

REPORT TO: FINANCE COMMITTEE - 9 SEPTEMBER 2002
REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2001/2002
REPORT BY: DIRECTOR OF FINANCE
REPORT NO: 661-2002

1 PURPOSE OF REPORT

1.1 To review the Treasury Management activities for the period 1 April 2001 to 31 March 2002.

2 RECOMMENDATION

2.1 The Committee is asked to note the information contained herein.

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2001/2002 were that a saving of £610,000 in interest was made against the 2001/2002 Revenue Budget provision with the actual Loans Fund interest rate being 6.30%. In addition, the borrowing activities carried out in 2001/2002 have assisted the Council in reducing its budgeted Loans Fund interest rate from 6.60% in 2001/2002 to 6.50% in the current financial year (2002/2003).

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

At its meeting on 11 March 2002 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 2001/2002.

7 DEBT POSITION

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

		<u>1 April 2001</u>		<u>31 March 2002</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	234.5}	6.7	238.8}	6.7
	Market	7.3}		6.9}	
Variable Rate Funding	PWLB			2.0}	
	Market	<u>12.7</u>	<u>5.0</u>	<u>12.7</u>	<u>4.7</u>
		<u>254.5</u>	<u>6.7</u>	<u>260.4</u>	<u>6.5</u>

8 THE TREASURY MANAGEMENT STRATEGY FOR 2001/2002

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 fall slightly from the opening position of 5.75%. Longer term fixed interest rates were expected to rise slightly during the year although remaining lower than shorter term rates.

The Treasury Management Strategy for 2001/2002 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 2001/2002

9.1 Interest Rates

The Bank of England's Monitoring Policy Committee (MPC) reduced base rates from 5.75% on 8 February 2001 and this still applied at 1 April 2001. Various reductions throughout 2001/2002 finally left the base rate at 4% on 31 March 2002 a rate that had applied from 7 November 2001.

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 2001/2002 was £8.356m.

A summary of the long-term borrowing between 1 April 2001 and 31 March 2002 is as follows:-

Borrowing against quota	£7m
Average period to maturity	18.14 years
Average Interest Rate	4.6%

In addition limited re-scheduling of debt was undertaken. On 27 November 2001 two loans amounting to £2,590,709.92 (£2,000,000 @ 8.375% and £590,709.92 @ 10.25% due to mature on 15 August 2008 and 15 May 2009 respectively) were replaced with one loan of £2,590,709 @ 4.75%.

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 2001	1.2	1.2	1.2	No marketloans taken
May	1.2	2.1	1.2	4.7500-4.7500
June	1.1	1.9	1.1	4.8750-4.8750
July	1.0	2.8	1.0	4.6875-4.6875
August	1.0	8.5	4.0	4.2500-5.0000
September	1.0	8.8	7.3	4.4375-5.1250
October	3.5	7.3	7.3	4.0000-4.4375
November	5.1	14.2	14.2	3.2500-4.1250
December	9.0	18.0	17.3	3.6250-4.3000
January 2002	13.1	21.8	21.8	3.3750-4.0625
February	13.5	19.5	18.1	3.5000-3.8750
March	13.4	18.5	14.7	3.3750-3.8750

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 £52m.

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 2002 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 2001	16.9	1.2	4.5000-6.2500
May	13.3	2.8	4.2500-5.3750
June	17.4	3.6	4.2500-5.1000
July	15.5	1.8	4.2500-5.3750
August	8.2	0.1	3.7500-5.6500
September	11.7	0.1	3.5000-5.0000
October	10.0	0.0	3.5000-5.3750
November	8.7	0.1	3.0000-4.5000
December	7.9	0.0	3.0000-4.6250
January 2002	8.3	0.0	3.0000-3.9300
February	11.4	0.0	3.0000-4.0000
March	10.7	0.2	3.0000-3.9800

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 2001/2002 Revenue Budget, the Council set its Loans Fund interest rate at 6.60%. The Council's Treasury Management policy of borrowing historically low long-term rates has meant that the actual Loans Fund interest rate for 2001/2002 was 6.28%. This resulted in a budget underspend in 2001/2002 of £486,000 in General Fund and £124,000 in Housing Revenue Account. The CIPFA Performance Indicators for Treasury Management have yet to be assimilated, however, when compared with the 2000/01 PI figures, the 2001/02 interest rate of 6.30% should place Dundee in the top 5 of all 32 Councils.

DAVID K DORWARD
DIRECTOR OF FINANCE

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 2001/2002

PUBLIC WORKS LOAN BOARD

QUOTA TAKEN UP IN 2001/02

<u>Date Taken</u>	<u>Amount</u>	<u>Rate</u>	<u>Years</u>	<u>Maturity Date</u>	<u>Rollover Dates</u>
31.08.01	2,500,000	4.875	25.00	15.08.2026	N/A
15.11.01	2,500,000	4.50%	25.00	15.11.2026	N/A
27.11.01	2,590,709*	4.75%	24.00	15.11.2025	N/A
28.03.02	<u>2,000,000</u>	4.375%	1.00	28.03.2003	6 Months
	<u>9,590,709</u>				

*This loan was taken for purposes of rescheduling.