the Operational Boundary was marginally exceeded between June and December 2006 as a result of the decision to borrow at historically low rates in September 2006 to meet future capital expenditure requirements. In addition between June and December Tayside Superannuation Fund money was held in the Council's bank account to enable a smoother restructuring of their assets. These funds are classed as borrowing although they were not part of any active treasury management decisions by the Council.

The Operational Boundary is a measure of the most likely expected borrowing during the year and is therefore liable to be exceeded at times. Paragraph 21 of the Prudential Code states "It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cashflow. However, sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate."

In light of the specific matters which caused the limit to be exceeded there is no concern that this will be sustained or regular so no action other than continuing the current monitoring arrangement is required.

13 **CONSULTATION**

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

14 **BACKGROUND PAPERS**

None

**MARJORY STEWART
HEAD OF FINANCE**

4 SEPTEMBER 2007

**DUNDEE CITY COUNCIL
PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT**

Adoption of CIPFA Code of Practice for Treasury Management

Finance Committee 11/03/02 Report No 141-2002

Upper Limit for borrowing that is at variable rates less investments that are variable rate investments	%
2006/07	30
2007/08	30
2008/09	30
2009/10	30

In Line with Current Treasury Management Limits

Upper Limit for borrowing that is at fixed rates less investments that are fixed rate investments	%
2006/07	100
2007/08	100
2008/09	100
2009/10	100

Limit for 2007/08 for amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed at the start of the period

Where the periods are	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 sums invested for periods longer than 364 days

No sums will be invested as long as this

Authorised Limit for external debt with limit for borrowing and other long term liabilities identified	Borrowing £000	Other £000	Total £000
2006/07 Limit	345,000	5,000	350,000
2007/08	348,000	5,000	353,000
2008/09	355,000	5,000	360,000
2009/10	357,000	5,000	362,000

Operational Boundary for borrowing +£25m, Other +£4m for lease, etc

Operational Boundary for external debt with limit for borrowing and other long term liabilities separately identified	Borrowing £000	Other £000	Total £000
2006/07 Actual	314,075	249	314,324
2007/08	323,000	1,000	324,000
2008/09	330,000	1,000	331,000
2009/10	332,000	1,000	333,000

Estimates of Capital Financing Requirement		non HRA £000	HRA £000	Total £000
2006/07	Actual	207,342	124,599	331,941
2007/08		212,000	125,000	337,000
2008/09		219,000	126,000	345,000
2009/10		222,000	125,000	347,000

Difference between Net Borrowing and Capital Financing Requirement		Total
2006/07	Actual	17,617
2007/08		13,000
2008/09		14,000
2009/10		14,000