

REPORT TO: POLICY & RESOURCES COMMITTEE - 6 DECEMBER 2010

**REPORT ON: TREASURY MANAGEMENT ACTIVITY 2010/2011
(SIX MONTHS TO 30 SEPTEMBER 2010)**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 701-2010

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2010 to 30 September 2010.

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 5.4%, assumed when setting the 2010/2011 Revenue Budget, will be achieved. It is anticipated that the actual rate will be around 4.8% which will enable an extra £900,000 saving to be made from reduced expenditure on capital financing costs.

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 22 March 2010, the Policy and Resources Committee approved the Council's Treasury Management Strategy for 2010/2011.

This monitoring report covers the Treasury Management activity over the first six months of 2010/2011 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>
25/05/2010	2,000,000	1.99%	4.0	15/05/2014
25/05/2010	6,000,000	2.74%	6.0	15/05/2016
25/05/2010	2,000,000	3.52%	9.0	15/05/2019
24/08/2010	2,500,000	2.10%	5.5	24/02/2016
	<u>12,500,000</u>			

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</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 2010	5.5	5.6	5.6	No market loans taken
May	3.1	5.6	3.1	No market loans taken
June	3.1	3.1	3.1	No market loans taken
July	3.1	3.1	3.1	No market loans taken
August	3.1	8.1	8.1	0.60
September	8.1	8.1	8.1	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 with an initial term of under one year, should be no greater than circa £33m (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 Counter-parties list provided they have maintained their credit rating.

These lending figures shown include funds held on behalf of Tayside Joint Police Board (until 30 June 2010), Tay Road Bridge Joint Board, Tayside Valuation Joint Board and Tayside Contracts.

An analysis of the lending position to 30 September 2010 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 2010	25.3	12.3	0.80 to 0.90
May	34.0	20.3	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

All of these lendings were in compliance with the Treasury Policy Statement provisions on such lending with regards to amounts and institutions involved.

It is recognised that security of lending is paramount and counterparties are being re-evaluated at each lending decision in light of the uncertainty in the financial markets. Lending decisions are not made solely on the highest interest rate. The current practice is to lend only to suitably rated UK Banks or Building Societies.

7 OUTLOOK FOR THE SECOND HALF OF 2010/2011

On 20 October 2010 PWLB increased the margin they charge on lending by 1% for all periods. Some long term borrowing will be required in the second half of the year to fund the capital programme. This will be a combination of market and PWLB and will be taken based on an overview of interest rates over different maturities and the impact on future years borrowing strategy.

In addition there is now a clear separation of Tayside Superannuation Fund and Tayside Joint Police Board from Dundee City Council cash balances which replaces the previously pooled arrangement. This has reduced the level of lending.

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 STEWART
DIRECTOR OF FINANCE

06 DECEMBER 2010

DUNDEE CITY COUNCIL

PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT

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"/>

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
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PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND EXTERNAL DEBT

Authorised limit for external debt with limit for borrowing and other long term liabilities identified	Borrowing £000	Other £000	Total £000
2009/10	350,443	4,000	354,443
2010/11	412,000	4,000	416,000
2011/12	457,000	4,000	461,000
2012/13	469,000	4,000	473,000

Operational boundary for external debt with limit for borrowing and other long term liabilities separately identified	Borrowing £000	Other £000	Total £000
2009/10	325,443	-	325,443
2010/11	387,000	-	387,000
2011/12	432,000	-	432,000
2012/13	444,000	-	444,000

Actual external debt (£000)	2009/10	321,009
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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

PRUDENTIAL INDICATORS FOR AFFORDABILITY

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

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

PRUDENTIAL INDICATORS FOR PRUDENCE

Net borrowing requirement

	b/f 1 April £000	c/f 31 March £000	In Year £000
2009/10	280,803	312,303	31,500
2010/11	313,000	387,000	74,000
2011/12	387,000	432,000	45,000
2012/13	432,000	444,000	12,000

Estimates of capital financing requirement

	General Services £000	HRA £000	Total £000	Annual Movement £000
2009/10	213,635	141,566	355,201	22,565
2010/11	264,000	159,000	423,000	67,799
2011/12	298,000	171,000	469,000	46,000
2012/13	304,000	177,000	481,000	12,000

Difference between net borrowing and capital financing requirement

	Total £000
2009/10	42,898
2010/11	36,000
2011/12	37,000
2012/13	37,000