

REPORT TO: POLICY & RESOURCES COMMITTEE - 22nd JUNE 2015

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2014/2015

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 212-2015

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1st April 2014 to 31st March 2015.

2 RECOMMENDATION

- The Committee is asked to note the information contained herein and agree the limits in Appendix 1.
- The Committee are asked to approve deposit limit revision of Money Market Funds in line with Bank Term Deposits to a maximum of £12m (AAA rated).

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2014/2015 were that a saving of £420,000 was made against the 2014/2015 budget provision for capital financing costs in HRA and General Services. This was mainly due to the proactive use of short-term borrowing in line with the Treasury Management Strategy and prudential indicators and also from slippage in both capital plans.

4 BACKGROUND

At its meeting on 22 April 2013 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 2014/2015.

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 2014</u>		<u>31 March 2015</u>	
		<u>Average</u>		<u>Average</u>	
		<u>Principal</u>	<u>Rate</u>	<u>Principal</u>	<u>Rate</u>
		<u>£m</u>	<u>%</u>	<u>£m</u>	<u>%</u>
Fixed Rate Funding	PWLB	361.7	5.2	364.4	5.2
	Market	25.0	4.2	10.0	4.1
Variable Rate Funding	PWLB	0.0		0.0	
	Market	<u>15.0</u>	<u>4.6</u>	<u>30.0</u>	<u>4.5</u>
		<u>401.7</u>	<u>5.1</u>	<u>404.4</u>	<u>5.1</u>

6 THE TREASURY MANAGEMENT STRATEGY FOR 2014/2015

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 rise from 4.3% to 4.7% by the end of March 2015.

The Treasury Management Strategy for 2014/2015 indicated that the Council's borrowing requirement for capital expenditure would be approximately £10m.

7 ACTUAL BORROWING AND LENDING FOR 2014/2015

7.1 Interest Rates

Base rate stayed at 0.50% throughout the year. Long-term PWLB rates (45-50 years) started at 4.47% but moved between 3.01% and 4.48% throughout the year. These rates do not include the reduction of 0.20% certainty rate that Dundee City Council is eligible for.

7.2 Borrowing

7.2.1 Long-Term

Long-term borrowing of £12.5m was undertaken during the year with repayment of existing loans totalling £9.8m. The net borrowing was low due to slippage within both capital programmes. The new borrowing was drawn down in the financial year as follows -

Date	Amount £	Rate %	Term (Years)	Maturity Date
22/09/2014	2,500,000	3.94	50.0	15/08/2064
30/09/2014	2,500,000	3.81	50.0	15/08/2064
18/12/2014	5,000,000	3.22	49.0	15/11/2063
27/01/2015	2,500,000	2.91	43.0	15/01/2058
	<u>12,500,000</u>			

These loans had an average interest rate of 3.42% and an average term of 48.2 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	HIGHEST AMOUNT OUTSTANDING	POSITION AT END OF MONTH	INTEREST RATE RANGE
		£m	£m	£m	%
2014	APR	44.6	57.6	53.6	0.37 to 0.40
	MAY	45.6	53.6	45.6	NO MARKET LOANS TAKEN
	JUN	35.6	45.6	42.6	0.35 TO 0.37
	JUL	42.3	45.1	43.1	0.43 to 0.45
	AUG	38.1	43.1	38.1	NO MARKET LOANS TAKEN
	SEPT	38.1	52.1	52.1	0.26 TO 0.50

	OCT	45.1	52.1	50.3	0.47
	NOV	50.3	50.3	50.3	NO MARKET LOANS TAKEN
	DEC	42.3	50.3	42.3	0.50
2015	JAN	38.3	45.3	45.3	0.65
	FEB	39.8	45.3	39.8	0.53
	MAR	36.8	45.8	40.8	0.40 TO 0.57

The IORB rate which is paid on non-General Fund cash balances is based on the 7-day rate and averaged 0.41% throughout the year.

It can be seen from the above that short-term borrowing was undertaken throughout the year in line with Treasury Strategy Statement on short 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 2015 shows:

		HIGHEST AMOUNT OUTSTANDING	POSITION AT END OF MONTH	INTEREST RATE RANGE
	LENDING	£m	£m	%
2014	APR	43.6	26.8	0.40 TO 0.80
	MAY	29.9	13.4	0.43 TO 0.80
	JUN	19.0	5.7	0.50 TO 0.80
	JUL	26.3	15.3	0.40 TO 0.80
	AUG	25.1	6.5	0.45 TO 0.80
	SEPT	24.6	16.2	0.45 TO 0.80
	OCT	25.0	15.1	0.25 TO 0.80
	NOV	24.4	9.3	0.25 TO 0.80
	DEC	25.9	5.2	0.25 TO 0.80
2015	JAN	18.7	9.2	0.25 TO 0.80
	FEB	14.9	4.6	0.25 TO 0.80
	MAR	19.2	2.5	0.25 TO 0.80

The lending activity shown above related solely to short-term positions. All of these loans were in compliance with the Treasury Strategy Statement provisions on such lending with regards to amounts and institutions involved.

9 SPECIFIED INVESTMENTS

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance and Perpetuity of Lairs. These investments may have a higher risk threshold and be subject to market fluctuation. Investment activity throughout FY 2014/15 is summarised as follows:

Value of funds invested at 1 April 2014	£2,622,223
Investments made in year	£6,150,000
Value of funds invested in FY 14/15	£8,772,223
Value of funds at 31 March 2015	£9,028,233
Capital Growth of Investments	£256,010
Income from Investments	£210,967
Total Return on Investments in FY 14/15	£466,977

10 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2014/2015 Revenue Budget, the Council set its Loans Fund interest rate at 4.30%. The actual interest rate payable was 4.13%.

11 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.

12 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.

13 CONSULTATION

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

14 BACKGROUND PAPERS

None

MARJORY STEWART
DIRECTOR OF CORPORATE SERVICES

12 JUNE 2015

APPENDIX 1

DUNDEE CITY COUNCIL 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
2014/15	30%	100%
2015/16	30%	100%
2016/17	30%	100%
2017/18	30%	100%

Actual external debt (£000) 2014/15 £445,164

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
2014/15	477,000	77,000	554,000		452,000	77,000	529,000
2015/16	505,000	75,000	580,000		480,000	75,000	555,000
2016/17	530,000	73,000	603,000		505,000	73,000	578,000
2017/18	568,000	71,000	639,000		543,000	71,000	614,000

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 %
2014/15	61,496	17,539	79,035	7.6	42.9
2015/16	93,692	16,877	110,569	7.7	42.9
2016/17	87,772	14,810	102,582	7.9	41.7
2017/18	80,615	13,575	94,190	8.1	41.1

	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
2014/15	439,391	443,598	4,207	296,867	178,696	475,563	(8,745)
2015/16	443,598	482,000	38,000	330,000	184,000	514,000	38,000
2016/17	482,000	508,000	26,000	355,000	185,000	540,000	26,000
2017/18	508,000	548,000	40,000	395,000	185,000	580,000	40,000

	NBR v CFR Difference
	Total £000
2014/15	31,965
2015/16	32,000
2016/17	32,000
2017/18	32,000

Incremental Impact of Capital Investment Decisions	
Increase in council tax (band D) per annum £	Increase in average housing rent per week £
0.01	0.27
-0.82	0.21
1.07	(0.02)
10.62	(0.04)