

REPORT TO: POLICY & RESOURCES COMMITTEE - 28 SEPTEMBER 2009

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2008/2009

REPORT BY: HEAD OF FINANCE

REPORT NO: 447-2009

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2008 to 31 March 2009.

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 2008/2009 were that a saving of £3,042,000 in interest was made against the 2008/2009 General Revenue Budget provision and £322,000 in the Housing Revenue Account. A significant proportion of this was due to higher than expected interest received on General Fund revenue balances. The actual interest rate payable was lower at 5.35% against a budget of 5.90% and there was also slippage in the capital plan.

4 BACKGROUND

At its meeting on 24 March 2008 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 2008/2009.

5 DEBT POSITION

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

		<u>1 April 2008</u>		<u>31 March 2009</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	263.2	5.9	262.8	5.9
	Market	35.8		25.3	
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>5.2</u>	<u>4.9</u>	<u>15.0</u>	<u>4.8</u>
		<u>304.2</u>	<u>5.9</u>	<u>303.1</u>	<u>5.8</u>

Please note that the split between Fixed and Variable Rates funding is on a different basis from last year as the treatment of LOBOs has been amended.

6 THE TREASURY MANAGEMENT STRATEGY FOR 2008/2009

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 fall back to 4.75% by the end of year. Longer term fixed interest rates were expected to be stable during the year at around 4.50% with a low of 4.45%.

The Treasury Management Strategy for 2008/2009 indicated that the Council's borrowing requirement for capital expenditure would be approximately £15m.

7 ACTUAL BORROWING AND LENDING FOR 2008/2009

7.1 Interest Rates

Base rate started in an unprecedented year at 5.25% but fell to 0.5% by the end of the year with severe cuts in November and December. Long-term PWLB rates (45-50 years) started at 4.43% but moved between 3.86% and 4.84% before ending this year at 4.58%.

7.2 Borrowing

7.2.1 Long-Term

No long-term borrowing was undertaken during the year. This was partly a result of the slippage in the capital plan but also of a deliberate treasury management decision to use short-term balances. These balances were earning low returns in the last quarter of the year and were also subject to increased 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
	BORROWING	£M	£M	£M	%
2008	April	0.5	0.5	0.5	No market loans taken
	May	0.5	0.5	0.5	No market loans taken
	June	0.5	0.5	0.5	No market loans taken
	July	0.5	0.5	0.5	No market loans taken
	August	0.5	0.5	0.5	No market loans taken
	September	0.5	0.5	0.5	No market loans taken
	October	0.5	0.5	0.5	No market loans taken
	November	0.5	0.5	0.5	No market loans taken
	December	0.5	0.5	0.5	No market loans taken
2009	January	0.4	0.4	0.4	No market loans taken
	February	0.4	0.4	0.4	No market loans taken
	March	0.4	0.4	0.4	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 £32m. It can be seen from the above that there was very 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 2009 shows:

LENDING		HIGHEST DAILY AMOUNT LENT £M	POSITION AT END OF MONTH £M	INTEREST RATE RANGE %
2008	April	56.5	49.2	4.70 to 5.93
	May	69.3	54.5	4.75 to 5.44
	June	78.8	58.3	4.75 to 6.70
	July	75.2	57.8	4.70 to 5.60
	August	75.0	60.9	4.73 to 6.08
	September	76.9	55.2	4.65 to 5.60
	October	73.3	52.6	4.20 to 6.40
	November	72.7	54.1	2.20 to 4.90
December	66.1	44.4	1.50 to 3.40	
2009	January	64.3	46.3	0.85 to 2.40
	February	68.6	47.9	0.50 to 1.90
	March	60.8	37.4	0.30 to 1.30

The lending activity shown above related mainly to very short-term positions. All of these lendings were in compliance with the Treasury Policy Statement provisions on such lending with regards to amounts and institutions involved. This list has been updated to reflect current credit ratings. It is shown in full at Appendix 2.

9 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2008/2009 Revenue Budget, the Council set its Loans Fund interest rate at 5.9%. However, increased interest received on lending and a reduction in interest rate paid (to equivalent of 5.35%) led to a budget saving of £3,042,000 in General Fund and £322,000 in Housing Revenue Account. The budgeted interest rate for 2009/10 has been reduced to 5.6%.

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. On the lending side there was one day - 19 January 2009, when the counterparty limit was breached. £12.265m was on deposit with the Council's bankers - Royal Bank of Scotland compared to its limit of £12m. This was agreed by the Head of Finance due to limited number of counterparties at the time and that the funds would be required the following day. Appendix 1 shows the actual outcomes for 2008/09 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, Depute Chief Executive (Finance) and Depute Chief Executive (Support Services) have been consulted on this report.

13 **BACKGROUND PAPERS**

None

MARJORY STEWART
HEAD OF FINANCE

22 SEPTEMBER 2009

**DUNDEE CITY COUNCIL
PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT**

Adoption of CIPFA Code of Practice for Treasury Management

Finance Committee 11/03/02 Report No 141-2002

Upper Limit for borrowing that is at variable rates less investments
that are variable rate investments

%

2008/09

2009/10

2010/11

2011/12

In Line with Current Treasury Management Limits

Upper Limit for borrowing that is at fixed rates less investments
that are fixed rate investments

%

2008/09

2009/10

2010/11

2011/12

Limit for 2009/10 for amount of projected borrowing that is fixed
rate maturing in each period as percentage of total projected
borrowing that is fixed at the start of the period

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 sums invested for periods longer
than 364 days

No sums will be invested as long as this

Authorised Limit for external debt with limit for borrowing and other long term liabilities identified		Borrowing £000	Other £000	Total £000
2008/09	Limit	354,000	4,500	358,500
2009/10		370,000	4,000	374,000
2010/11		426,000	4,000	430,000
2011/12		449,000	4,000	453,000

Operational Boundary for borrowing +£25m, Other +£4m for lease, etc

Operational Boundary for external debt with limit for borrowing and other long term liabilities separately identified		Borrowing £000	Other £000	Total £000
2008/09	Actual	315,673	-	315,673
2009/10		345,000	-	345,000
2010/11		401,000	-	401,000
2011/12		424,000	-	424,000

Estimates of Capital Financing Requirement		non HRA £000	HRA £000	Total £000
2008/09	Actual	201,579	131,057	332,636
2009/10		224,000	141,000	365,000
2010/11		271,000	151,000	422,000
2011/12		287,000	158,000	445,000

Difference between Net Borrowing and Capital Financing Requirement

		Total
2008/09	Actual	16,963
2009/10		20,000
2010/11		21,000
2011/12		21,000

APPENDIX 2**APPROVED COUNTERPARTIES FOR INVESTMENT TRANSACTIONS**

<u>Approved Lending Bodies</u>	<u>Short Term Credit Rating</u>	<u>Maximum Deposits £m</u>
<u>Banks</u>		
Alliance and Leicester Plc (One Abbey National Plc Counterparty)	F1+	12
Lloyds TSB Bank Plc (One Bank of Scotland Plc Counterparty)	F1+	12
Barclays Bank Plc	F1+	12
Clydesdale Bank Plc	F1+	12
HSBC Bank Plc	F1+	12
Royal Bank of Scotland Plc	F1+	12
Northern Rock	F1+	12
Bank of Ireland	F1+	12
Dexia Bank	F1+	12
Anglo Irish Bank Corporation	F1+	12
<u>Building Societies</u>		
Nationwide Building Society	F1+	12
Coventry Building Society	F1	8
Leeds Building Society	F1	8
<u>Other</u>		
Scottish Local Authorities	N/A	8
English and Welsh Local Authorities	N/A	8
Debt Management Office	N/A	8

NB Credit ratings indicate the capacity for timely repayments as follows:

F1+	strongest
F1	strong
F2	satisfactory
F3	adequate
B	uncertain
C	highly uncertain
D	actual or imminent default