

REPORT TO: FINANCE COMMITTEE - 11 SEPTEMBER 2000
REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 1999/2000
REPORT BY: DIRECTOR OF FINANCE
REPORT NO: 538-2000

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 1999 to 31 March 2000.

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 1999/2000 were that a saving of £1,817,000 in interest was made against the 1999/2000 Revenue Budget provision. In addition, the borrowing activities carried out in 1999/2000 have assisted the Council in reducing its budgeted Loans Fund interest rate from 7.5% in 1999/2000 to 6.95% in the current financial year (2000/2001).

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

At its meeting on 13 March 2000 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 before or around the commencement 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 1999/2000.

7 DEBT POSITION

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

		<u>1 April 1999</u>		<u>31 March 2000</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 Market	211.4) 25.6)	7.6	231.6) 7.8)	6.9
Variable Rate Funding	Market	<u>10.6</u>	<u>5.8</u>	<u>25.9</u>	<u>5.7</u>
		<u>247.6</u>	<u>7.6</u>	<u>265.3</u>	<u>6.8</u>

8 THE TREASURY MANAGEMENT STRATEGY FOR 1999/2000

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 "average" City view on base rates was that they would reduce slightly from the rate at that time of 5¹/₂% . Longer term fixed interest rates were expected to be at their lowest level and would see a modest rise towards the end of 1999/2000.

The Treasury Management Strategy for 1999/2000 indicated that the Council would maximise interest rate savings by utilising long-term borrowing taking advantage of the historically low rates.

9 ACTUAL BORROWING AND LENDING FOR 1999/2000

9.1 Interest Rates

The Bank of England's Monitoring Policy Committee (MPC) reduced base rates to 5.0% on 10 June 1999, however they increased these to 5.25% on 8 September 1999. Base rates continued to rise during the rest of 1999/2000 ending at 6.0% by 31 March 2000.

The reason for the increase in rates during the latter part of 1999/2000 was due mainly to worries about the US economy and fear of rising inflation.

Long-term PWLB rates (25 years+) started the year at 4.5% rising to 5.0% and ending the financial year at 5.0%.

9.2 Borrowing

9.2.1 Long-Term

Long-term borrowing during the year was made from the Public Works Loans Board (PWLB) where the rates offered on long-term borrowing were generally more favourable than those offered by the money market.

The Council's PWLB quota (ie the amount available for borrowing from PWLB) for 1999/2000 was £25.6m.

A summary of the long-term borrowing between 1 April 1999 and 31 March 2000 is as follows:-

Borrowing against quota	£25.5m
Average period to maturity	44.2 years
Average Interest Rate	4.60%

In addition to the above borrowing, some rescheduling of debt was undertaken. On 26 August 1999 various loans (amounting to £21,938,066) bearing interest at rates of 7.375% up to 11.75% were replaced with four loans bearing interest at the rate of 4.875%. These replacement loans all have maturity dates which are over 25 years (Appendix A). This resulted in a saving of £443,481 in 1999/2000 and £563,000 in each of the financial years up to 2006/2007.

A full list of the long-term borrowing is shown in Appendix A to this report.

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 1999	8.5	15.9	15.9	5.0000 to 5.5000
May	7.3	15.3	15.3	5.0000 to 5.2500
June	6.4	13.0	13.0	4.5000 to 5.2500
July	7.8	13.4	12.0	4.6250 to 5.1880
August	1.5	10.1	5.0	4.6250 to 5.0000
September	1.5	8.5	6.7	4.6250 to 5.1880
October	2.4	10.7	10.7	4.8750 to 5.5625
November	10.6	21.2	21.2	4.8750 to 5.5625
December	20.3	27.6	27.1	4.5000 to 5.1250
January 2000	12.1	25.7	19.7	4.7500 to 6.1250
February	16.2	20.7	20.7	5.3750 to 6.0000
March	14.7	23.3	23.3	5.5000 to 5.9375

The Council's Treasury Strategy document provides that the amount of the overall borrowing which may be outstanding by way of short-term borrowing should be no greater than circa £35m.

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.

An analysis of the lending position to 31 March 2000 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 1999	2.6	-	4.8750 to 5.2500
May	6.9	-	4.8130 to 5.1250
June	7.1	-	4.3750 to 4.5630
July	10.5	-	4.6880 to 5.1880
August	13.8	-	4.3750 to 4.7810
September	8.5	-	4.3750 to 5.0000
October	6.2	-	4.6250 to 5.0625
November	3.8	-	4.8125 to 5.2500
December	13.7	3.0	4.5000 to 5.6250
January 2000	11.7	-	4.5000 to 5.8750
February	10.3	-	5.3750 to 5.9375
March	8.1	0.2	5.3750 to 6.1250

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 1999/2000 Revenue Budget, the Council set its Loans Fund interest rate at 7.5%. The Council's Treasury Management policy of borrowing the majority of its long-term debt during the early part of the year at historically low long-term rates together with the debt rescheduling exercise undertaken has meant that the actual Loans Fund interest rate for 1999/2000 was 6.9%. This resulted in a budget underspend in 1999/2000 of £798,000 in General Fund and £1,019,000 in Housing Revenue Account.

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BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

DUNDEE CITY COUNCIL**PWLB BORROWING FROM QUOTA 1999/2000**

<u>Date Taken</u>	Amount £	Rate %	Years	Maturity Date
21.04.99	4,000,000	4.50	41.5	18.06.2040
13.07.99	4,000,000	4.75	26.5	09.01.2026
29.07.99	5,000,000	4.75	60.0	09.07.2059
11.08.99	5,000,000	4.50	45.0	11.08.2044
11.08.99	5,000,000	4.50	46.0	11.08.2045
13.09.99	<u>2,466,600</u>	4.625	40.0	13.09.2039
	<u>25,466,600</u>			

PWLB BORROWING FOR RESCHEDULING

<u>Date Taken</u>	Amount £	Rate %	Years	Maturity Date
26.08.99	5,000,000	4.875	59.5	26.01.2059
26.08.99	5,000,000	4.875	48.5	26.09.2047
26.08.99	5,000,000	4.875	44.0	26.07.2043
26.08.99	<u>6,938,066</u>	4.875	54.0	26.08.2053
	<u>21,938,066</u>			