

**ITEM No ...5.....**

**REPORT TO: POLICY & RESOURCES COMMITTEE - 13 JUNE 2016**  
**REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2015/2016**  
**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**  
**REPORT NO: 190-2016**

**1 PURPOSE OF REPORT**

To review the Treasury Management activities for the period 1 April 2015 to 31 March 2016.

**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 2015/2016 were that a saving of £1.9m was made against the 2015/2016 budget provision for capital financing costs in HRA and General Services. This was mainly due to the proactive use of short-term borrowing in line with the Treasury Management Strategy and prudential indicators and also from expenditure reprofiling in both capital plans.

**4 BACKGROUND**

At its meeting on 14 March 2016 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 2015/2016.

**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 2015</u>		<u>31 March 2016</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	364.4	5.2	369.4	5.1
	Market	10.0	4.1	25.0	4.3
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>30.0</u>	<u>4.5</u>	<u>15.0</u>	<u>4.6</u>
		<u>404.4</u>	<u>5.1</u>	<u>409.4</u>	<u>5.0</u>

## 6 THE TREASURY MANAGEMENT STRATEGY FOR 2015/2016

**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 increase to 0.75% by March 2016, this predicted increase did not materialise.

The Treasury Management Strategy for 2015/2016 indicated that the Council's borrowing requirement for capital expenditure would be approximately £28m.

## 7 ACTUAL BORROWING AND LENDING FOR 2015/2016

### 7.1 Interest Rates

Base rate stayed at 0.50% throughout the year. Long-term PWLB rates (45-50 years) started at 4.31% but moved between 3.01% and 3.78% throughout the year. These rates do not include the reduction of 0.20% certainty rate and 0.40% project rate funding that Dundee City Council is eligible for.

### 7.2 Borrowing

#### 7.2.1 Long-Term

Long-term borrowing of £16.0m was undertaken during the year with repayment of existing loans totalling £11.0m. The net borrowing was low due to more use of short term borrowing and slippage within both capital programmes. The new borrowing was drawn down in the financial year as follows -

Date	Amount £	Rate %	Term (Years)	Maturity Date
04/12/2015	5,000,000	2.90	48.5	15/05/2064
25/01/2016	5,500,000	2.88	47.5	15/05/2063
30/03/2016	2,500,000	2.90	46.0	15/02/2062
31/03/2016	<u>3,000,000</u>	2.94	45.0	15/02/2061
	<u>16,000,000</u>			

These loans had an average interest rate of 2.90% and an average term of 47.1 years.

#### 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:-

Month	Lowest Amount Outstanding £m	Highest Amount Outstanding £m	End of month Amount Outstanding £m	Interest Rate Range %	
				Min	Max
April 2015	35.8	40.8	38.8	0.30	0.46
May	38.8	38.8	38.8	0.45	0.45

June	38.8	46.8	46.8	0.45	0.48
July	41.8	46.8	45.3	0.30	0.40
August	43.8	45.2	43.8	0.45	0.45
September	43.8	43.8	43.8	0.42	0.42
October	43.8	45.8	43.8	0.42	0.62
November	43.8	48.8	48.8	0.50	0.52
December	43.8	48.8	43.8	No market loans taken	
January 2016	43.8	53.8	46.8	0.54	0.68
February	41.8	50.8	50.8	0.43	0.55
March	49.8	53.8	52.3	0.45	0.70

The IORB rate which is paid on non-General Fund cash balances is based on the 7-day rate and averaged 0.49% throughout the year.

It can be seen from the above that short-term borrowing was undertaken throughout the year in line with Treasury Strategy Statement on short term borrowing.

## 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 2016 shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
				Min	Max
April 2015	3.0	19.8	3.0	0.25	0.80
May	1.4	17.1	1.4	0.25	0.80
June	2.8	19.0	3.9	0.25	0.80
July	1.4	17.1	1.4	0.46	0.50
August	1.4	21.4	3.5	0.46	0.50
September	6.3	26.8	6.3	0.46	0.50
October	1.1	22.4	1.1	0.46	0.50
November	3.9	14.5	3.9	0.25	0.50
December	4.5	20.8	4.5	0.46	0.50
January 2016	2.5	23.2	2.5	0.40	0.51
February	0.2	11.1	0.2	0.46	0.51
March	1.3	14.0	1.3	0.50	0.51

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

## 9 SPECIFIED INVESTMENTS

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Executive Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance

and Perpetuity of Lairs. These investments may have a higher risk threshold and can be subject to market fluctuation. Investment activity throughout 2015/16 financial year is summarised as follows:

Value of funds invested at 1 April 2015	£9,028,233
Investments made in year	£250,000
Value of funds invested in 2015/16	£9,278,233
Value of funds at 31 March 2016	£8,867,607
Capital Growth/(Decrease) of Investments	(£410,625)
Income from Investments	£350,565
Return/(Loss) on Investments in 2015/16	(£60,061)

It has been one of the most difficult years for fixed income investment funds in recent times. The volatility of markets resulted in portfolio underperformance due to the sensitivity to the numerous and widely varying factors which drove market sentiment. Whilst readily acknowledged that these investments are market sensitive and have risk of capital loss, they are long term investments with the purpose of achieving regular and stable levels of income from fixed coupon returns. The short term fluctuations in underlying value are noted, but as investments are not liquidated, no loss or gain on investment is realised.

To provide context, the prior year performance of the funds currently invested in are shown below.

Annual Discrete Performance Figures					
	31/03/2012	31/03/2013	31/03/2014	31/03/2015	31/03/2016
Corporate Bond Fund	6.20%	15.40%	4.30%	9.70%	-2.30%
Monthly Income Bond Fund	1.80%	15.00%	1.70%	5.80%	-2.30%

A significant proportion of these funds were previously invested in equities, which are a more volatile asset class, having more risk of capital loss with less guaranteed income profile.

## 10 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2015/2016 Revenue Budget, the Council set its Loans Fund interest rate at 4.20%. The actual interest rate payable was 4.13%.

## 11 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.

## 12 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.

## 13 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

14 **BACKGROUND PAPERS**

None

**MARJORY STEWART**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**3 JUNE 2016**



**PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS**

Adoption of Revised CIPFA Treasury Management Code of Practice

Yes

**Upper limit for variable and fixed rate exposure**

	Net principal re variable rate borrowing / investments	Net principal re fixed rate borrowing / investments
2015/16	30%	100%
2016/17	30%	100%
2017/18	30%	100%
2018/19	30%	100%
2019/20	30%	100%
2020/21	30%	100%

**Actual External Debt (31/03/2016)**

Actual borrowing	£'000
Actual other long term liabilities	461,695
<b>Actual external debt</b>	<b>74,035</b>
	<b>535,730</b>

**Maturity structure of fixed rate borrowing 2015/16**

Period	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 total principal sums invested for over 364 days	n/a	No sums will be invested longer than 364 days

**External debt, excluding investments, with limit for borrowing and other long term liabilities separately identified**

	Authorised Limit			Operational Boundary		
	Borrowing £000	Other £000	Total £000	Borrowing £000	Other £000	Total £000
2015/16	487,000	74,000	561,000	462,000	74,000	536,000
2016/17	551,000	72,000	623,000	526,000	72,000	598,000
2017/18	601,000	70,000	671,000	576,000	70,000	646,000
2018/19	606,000	68,000	674,000	581,000	68,000	649,000
2019/20	602,000	66,000	668,000	577,000	66,000	643,000
2020/21	605,000	64,000	669,000	580,000	64,000	644,000

## PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

	Capital Expenditure			Ratio of financing costs to net revenue stream	
	Non-HRA £000	HRA £000	Total £000	Non-HRA %	HRA %
2015/16	72,663	13,604	86,267	7.6	41.8
2016/17	104,169	18,362	122,531	7.8	40.7
2017/18	115,547	14,090	129,637	8.3	40.1
2018/19	35,339	14,655	49,994	8.9	40.4
2019/20	28,420	13,965	42,385	8.4	40.4
2020/21	32,360	13,765	46,125	8.6	37.8

	Net Borrowing Requirement (NBR)			Capital Financing Requirement (CFR)			
	1 April £000	31 March £000	Movement £000	Non-HRA £000	HRA £000	Total £000	Movement £000
2015/16	443,598	461,292	17,694	308,462	175,326	483,788	8,225
2016/17	462,000	522,000	60,000	365,000	179,000	544,000	60,000
2017/18	522,000	572,000	50,000	415,000	179,000	594,000	50,000
2018/19	572,000	577,000	5,000	420,000	179,000	599,000	5,000
2019/20	577,000	573,000	(4,000)	417,000	178,000	595,000	(4,000)
2020/21	573,000	576,000	3,000	421,000	177,000	598,000	3,000

	NBR v CFR Difference	Incremental Impact of Capital Investment Decisions	
	Total £000	Increase in council tax (band D) per annum £ (Note 1)	Increase in average housing rent per week £
2015/16	22,496	0.24	0.01
2016/17	22,000	0.77	0.21
2017/18	22,000	8.32	0.07
2018/19	22,000	10.73	(0.04)
2019/20	22,000	10.42	(0.22)
2020/21	22,000	11.31	(0.11)

Note 1 - The above figures reflect the incremental impact of the capital investment decisions within this 5 Year Plan on the Council Tax, with all other items held constant. In reality the Council will manage its Capital Financing Cost budget in the same way as other revenue budget headings to avoid a detrimental impact on Council Tax Levels.