

REPORT TO: FINANCE COMMITTEE - 8 SEPTEMBER 2003

REPORT ON: ANNUAL TREASURY MANAGEMENT ACTIVITY 2002/2003

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 575-2003

1 PURPOSE OF REPORT

- 1.1 To review the Treasury Management activities for the period 1 April 2002 to 31 March 2003.

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 2002/2003 were that a saving of £1,210,000 in interest was made against the 2002/2003 Revenue Budget provision with the actual Loans Fund interest rate being 6.06%.

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 2002/2003.

7 DEBT POSITION

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

| | | <u>1 April 2002</u> | | <u>31 March 2003</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 | 238.8) | 6.7 | 249.8) | 6.6 |
| | Market | 6.9) | | 6.5) | |
| Variable Rate Funding | PWLB | 2.0) | | 0 | |
| | Market | 12.7) | 4.7 | 12.7 | 4.6 |
| | | <u>260.4</u> | <u>6.5</u> | <u>269.0</u> | <u>6.5</u> |

8 THE TREASURY MANAGEMENT STRATEGY FOR 2002/2003

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 to 4.50% by the end of 2002. Longer term fixed interest rates were expected to remain stable during the year with PWLB 20-25 year lower quota rate between 5 and 5.25%.

The Treasury Management Strategy for 2002/2003 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 2002/2003

9.1 Interest Rates

The Bank of England's Monitoring Policy Committee (MPC) reduced base rates from 4% to 3.75% on 6 February 2003 and this still applied at 1 April 2003. This was the only change made to base rate during financial year 2002/03.

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 2002/2003 was £11.552m.

A summary of the long-term borrowing between 1 April 2002 and 31 March 2003 is as follows:-

| | |
|----------------------------|-------------|
| Borrowing against quota | £11.5m |
| Average period to maturity | 22.764years |
| Average Interest Rate | 4.7% |

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 2002 | 3.1 | 14.7 | 9.0 | 3.8125-3.8125 |
| May | 3.1 | 9.5 | 9.5 | 3.5000-3.9375 |
| June | 5.0 | 9.3 | 8.0 | 3.5000-3.6875 |
| July | 3.7 | 7.2 | 3.7 | 3.3750-3.6250 |
| August | 3.4 | 3.4 | 3.4 | No market loans taken |
| September | 3.3 | 3.7 | 3.3 | 3.3750-3.3750 |
| October | 3.0 | 3.0 | 3.0 | No market loans taken |
| November | 2.9 | 2.9 | 2.9 | No market loans taken |
| December | 0.9 | 2.9 | 0.9 | 4.5000-4.5000 |
| January 2003 | 0.9 | 0.8 | 0.8 | No market loans taken |
| February | 0.8 | 0.8 | 0.8 | No market loans taken |
| March | 0.8 | 0.9 | 0.8 | No market loans taken |

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 £56m.

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 2003 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 2002 | 8.5 | 0.2 | 3.1500-4.1000 |
| May | 8.5 | 0.2 | 3.6200-4.5000 |
| June | 12.4 | 0.7 | 3.8000-4.0500 |
| July | 14.9 | 3.5 | 3.5625-4.6000 |
| August | 15.7 | 3.2 | 3.5000-4.4000 |
| September | 17.9 | 6.2 | 3.5000-4.5500 |
| October | 21.5 | 9.8 | 3.3750-4.2900 |
| November | 20.3 | 4.0 | 3.4375-4.0000 |
| December | 28.5 | 13.9 | 3.6500-4.5800 |
| January 2003 | 19.4 | 8.8 | 3.1250-4.0000 |
| February | 23.7 | 4.9 | 3.5000-4.3500 |
| March | 22.2 | 14.0 | 3.5000-4.5000 |

The lending activity shown above related to very short-term positions. The lending figures include cash held by the Tayside Superannuation Fund and lent by the Council on its behalf. Over the year the average monthly value of this was £8.5m. 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 2002/2003 Revenue Budget, the Council set its Loans Fund interest rate at 6.50%. The Council's Treasury Management policy of borrowing at historically low long-term rates has meant that the actual Loans Fund interest rate for 2002/2003 was 6.06%. This resulted in a budget underspend in 2002/2003 of £830,000 in General Fund and £380,000 in Housing Revenue Account. The CIPFA Performance Indicators for Treasury Management have yet to be assimilated, however, when compared with the 2001/02 PI figures, the 2002/03 interest rate of 6.06% should place Dundee in the top 5 of all 32 Councils.

DAVID K DORWARD
DIRECTOR OF FINANCE

28 AUGUST 2003

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 2002/2003****PUBLIC WORKS LOAN BOARD****QUOTA TAKEN UP IN 2002/03**

| <u>Date Taken</u> | <u>Amount</u> | <u>Rate</u> | <u>Years</u> | <u>Maturity Date</u> | <u>Rollover Dates</u> |
|------------------------------|----------------------|--------------------|---------------------|---------------------------------|----------------------------------|
| 19/07/02 | 3,000,000 | 5.00% | 24.50 | 15/01/2027 | N/A |
| 22/08/02 | 3,000,000 | 4.75% | 25.00 | 15/06/2027 | N/A |
| 16/09/02 | 2,000,000 | 4.625% | 22.50 | 30/09/2024 | N/A |
| 06/02/03 | 2,027,000 | 4.50% | 19.50 | 15/02/2022 | N/A |
| 06/02/03 | <u>1,473,000</u> | 4.50% | 19.50 | 15/02/2022 | N/A |
| | <u>11,500,000</u> | | | | |