ITEM No …4………..

REPORT TO: POLICY & RESOURCES COMMITTEE – 9 NOVEMBER 2015

REPORT ON: TREASURY MANAGEMENT ACTIVITY 2015/2016 (MID-YEAR REVIEW)

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 387-2015

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2015 to 30 September 2015.

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 4.20%, assumed when setting the 2015/2016 Revenue Budget, will be achieved. Capital financing costs are continually monitored throughout the financial year.

4 BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

At its meeting on 22 April 2013, the Policy and Resources Committee approved the Council's Treasury Policy Statement (Report no. 183-2013, article XVIII of minute refers) 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 at the beginning of each new financial year.

On 9 March 2015, the Policy and Resources Committee approved the Council's Treasury Management Strategy for 2015/2016 (Report no. 91-2015, article XV of minute refers).

This monitoring report covers the Treasury Management activity over the first six months of 2015/2016 financial year.

5 DEBT POSITION

The Council's gross debt position at the beginning and mid-point of the financial year was as follows:-

Funding type		1 April 2015 Principal £m	1 April 2015 Average Rate %	30 September 2015 Principal £m	30 September 2015 Average Rate %
Long-term Fixed Rate	PWLB	364.4	5.2	361.7	5.1
	Market	10.0	4.1	10.0	4.1
Long-term Variable Rate	PWLB	0.0	-	0.0	-
	Market	30.0	4.5	30.0	4.5
Total Long-term Debt		404.4	5.1	401.7	5.1
Short-term Fixed Rate	Market	40.8	0.5	43.8	0.5
Total Debt		445.2	4.7	445.5	4.7

6 ACTUAL BORROWING

6.1 <u>Long-Term</u>

No long-term borrowing has been undertaken during this activity period.

In recent months the Council successfully applied for project rate borrowing of £10.5m for Regional Performance Centre for Sport, this will allow the council to long-term borrow at 0.20% lower than PWLB certainty rates. This borrowing will be accessed at an appropriate time.

6.2 <u>Short-Term</u>

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 %	
2015				Min	Max
April	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

The Council's Treasury Strategy document provides that the amount of the overall borrowing which may be outstanding by way of variable rate exposure should be no greater than 30% of net borrowings included in Prudential Code Indicators (circa £134m).

7 ACTUAL 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.

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 2015 shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
2015				Min	Max
April	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

All of these lendings were in compliance with the Treasury Policy Statement.

8 OUTLOOK FOR THE SECOND HALF OF 2015/2016

Further borrowing will be required in the second half of the year to fund the capital programme. This will a combination of longer term PWLB and shorter term market loans based on an overview of interest rates over different maturities and the impact on future years borrowing strategy. The Council's treasury advisor, Capita Asset Services, has provided the following interest rate forecast :-

Quarter ending	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2015	0.50	2.40	3.60	3.60
Mar 2016	0.50	2.50	3.80	3.80
Jun 2016	0.75	2.60	3.90	3.90
Sep 2016	0.75	2.80	4.00	4.00
Dec 2016	1.00	2.90	4.10	4.10
Mar 2017	1.00	3.00	4.20	4.20
Jun 2017	1.25	3.10	4.30	4.30
Sep 2017	1.50	3.20	4.40	4.40
Dec 2017	1.50	3.30	4.50	4.50
Mar 2018	1.75	3.40	4.60	4.60

9 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.

10 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.

11 CONSULTATIONS

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

12 BACKGROUND PAPERS

None.

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **30 OCTOBER 2015**

APPENDIX 1

DUNDEE CITY COUNCIL

1. Capital Expenditure Indicators

1.1 Level of Capital Expenditure

This indicator measures affordability and gives a basic control of the Council's capital expenditure. To provide an accurate indicator of capital expenditure all receipts are excluded from the calculation, so figures are based on gross expenditure.

1.2 Ratio of Financing Costs to Net Revenue Stream

This also measures affordability. The measure includes both current and future commitments based on the Capital Plan and shows the revenue budget used to fund the capital financing costs associated with the capital expenditure programme. Variations to the ratio implies that the proportion of loan charges has either increased or decreased in relation to the total funded from Government Grants and local taxpayers.

1.3 Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

This is also a measure of affordability. It shows the relative impact of the capital programme on the Council Tax. The indicator takes into consideration the effects of self-financing capital projects funded from existing Revenue Budgets, the effects of government funded projects and reflects the revenue impact of capital schemes on capital financing costs. The variation in the indicators shows 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 Costs budget in the same way as other revenue budget headings to avoid a detrimental impact on Council Tax.

2. Treasury Management Indicators

The Annual Treasury Management Activity for 2014/15 (including Prudential Indicators covering period 2014/15 to 2017/18) was reported to Policy & Resources Committee on 22 June 2015 (Report No 212-2015). These have now been updated to reflect projected expenditure included in the 2016-21 Capital Plan.

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

	£'000
Actual borrowing as at 31/03/2015	445,164
Actual other long term liabilities as at 31/03/2015	76,214
Actual external debt as at 31/03/2015	**521,378**

Maturity structure of fixed rate borrowing 2014/15

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	502,000	75,000	577,000	477,000	75,000	552,000
2016/17	545,000	73,000	618,000	520,000	73,000	593,000
2017/18	597,000	71,000	668,000	572,000	71,000	643,000
2018/19	602,000	69,000	671,000	577,000	69,000	646,000
2019/20	599,000	67,000	666,000	574,000	67,000	641,000
2020/21	602,000	65,000	667,000	577,000	65,000	642,000

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	100,062	16,213	116,275	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	473,000	29,402	330,000	177,000	507,000	31,000
2016/17	473,000	516,000	43,000	368,000	180,000	548,000	41,000
2017/18	516,000	567,000	51,000	418,000	181,000	599,000	51,000
2018/19	567,000	573,000	6,000	422,000	181,000	603,000	4,000
2019/20	573,000	570,000	(3,000)	419,000	180,000	599,000	(4,000)
2020/21	570,000	574,000	4,000	423,000	179,000	602,000	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	34,000	0.24	0.01
2016/17	32,000	0.77	0.21
2017/18	32,000	8.32	0.07
2018/19	30,000	10.73	(0.04)
2019/20	29,000	10.42	(0.22)
2020/21	28,000	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.