

REPORT TO: FINANCE COMMITTEE - 10 SEPTEMBER 2001
REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2000/2001
REPORT BY: DIRECTOR OF FINANCE
REPORT NO: 549-2001

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2000 to 31 March 2001.

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 2000/2001 were that a saving of £1,007,000 in interest was made against the 2000/2001 Revenue Budget provision. In addition, the borrowing activities carried out in 2000/2001 have assisted the Council in reducing its budgeted Loans Fund interest rate from 6.95% in 2000/2001 to 6.60% in the current financial year (2001/2002).

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 2000/2001.

7 DEBT POSITION

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

		<u>1 April 2000</u>		<u>31 March 2001</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	231.6) 7.8)	6.9	234.5) 7.3)	6.7
Variable Rate Funding	Market	<u>25.9</u>	<u>5.7</u>	<u>12.7</u>	<u>5.0</u>
		<u>265.3</u>	<u>6.8</u>	<u>254.5</u>	<u>6.7</u>

8 THE TREASURY MANAGEMENT STRATEGY FOR 2000/2001

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 rise slightly then fall back below 6.0%. Longer term fixed interest rates were expected to rise slightly during the year.

The Treasury Management Strategy for 2000/2001 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 2000/2001

9.1 Interest Rates

The Bank of England's Monitoring Policy Committee (MPC) reduced base rates from 6.0% to 5.75% on 8 February 2001 and this still applied at 31 March 2001.

The reason for the decrease in rates during the latter part of 2000/2001 was due mainly to worries about the US economy and fear of recession.

Long-term PWLB rates (20-25 years) started the year at 5.0%, reached a low of 4.625% and a high of 5.25% before ending the financial year at 4.75%.

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 2000/2001 was £10.8m.

A summary of the long-term borrowing between 1 April 2000 and 31 March 2001 is as follows:-

Borrowing against quota	£10.5m
Average period to maturity	23.93 years
Average Interest Rate	4.875%

In addition to the PWLB borrowing, two Lender Option Borrower Option (LOBO) loans of £5m each with a nominal period of 35 years were taken. This form of loan carries an option for the lender to seek an interest rate change at any time but the Council can discharge the loan without penalty if it believes the rate change is unattractive.

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</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 2000	13.9	24.3	24.3	5.5000 - 5.9375
May	15.5	22.5	22.5	5.6250 - 6.0625
June	15.9	21.6	17.8	5.5000 - 6.0000
July	13.6	16.8	15.0	5.6250 - 5.7500
August	12.8	19.2	14.3	5.6250 - 5.8750
September	9.0	14.6	14.6	5.7500 - 6.0000
October	7.5	14.2	14.2	5.6250 - 6.0625
November	8.1	13.0	10.0	5.6250 - 5.8750
December	7.7	12.3	9.9	5.0000 - 5.8750
January 2001	3.0	10.9	3.0	5.6250 - 5.8125
February	1.2	5.4	2.1	5.2500 - 5.5625
March	1.3	4.2	1.2	5.1250 - 5.4375

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 £53m.

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 2001 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 2000	7.0	-	5.3750 - 6.0000
May	4.0	-	5.5000 - 6.0000
June	10.4	-	5.3750 - 5.8750
July	9.7	0.6	5.2500 - 6.0000
August	13.5	0.8	5.2500 - 5.9375
September	9.9	-	5.3750 - 6.2500
October	7.7	0.1	5.0000 - 5.8125
November	13.5	0.1	5.0000 - 5.9375
December	13.1	0.6	5.0000 - 6.1250
January 2001	12.3	-	5.0000 - 6.3750
February	11.9	1.8	4.7500 - 6.2500
March	12.4	6.3	4.7500 - 6.0600

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 2000/2001 Revenue Budget, the Council set its Loans Fund interest rate at 6.95%. 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 has meant that the actual Loans Fund interest rate for 2000/2001 was 6.54%. This resulted in a budget underspend in 2000/2001 of £542,000 in General Fund and £465,000 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 2000/2001****QUOTA TAKEN UP IN 2000/2001**

	Date Taken	Amount £	Rate %	Years	Maturity Date
Q	13/04/00	4,000,000	4.875	24.0	09/01/2024
Q	20/04/00	2,000,000	4.875	24.0	08/02/2024
Q	09/05/00	2,500,000	4.875	24.5	15/05/2024
Q	11/05/00	1,000,000	4.875	24.5	15/05/2024
Q	03/08/00	<u>1,000,000</u>	4.875	21.5	15/11/2021
		<u>10,500,000</u>			

OTHER AMOUNTS BORROWED

	Date Taken	Amount £	Rate %	Years	Maturity Date	
LOBO	14/06/00	5,000,000	4.875 *	35.0	14/06/2035	14/09/2000 (1 month notice thereafter)
LOBO	09/11/00	5,000,000	4.8125	35.0	09/11/2035	09/02/2001 (1 month notice thereafter)

* This rate increased to 5% from 16/10/00