

REPORT TO: FINANCE COMMITTEE - 12 SEPTEMBER 2005

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2004/2005

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 531-2005

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2004 to 31 March 2005.

2 RECOMMENDATION

The Committee is asked to note the information contained herein.

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2004/2005 were that a saving of £221,000 in interest was made against the 2004/2005 Revenue Budget provision. Although the actual interest rate payable was slightly higher at 6.09% against a budget of 6.05% this was more than offset by 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 2004/2005.

7 DEBT POSITION

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

		<u>1 April 2004</u>		<u>31 March 2005</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	226.9)	6.6	251.6)	6.4
	Market	2.9)		2.0)	
Variable Rate Funding	PWLB	22.5		0)	
	Market	<u>12.7</u>	<u>4.4</u>	<u>22.7)</u>	<u>4.3</u>
		<u>265.0</u>	<u>6.3</u>	<u>276.3</u>	<u>6.3</u>

8 THE TREASURY MANAGEMENT STRATEGY FOR 2004/2005

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 at 4.00% during most of 2004 but rising to 4.25% by the end of the calendar year. Longer term fixed interest rates were expected to be stable during the year with PWLB 20-25 year lower quota rate at around 5.0%.

The Treasury Management Strategy for 2004/2005 indicated that the Council would maximise interest rate savings by utilising long-term borrowing taking advantage of the historically low rates, but also using short-term borrowing to take advantage of any differentials from long-term rates.

9 ACTUAL BORROWING AND LENDING FOR 2004/2005

9.1 Interest Rates

Base rates rose in 0.25% steps from 4% in February 2004 to reach 4.75% in August. It stayed at this level for the rest of the financial year. Long-term PWLB rates started at 4.8% but rose to 5.1% in June before falling to 4.5% in December. It finished at 4.9%.

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 shorter-term borrowing offered a more favourable opportunity.

A summary of the long-term borrowing between 1 April 2004 and 31 March 2005 is as follows:-

PWLB Borrowing	£25.0m
Market Borrowing (LOBO's)	£10.0m
Average Period to Maturity	13.07 years
Average Interest Rate	4.36%

In addition, two "Lender Option Borrower Option" (LOBO) loans of £5m each were taken to fund the repayment of a PWLB loan. These were taken at rates of 3.4% and 3.65% fixed for four and five years respectively.

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 £m</u>	<u>Highest Amount Outstanding £m</u>	<u>Borrowing Position at End of Month £m</u>	<u>Interest Rate Range %</u>
April 2004	2.4	6.7	6.7	3.7500 - 4.0000
May	1.0	6.7	1.5	4.2500 - 4.3500
June	0.5	1.5	0.5	No market loans taken
July	0.5	0.5	0.5	"
August	0.5	0.5	0.5	"
September	0.5	0.5	0.5	"
October	0.5	0.5	0.5	"
November	0.5	0.5	0.5	"
December	0.5	2.0	2.0	4.7200 - 4.7700
January 2005	0.5	2.0	0.5	4.7200 - 4.7700
February	0.5	4.1	4.1	4.6200 - 4.8500
March	0.5	5.3	0.6	4.6875 - 4.9000

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.

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 2005 shows:

<u>Month</u>	<u>Highest Daily Amount Lent £m</u>	<u>Lending Position at End of Month £m</u>	<u>Interest Rate Range %</u>
April 2004	12.1	0.2	3.9500 - 4.5000
May	11.9	0.1	3.7500 - 4.4000
June	17.5	8.0	3.6250 - 4.7500
July	19.2	3.6	4.0000 - 4.5500
August	19.1	4.9	4.3000 - 4.8300
September	26.1	13.7	4.3750 - 4.8750
October	38.5	28.2	4.3750 - 4.8500
November	12.9	0.4	4.3750 - 4.8000
December	14.9	2.2	4.3750 - 4.7500
January 2005	19.3	9.4	4.5000 - 4.8000

February	15.0	0.2	4.5000 - 4.7800
March	16.3	2.5	4.5000 - 5.1250

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.

11 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2004/2005 Revenue Budget, the Council set its Loans Fund interest rate at 6.05%. However, increased interest received on lending led to a budget saving of £221,000 in General Fund.

12 PRUDENTIAL CODE INDICATORS

The Treasury Management activity during the year was maintained within the prudential code limits. Appendix 1 shows the actual outcomes for 2004/05 where appropriate. Indicators for future years have been updated to take account of current expectations.

13 BACKGROUND PAPERS

None

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)

25 AUGUST 2005

**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

2006/07

2007/08

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

2006/07

2007/08

Limit for 2005/06 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
2004/05 Limit	<input type="text" value="318,000"/>	<input type="text" value="5,000"/>	<input type="text" value="323,000"/>
2005/06	<input type="text" value="329,000"/>	<input type="text" value="5,000"/>	<input type="text" value="334,000"/>
2006/07	<input type="text" value="364,000"/>	<input type="text" value="5,000"/>	<input type="text" value="369,000"/>
2007/08	<input type="text" value="377,000"/>	<input type="text" value="5,000"/>	<input type="text" value="382,000"/>

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
2004/05 Actual	<input type="text" value="293,000"/>	<input type="text" value="1,000"/>	<input type="text" value="294,000"/>
2005/06	<input type="text" value="304,000"/>	<input type="text" value="1,000"/>	<input type="text" value="305,000"/>
2006/07	<input type="text" value="339,000"/>	<input type="text" value="1,000"/>	<input type="text" value="340,000"/>
2007/08	<input type="text" value="352,000"/>	<input type="text" value="1,000"/>	<input type="text" value="353,000"/>

Estimates of Capital Financing Requirement	non HRA £000	HRA £000	Total £000
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2004/05	Actual	191,000	119,000	310,000
2005/06		205,000	120,000	325,000
2006/07		234,000	127,000	361,000
2007/08		241,000	133,000	374,000