

**REPORT TO: POLICY & RESOURCES COMMITTEE - 10 SEPTEMBER 2012**

**REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2011/2012**

**REPORT BY: DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 317-2012**

## 1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2011 to 31 March 2012.

## 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 2011/2012 were that a saving of £1,201,000 in interest was made against the 2011/2012 General Revenue Budget provision.

## 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 2011/2012.

## 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 2011</u>		<u>31 March 2012</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	292.1	5.7	327.1	5.5
	Market	10.0		0.0	
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>30.0</u>	<u>4.5</u>	<u>40.0</u>	<u>4.2</u>
		<u>332.1</u>	<u>5.6</u>	<u>367.1</u>	<u>5.3</u>

## 6 THE TREASURY MANAGEMENT STRATEGY FOR 2011/2012

**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 remain stable at 0.50% throughout the year. Longer term fixed interest rates were expected to be around 4.40% during the year.

The Treasury Management Strategy for 2011/2012 indicated that the Council's borrowing requirement for capital expenditure would be approximately £42m.

## 7 ACTUAL BORROWING AND LENDING FOR 2011/2012

### 7.1 Interest Rates

Base rate stayed at 0.50% throughout the year. Long-term PWLB rates (45-50 years) started at 5.29% but moved between 5.36% and 3.99% throughout the year.

### 7.2 Borrowing

#### 7.2.1 Long-Term

Long-term borrowing of £42.5m was undertaken during the year. This was partly used to repay existing loans. The net borrowing of £35m 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 there were less opportunities with sufficient quality credit rating. It was therefore, deemed to be more prudent and cost-effective to reduce these rather than take on any new borrowing. It was also lower than expected because more short-term borrowing was taken to take advantage of the particularly low rates. The £42.5m was drawn down at various points throughout the year.

These loans had an average interest rate of 3.90% and an average term of 19 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:-

		LOWEST AMOUNT OUTSTANDING £M	HIGHEST AMOUNT OUTSTANDING £M	POSITION AT END OF MONTH £M	INTEREST RATE RANGE %	
2011	April	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	
	October	17.6	22.6	19.6	0.42	
	November	19.6	19.6	19.6	No market loans taken	
	December	19.6	19.6	19.6	No market loans taken	
	2012	January	17.6	19.6	17.6	No market loans taken
		February	15.6	17.6	15.6	No market loans taken
		March	11.6	18.6	18.6	0.35 to 0.75

The IORB rate which is paid on non-General Fund cash balances is based on the 7-day rate and averaged 0.44% throughout the year.

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 £37m. It can be seen from the above that short-term borrowing was undertaken mainly in the second half of the year due to the benefits of a particularly low interest rate against that for longer 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 2012 shows:

LENDING		HIGHEST DAILY AMOUNT LENT £M	POSITION AT END OF MONTH £M	INTEREST RATE RANGE %
2011	April	21.1	7.1	0.85 to 0.90
	May	34.0	20.0	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
	October	28.5	7.0	0.85 to 0.87
	November	24.0	20.0	0.85 to 0.87
2012	December	32.0	16.9	0.25 to 0.87
	January	35.2	11.9	0.25 to 0.87
	February	28.1	14.2	0.25 to 0.87
	March	20.9	9.5	0.80 to 0.87

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, except as noted in report no. 544-2011 when there was a period from 14th October 2011 when Bank of Scotland was downgraded to F1 and 26th October 2011 when funds were held with it in line with its previous F1+ rating.

## 9 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2011/2012 Revenue Budget, the Council set its Loans Fund interest rate at 4.80%. The actual interest rate payable was 4.63%.

## 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.

## 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 Head of Democratic and Legal Services have been consulted in the preparation of this report.

13 **BACKGROUND PAPERS**

None

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

**30 AUGUST 2012**

**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	2011/12	<input type="text" value="30"/>
	2012/13	<input type="text" value="30"/>
	2013/14	<input type="text" value="30"/>
	2014/15	<input type="text" value="30"/>

**Upper limit for fixed interest rate exposure** %

Net principal re fixed rate borrowing/investments	2011/12	<input type="text" value="100"/>
	2012/13	<input type="text" value="100"/>
	2013/14	<input type="text" value="100"/>
	2014/15	<input type="text" value="100"/>

**Actual external debt (£000)** 2011/12

**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

<b>Authorised limit for external debt with limit for borrowing and other long term liabilities identified</b>	<b>Borrowing £000</b>	<b>Other £000</b>	<b>Total £000</b>
2011/12	413,000	83,000	496,000
2012/13	460,000	81,000	541,000
2013/14	480,000	79,000	559,000
2014/15	483,000	77,000	560,000
<b>Operational boundary for external debt with limit for borrowing and other long term liabilities separately identified</b>	<b>Borrowing £000</b>	<b>Other £000</b>	<b>Total £000</b>
2011/12	389,233	82,711	471,944
2012/13	435,000	81,000	516,000
2013/14	455,000	79,000	534,000
2014/15	458,000	77,000	535,000

## PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

<b>Capital expenditure</b>	<b>Non-HRA £000</b>	<b>HRA £000</b>	<b>Total £000</b>
2011/12	63,610	23,244	86,854
2012/13	58,094	24,652	82,746
2013/14	37,026	17,825	54,851
2014/15	33,662	14,660	48,322
<b>Ratio of financing costs to net revenue stream</b>	<b>Non-HRA %</b>	<b>HRA %</b>	
2011/12	6.7	39.3	
2012/13	6.7	41.8	
2013/14	6.8	44.2	
2014/15	6.8	44.2	

**Net borrowing requirement**

	b/f 1 April £000	c/f 31 March £000	In Year £000
2011/12	348,886	382,583	33,697
2012/13	382,583	435,000	52,417
2013/14	435,000	455,000	20,000
2014/15	455,000	458,000	3,000

**Estimates of capital financing requirement**

	General Services £000	HRA £000	Total £000	Annual Movement £000
2011/12	255,674	168,202	423,876	36,102
2012/13	296,000	176,000	472,000	48,124
2013/14	313,000	178,000	491,000	19,000
2014/15	318,000	177,000	495,000	4,000

**Difference between net borrowing and capital financing requirement**

	Total £000
2011/12	41,293
2012/13	37,000
2013/14	36,000
2014/15	37,000

**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 (£)
2011/12	0.00	1.43
2012/13	0.00	1.07
2013/14	0.00	0.30
2014/15	0.00	(0.23)