

REPORT TO: POLICY & RESOURCES COMMITTEE - 8 SEPTEMBER 2008

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2007/2008

REPORT BY: HEAD OF FINANCE

REPORT NO: 445-2008

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2007 to 31 March 2008.

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 2007/2008 were that a saving of £1,877,000 in interest was made against the 2007/2008 General Fund Revenue Budget provision and £97,000 in the Housing Revenue Account. A significant proportion of this was due to higher than expected interest received on General Fund revenue balances. The actual interest rate payable was lower at 5.75% against a budget of 5.90%.

4 BACKGROUND

At its meeting on 24 March 2008 the Policy and Resources 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 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 2007/2008.

5 DEBT POSITION

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

		<u>1 April 2007</u>		<u>31 March 2008</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	261.3)	6.2	263.2)	6.2
	Market	1.2)		0.8)	
Variable Rate Funding	PWLB	0.0)		0.0)	
	Market	<u>40.2</u>	<u>3.4</u>	<u>40.2)</u>	<u>3.6</u>
		<u>302.7</u>	<u>5.9</u>	<u>304.2</u>	<u>5.9</u>

6 THE TREASURY MANAGEMENT STRATEGY FOR 2007/2008

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 peak at 5.5% in early 2007 then fall back to 5.0% by the end of year. Longer term fixed interest rates were expected to be stable during the year at around 4.25%.

The Treasury Management Strategy for 2007/2008 indicated that the Council's borrowing requirement for the year would be limited.

7 ACTUAL BORROWING AND LENDING FOR 2007/2008

7.1 Interest Rates

Base rate started the year at 5.25% and rose to 5.75% by July. It finished the financial year at 5.25%. Long-term PWLB rates (45-50 years) started at 4.45% but rose to 4.90% before falling to 4.38% at the end of the year.

7.2 Borrowing

7.2.1 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 2007 and 31 March 2008 is as follows:-

PWLB Borrowing	£2.25m
Market Borrowing	-
Average Period to Maturity	40 years
Average Interest Rate	4.55%

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:-

<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 2007	0.7	0.7	0.7	No market loans taken
May	0.9	0.9	0.9	"
June	0.9	0.9	0.9	"
July	0.9	0.9	0.9	"
August	0.5	0.5	0.5	"
September	0.5	0.5	0.5	"
October	0.5	0.5	0.5	"
November	0.4	0.4	0.4	"
December	0.4	0.4	0.4	"
January 2008	0.4	0.4	0.4	"
February	0.4	0.4	0.4	"
March	0.4	0.4	0.4	"

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 £32m. 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.

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 2008 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 2007	35.2	20.0	5.10 - 5.38
May	43.5	29.1	5.09 - 5.59
June	48.7	30.0	5.33 - 5.98
July	46.3	25.2	5.55 - 5.81
August	44.0	29.8	5.55 - 6.25
September	44.8	22.5	5.35 - 6.35
October	43.0	27.8	5.50 - 6.20
November	47.5	30.0	5.40 - 6.55
December	46.5	29.6	5.33 - 6.64
January 2008	61.8	36.2	5.20 - 6.06

February	56.4	35.7	5.17 - 5.75
March	50.5	46.4	5.00 - 5.98

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. This list has been updated to reflect current ratings and to add Cooperative Bank. It is shown in full at Appendix 2.

9 **CONSOLIDATED LOANS FUND INTEREST RATE**

When setting the 2007/2008 Revenue Budget, the Council set its Loans Fund interest rate at 5.9%. However, increased interest received on lending and a reduction in interest rate paid (to equivalent of 5.75%) led to a budget saving of £1,877,000 in General Fund and £97,000 in Housing Revenue Account. The interest rate for 2008/09 has been maintained at 5.9%.

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. Appendix 1 shows the actual outcomes for 2007/08 where appropriate. Limits for future years have been updated to take account of current expectations.

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.

11 **CONSULTATION**

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

12 **BACKGROUND PAPERS**

None

MARJORY STEWART
HEAD OF FINANCE

2 SEPTEMBER 2008

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

Adoption of CIPFA Code of Practice for Treasury Management YES

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 %

2007/08	30
2008/09	30
2009/10	30
2010/11	30

In Line with Current Treasury Management Limits

Upper Limit for borrowing that is at fixed rates less investments that are fixed rate investments %

2007/08	100
2008/09	100
2009/10	100
2010/11	100

Limit for 2008/09 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 N/A

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
2007/08 Limit	340,000	4,500	344,500
2008/09	362,000	4,000	366,000
2009/10	385,000	4,000	389,000
2010/11	399,000	4,000	403,000

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
2007/08 Actual	313,730	49	313,779
2008/09	337,000	1,000	338,000

2009/10	360,000	1,000	361,000
2010/11	374,000	1,000	375,000

Estimates of Capital Financing Requirement		non HRA £000	HRA £000	Total £000
2007/08	Actual	204,065	124,318	328,383
2008/09		226,000	129,000	355,000
2009/10		239,000	139,000	378,000
2010/11		247,000	146,000	393,000

Difference between Net Borrowing and Capital Financing Requirement		Total
2007/08	Actual	14,604
2008/09		17,000
2009/10		17,000
2010/11		16,000

APPROVED COUNTERPARTIES FOR INVESTMENT TRANSACTIONS

<u>Approved Lending Bodies</u>	<u>Short Term Credit Rating</u>	<u>Maximum Deposits £m</u>
<u>Banks</u>		
Abbey National plc	F1+	12
HBOS (formerly Bank of Scotland and Halifax)	F1+	12
Barclays Bank plc	F1+	12
* Clydesdale Bank plc (National Australia Bank)	F1+	12
Lloyds TSB Bank plc	F1+	12
HSBC Bank plc	F1+	12
Royal Bank of Scotland plc (inc National Westminster)	F1+	12
Alliance and Leicester plc	F1	8
Northern Rock	F1+	12
Bank of Ireland	F1+	12
Dexia Bank	F1+	12
Co-operative Bank	F1	8
Anglo Irish Bank Corporation	F1	8
<u>Building Societies</u>		
Nationwide Building Society	F1+	12
Britannia Building Society	F1	8
Coventry Building Society	F1	8
Skipton Building Society	F1	8
Principality Building Society	F1	8
Yorkshire Building Society	F1	8
Chelsea Building Society	F1	8
Leeds Building society	F1	8
West Bromwich Building Society	F1	8
<u>Other</u>		
Scottish Local Authorities	N/A	8
English and Welsh Local Authorities	N/A	8

* This bank is a wholly owned subsidiary of the bank in brackets and the rating quoted refers to the parent bank.

NB Credit ratings indicate the capacity for timely repayments as follows:

F1+	strongest
F1	strong
F2	satisfactory
F3	adequate
B	uncertain
C	highly uncertain

D actual or imminent default