

REPORT TO: POLICY & RESOURCES COMMITTEE - 13 SEPTEMBER 2010

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2009/2010

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 568-2010

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2009 to 31 March 2010.

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 2009/2010 were that a saving of £2,385,000 in interest was made against the 2009/2010 General Revenue Budget provision and £136,000 in the Housing Revenue Account. A significant proportion of this was due to the actual interest rate payable being lower at 4.74% against a budget of 5.40%.

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 2009/2010.

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 2009</u>		<u>31 March 2010</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	262.8	5.9	275.6	5.7
	Market	25.3		20.0	
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>15.0</u>	<u>4.8</u>	<u>20.0</u>	<u>4.7</u>
		<u>303.1</u>	<u>5.9</u>	<u>315.6</u>	<u>5.7</u>

6 THE TREASURY MANAGEMENT STRATEGY FOR 2009/2010

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 stabilise at 0.50% throughout the year. Longer term fixed interest rates were expected to reach a low of 3.90% in mid-2009.

The Treasury Management Strategy for 2009/2010 indicated that the Council's borrowing requirement for capital expenditure would be approximately £31m.

7 ACTUAL BORROWING AND LENDING FOR 2009/2010

7.1 Interest Rates

Base rate stayed at 0.50% throughout the year. Long-term PWLB rates (45-50 years) started at 4.57% but moved between 4.18% and 4.85% before ending the year at 4.70%.

7.2 Borrowing

7.2.1 Long-Term

Long-term borrowing of £35m was undertaken during the year. This was partly used to repay existing loans. The net borrowing of £13.5m 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.

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	HIGHEST AMOUNT OUTSTANDING	POSITION AT END OF MONTH	INTEREST RATE RANGE
		£M	£M	£M	%
2009	April	0.4	16.2	3.1	0.35 to 0.50
	May	0.4	7.2	1.4	0.35
	June	0.4	1.4	0.4	No market loans taken
	July	0.4	2.4	2.4	0.28
	August	0.4	9.2	0.4	0.27 to 0.30
	September	0.4	0.4	0.4	No market loans taken
	October	0.5	0.5	0.5	No market loans taken
	November	0.5	0.5	3.0	0.26 to 0.35
	December	3.0	10.5	10.5	0.34 to 0.55
2010	January	5.5	10.5	5.5	No market loans taken
	February	5.4	5.4	5.4	No market loans taken
	March	5.4	5.4	5.4	No market loans taken

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 there was 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 2010 shows:

LENDING		HIGHEST DAILY AMOUNT LENT £M	POSITION AT END OF MONTH £M	INTEREST RATE RANGE %
2009	April	38.2	23.3	0.50 to 0.90
	May	33.7	18.4	0.50 to 0.90
	June	39.3	15.9	0.50 to 0.90
	July	34.7	14.6	0.50 to 0.90
	August	35.2	14.7	0.50 to 0.90
	September	34.6	16.9	0.50 to 0.90
	October	33.2	9.6	0.80 to 0.90
	November	33.3	11.3	0.80 to 0.90
	December	19.7	9.3	0.80 to 0.90
2010	January	25.3	7.5	0.80 to 0.90
	February	25.3	5.0	0.80 to 0.90
	March	27.4	13.9	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 2009/2010 Revenue Budget, the Council set its Loans Fund interest rate at 5.40%. However, a reduction in interest rate paid (to equivalent of 4.74%) led to a budget saving of £2,385,000 in General Fund and £136,000 in Housing Revenue Account.

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, except for one occasion on 29th July 2009. As it was known money was required the following day a total of £13m was kept with the Council's bank - Royal Bank of Scotland. Their limit is £12m. Appendix 1 shows the actual outcomes for 2009/10 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.

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

6 SEPTEMBER 2010

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	2009/10	<input type="text" value="30"/>
	2010/11	<input type="text" value="30"/>
	2011/12	<input type="text" value="30"/>
	2012/13	<input type="text" value="30"/>

Upper limit for fixed interest rate exposure %

Net principal re fixed rate borrowing/investments	2009/10	<input type="text" value="100"/>
	2010/11	<input type="text" value="100"/>
	2011/12	<input type="text" value="100"/>
	2012/13	<input type="text" value="100"/>

Actual external debt (£000) 2009/10 **Maturity structure of fixed rate borrowing 2010/11**

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
2009/10	315,573	4,000	319,573
2010/11	365,000	4,000	369,000
2011/12	410,000	4,000	414,000
2012/13	422,000	4,000	426,000
Operational boundary for external debt with limit for borrowing and other long term liabilities separately identified	Borrowing £000	Other £000	Total £000
2009/10	290,573	-	290,573
2010/11	340,000	-	340,000
2011/12	385,000	-	385,000
2012/13	397,000	-	397,000

PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

Capital expenditure	Non-HRA £000	HRA £000	Total £000
2009/10	50,235	20,660	70,895
2010/11	86,674	31,503	118,177
2011/12	63,184	25,440	88,624
2012/13	36,889	22,934	59,823
Ratio of financing costs to net revenue stream		Non-HRA %	HRA %
2009/10		6.4	36.0
2010/11		6.6	39.5
2011/12		7.1	39.1
2012/13		7.3	40.0

Net borrowing requirement

	b/f 1 April £000	c/f 31 March £000	In Year £000
2009/10	280,803	297,851	17,048
2010/11	298,000	339,000	41,000
2011/12	339,000	385,000	46,000
2012/13	385,000	397,000	12,000

Estimates of capital financing requirement

	General Services (incl TC) £000	HRA £000	Total £000	Annual Movement £000
2009/10	218,150	141,566	359,716	27,080
2010/11	269,000	159,000	428,000	68,284
2011/12	303,000	171,000	474,000	46,000
2012/13	310,000	177,000	487,000	13,000

Difference between net borrowing and capital financing requirement

	Total £000
2009/10	61,865
2010/11	89,000
2011/12	89,000
2012/13	90,000

Incremental impact of capital investment decisions

	Increase in Council Tax (Band D) per annum (£)	Increase in average housing rent per week (£)
2009/10	0.00	1.47
2010/11	0.53	2.55
2011/12	3.03	1.37
2012/13	9.43	0.73