

REPORT TO: FINANCE COMMITTEE - 11 SEPTEMBER 2006
REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2005/2006
REPORT BY: HEAD OF FINANCE
REPORT NO: 493-2006

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2005 to 31 March 2006.

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 2005/2006 were that a saving of £713,000 in interest was made against the 2005/2006 Revenue Budget provision. The actual interest rate payable was lower at 5.94% against a budget of 6.05%. There was also a benefit of higher than expected interest received on revenue balances.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

At its meeting on 14 March 2005 the Finance 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 Finance 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 2005/2006.

7 DEBT POSITION

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

		<u>1 April 2005</u>		<u>31 March 2006</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	251.6)	6.4	266.7)	6.2
	Market	2.0)		1.6)	
Variable Rate Funding	PWLB	0.0)		0.0)	
	Market	<u>22.7</u>	<u>4.3</u>	<u>40.2</u>	<u>3.4</u>
		<u>276.3</u>	<u>6.3</u>	<u>308.5</u>	<u>5.9</u>

8 THE TREASURY MANAGEMENT STRATEGY FOR 2005/2006

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 peak at 5.00% during the year and fall back thereafter. Longer term fixed interest rates were expected to be stable during the year with rates drifting around 4.75%.

The Treasury Management Strategy for 2005/2006 indicated that the Council would be pragmatic by utilising long-term borrowing taking advantage of the historically low rates, but also using short-term borrowing to take advantage of any differentials which may reduce borrowing costs.

9 ACTUAL BORROWING AND LENDING FOR 2005/2006

9.1 Interest Rates

Base rate started the year at 4.75% and fell to 4.5% in August. It stayed at this level for the rest of the financial year. Long-term PWLB rates (25-50 years) started at 4.75% but fell to 3.85% before rising to 4.25% by the end of the year. Periods up to 45-50 years were introduced in December and this started at 4.20% before falling to 3.70% in January and ending at 4.15%.

9.2 Borrowing

9.2.1 Long-Term

Long-term borrowing during the year was made via the Public Works Loans Board (PWLB) where the rates offered on longer-term borrowing offered a more favourable opportunity.

A summary of the long-term borrowing between 1 April 2005 and 31 March 2006 is as follows:-

PWLB Borrowing	£51.0m
Market Borrowing (LOBO's)	£20.0m
Average Period to Maturity	28.77 years
Average Interest Rate	3.78%

In addition, two "Lender Option Borrower Option" (LOBO) loans of £10m each were taken to fund part of the premature repayment of various PWLB loans. These were taken at rates of 2.81% and 3.23% fixed for five and seven years respectively. In total £30.5m of borrowing was taken to enable the rescheduling of debt to achieve a reduction in borrowing costs.

9.2.2 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:-

<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 2005	0.6	0.6	0.6	No market loans taken
May	0.6	1.9	0.6	4.8
June	0.6	0.6	0.6	No market loans taken
July	0.6	0.6	0.6	"
August	0.6	0.6	0.6	"
September	0.6	0.6	0.6	"
October	0.6	0.6	0.6	"
November	0.6	0.6	0.6	"
December	0.6	0.6	0.6	"
January 2006	0.6	0.6	0.6	"
February	0.6	0.6	0.6	"
March	0.6	0.6	0.6	"

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 £28m. 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.

10 LENDING

On occasions the Council will have surplus funds for relatively short periods and it is normal policy for the Council to lend these sums to approved counterparties.

An analysis of the lending position to 31 March 2006 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 2005	16.6	6.9	4.700 - 4.800
May	24.0	10.2	4.470 - 4.800
June	19.4	6.7	4.500 - 4.770
July	32.3	21.1	4.375 - 4.770
August	45.2	28.0	4.250 - 4.650
September	46.0	19.0	4.250 - 4.600
October	36.1	12.4	4.200 - 4.530
November	23.4	16.6	4.200 - 4.550
December	62.9*	32.6	4.250 - 4.620
January 2006	44.7	28.4	4.200 - 4.600

February	44.5	26.0	4.200 - 4.520
March	35.2	22.3	4.150 - 4.680

* This amount is high due to Scottish Executive having paid £42m into Police Account to fund costs associated with the G8 Summit. Payments made by Police result in the fall to a lower level by month end.

The lending activity shown above related 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.

Given the high values of lending, to ensure the opportunity to achieve best interest rates without taking undue risk, it is proposed that the limit for F1 bodies is increased from £5m to £8m. The effect of this is shown in Appendix 1. It is also proposed to add Northern Rock as an additional F1 counterparty to this list.

11 **CONSOLIDATED LOANS FUND INTEREST RATE**

When setting the 2005/2006 Revenue Budget, the Council set its Loans Fund interest rate at 6.05%. However, increased interest received on lending and a reduction in interest rate paid led to a budget saving of £713,000 in General Fund.

12 **PRUDENTIAL CODE INDICATORS**

The Treasury Management activity during the year was maintained within the prudential code limits other than the Operational Boundary. This is a measure of the likely expected borrowing during the year. This was exceeded between January and March 2006 as a result of the decision to borrow at historically low rates for the majority of the Council's 2006/07 capital expenditure requirements. However, all borrowing was maintained within the authorised borrowing limit. Appendix 2 shows the actual outcomes for 2005/06 where appropriate. Indicators for future years have been updated to take account of current expectations.

13 **CONSULTATION**

The Chief Executive, Depute Chief Executive (Finance) and Depute Chief Executive (Support Services) have been consulted on this report.

14 **BACKGROUND PAPERS**

None

MARJORY STEWART
HEAD OF FINANCE

5 SEPTEMBER 2006

APPROVED COUNTERPARTIES FOR LENDING TRANSACTIONS

<u>Approved Lending Bodies</u>	<u>Short Term Credit Rating</u>	<u>Maximum Deposits £m</u>
<u>Banks</u>		
Abbey National plc	F1+	12
HBOS (formerly Bank of Scotland and Halifax)	F1+	12
Barclays Bank plc	F1+	12
* Clydesdale Bank plc (National Australia Bank)	F1+	12
Lloyds TSB Bank plc	F1+	12
HSBC Bank plc	F1+	12
Royal Bank of Scotland plc (inc National Westminster)	F1+	12
Alliance and Leicester plc	F1+	12
Bradford & Bingley plc	F1	8
Anglo Irish Bank Corporation	F1	8
Northern Rock	F1	8
<u>Building Societies</u>		
Nationwide Building Society	F1+	12
Britannia Building Society	F1	8
Coventry Building Society	F1	8
Skipton Building Society	F1	8
Principality Building Society	F1	8
Yorkshire Building Society	F1	8
Chelsea Building Society	F1	8
<u>Other</u>		
Scottish Local Authorities	N/A	8
English and Welsh Local Authorities	N/A	8

* This bank is a wholly owned subsidiary of the bank in brackets and the rating quoted refers to the parent bank.

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

**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	%
2005/06	<input type="text" value="30"/>
2006/07	<input type="text" value="30"/>
2007/08	<input type="text" value="30"/>
2008/09	<input type="text" value="30"/>

In Line with Current Treasury Management Limits

Upper Limit for borrowing that is at fixed rates less investments that are fixed rate investments	%
2005/06	<input type="text" value="100"/>
2006/07	<input type="text" value="100"/>
2007/08	<input type="text" value="100"/>
2008/09	<input type="text" value="100"/>

Limit for 2006/07 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
2005/06 Limit	<input type="text" value="329,000"/>	<input type="text" value="5,000"/>	<input type="text" value="334,000"/>
2006/07	<input type="text" value="349,000"/>	<input type="text" value="5,000"/>	<input type="text" value="354,000"/>
2007/08	<input type="text" value="355,000"/>	<input type="text" value="5,000"/>	<input type="text" value="360,000"/>
2008/09	<input type="text" value="357,000"/>	<input type="text" value="5,000"/>	<input type="text" value="362,000"/>

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
2005/06 Actual	<input type="text" value="319,671"/>	<input type="text" value="452"/>	<input type="text" value="320,123"/>
2006/07	<input type="text" value="324,000"/>	<input type="text" value="1,000"/>	<input type="text" value="325,000"/>
2007/08	<input type="text" value="330,000"/>	<input type="text" value="1,000"/>	<input type="text" value="331,000"/>

2008/09

332,000

1,000

333,000

Estimates of Capital Financing Requirement	non HRA £000	HRA £000	Total £000
2005/06	200,474	119,968	320,442
2006/07	215,000	125,000	340,000
2007/08	220,000	126,000	346,000
2008/09	221,000	129,000	350,000

Difference between Net Borrowing and Capital Financing Requirement	Total
2005/06 Actual	319
2006/07	15,000
2007/08	15,000
2008/09	17,000