

REPORT TO: POLICY & RESOURCES COMMITTEE - 12 DECEMBER 2011

**REPORT ON: TREASURY MANAGEMENT ACTIVITY 2011/2012
(SIX MONTHS TO 30 SEPTEMBER 2011)**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 544-2011

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2011 to 30 September 2011.

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 4.80%, assumed when setting the 2011/2012 Revenue Budget, will be achieved. A saving of £800,000 is projected due to lower than anticipated interest rates together with a reduction in the required level of borrowing due to slippage on expenditure in the capital programme.

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 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 before the commencement of each new financial year.

At its meeting on 14 March 2011, the Policy and Resources Committee approved the Council's Treasury Management Strategy for 2011/2012.

This monitoring report covers the Treasury Management activity over the first six months of 2011/2012 financial year.

5 BORROWING

5.1 Long-Term

Public Work Loans Board

<u>Date Taken</u>	<u>Amount</u>	<u>Rate</u>	<u>Years</u>	<u>Maturity Date</u>
03/05/2011	5,000,000	4.22%	8.0	15/04/2019
03/05/2011	5,000,000	4.41%	9.0	15/04/2020
04/08/2011	5,000,000	4.36%	12.5	15/08/2023
04/08/2011	2,500,000	4.84%	18.5	15/08/2029
05/08/2011	2,500,000	2.58%	5.0	15/06/2016
05/08/2011	5,000,000	3.89%	10.0	15/06/2021
	<u>25,000,000</u>			
Average		4.12%	10.3	

5.2 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 £m</u>	<u>Highest Amount Outstanding £m</u>	<u>Borrowing Position at End of Month £m</u>	<u>Interest Rate Range %</u>
April 2011	22.6	24.6	22.6	No market loans taken
May	20.6	22.6	20.6	No market loans taken
June	20.6	20.6	20.6	No market loans taken
July	20.6	29.6	29.6	0.59 to 0.75
August	14.6	29.6	14.6	No market loans taken
September	14.6	22.6	22.6	0.55 to 0.80

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 with an initial term of under one year, should be no greater than circa £38m (10% of total debt).

6 **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.

Reduced maximum deposit limits have been operated with effect from 1 November 2011. This reflects the downgrading of three approved lending bodies from F1+ to F1.

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 2011 shows:

<u>Month</u>	<u>Highest Daily Amount Lent £m</u>	<u>Lending Position at End of Month £m</u>	<u>Interest Rate Range %</u>
April 2011	21.1	7.1	0.85 to 0.90
May	34.0	15.3	0.80 to 0.90
June	34.8	20.0	0.80 to 0.90
July	40.6	23.3	0.25 to 0.85
August	37.0	19.9	0.25 to 0.85
September	31.6	15.7	0.75 to 0.85

All of these lendings were in compliance with the Treasury Policy Statement provisions on such lending with regards to amounts and institutions involved. Since the end of the period, between 14 October and 26 October 2011 sums which exceeded the F1 (but not F1+) maximum deposit limits were held.

Sector, the Council's treasury adviser have confirmed they are still comfortable that investments can be held with banks on the Approved Counterparties list for up to 3 months.

7 **OUTLOOK FOR THE SECOND HALF OF 2011/2012**

Some long term borrowing will be required in the second half of the year to fund the capital programme. This will largely be PWLB and will be taken based on an overview of interest rates over different maturities and the impact on future years borrowing strategy.

8 **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.

9 **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.

10 **CONSULTATIONS**

The Chief Executive and Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

11 **BACKGROUND PAPERS**

None.

MARJORY M STEWART
DIRECTOR OF FINANCE

30 NOVEMBER 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