

REPORT TO: FINANCE COMMITTEE - 11 DECEMBER 2000

**REPORT ON: TREASURY MANAGEMENT ACTIVITY 2000/2001
(SIX MONTHS TO 30 SEPTEMBER 2000)**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 758-2000

1 PURPOSE OF REPORT

1.1 To review the Treasury Management activities for the period 1 April 2000 to 30 September 2000.

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

3.1 The Treasury Management activity during the first half of the current financial year makes it likely that the Loans Fund interest rate of 7.0%, assumed when settling the 2000/2001 Revenue Budget, will be improved upon and indeed the current projection is for an actual interest saving against the approved Revenue Budget of some £0.75m for the Council.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

6.1 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.

6.2 At its meeting on 13 March 2000, the Finance Committee approved the Council's Treasury Management Strategy for 2000/2001.

This monitoring report covers the Treasury Management activity over the first six months of 2000/2001 financial year.

7 **BORROWING**

7.1 **Long-Term**

Long-term borrowing during the first six months was as follows:
(see Appendix A for details of loans)

7.1.1 **PWLB** £10.5m (2000/2001 Quota £11m)

The average period to maturity of the five loans taken was 23.9 years at an average interest rate of 4.875%.

These loans were taken relatively early in the financial year to take advantage (as outlined in the Treasury Management Strategy 2000/2001 - Report No 517/2000) of low long-term interest rates which were lower than the short-term rates available.

The implementation of this strategy will generate significant savings in interest in 2000/2001.

7.1.2 **Money Market**

A £5.0m "LOBO" (Lender Option, Borrower Option) loan with a nominal period of 35 years was taken at an attractive rate of 4.875%. This form of loan carries an option which allows the lender to seek interest-rate changes at any time but if the Council is not happy with any desired change in rate, it has the option to discharge the loan a month later with no penalty. As with the PWLB loans referred to above, this "LOBO" loan will generate savings on interest.

7.2 **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>	Lowest Amount Outstanding <u>£m</u>	Highest Amount Outstanding <u>£m</u>	Borrowing Position at End of Month <u>£m</u>	Interest Rate Range <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

The Council's Treasury Strategy document provides that the amount of the overall borrowing which may be outstanding by way of short-term borrowing ie with an initial term of under one year, should be no greater than circa £53m (20% of total debt).

8 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 30 September 2000 shows:

<u>Month</u>	Highest Daily Amount Lent £m	Lending Position at End of Month £m	Interest Rate Range %
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

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 regard to amounts and institutions involved.

9 OUTLOOK FOR THE SECOND HALF OF 2000/2001

As indicated earlier in this report, long-term borrowing of £15.5m (PWLB £10.5m + Money Market £5.0m) has already been made and there is only minimal PWLB quota remaining. A further Money Market (LOBO) loan of £5.0m with a nominal period of 35 years has been taken in November 2000 at a rate of 4.8125% although it is anticipated that the remainder of the borrowing in the second half of 2000/2001 will be short-term borrowing from the Money Markets.

When setting the 2000/2001 Revenue Budget, the Council set its Loans Fund interest rate at 7.0%. The Council's Treasury Management strategy of borrowing the majority of its long-term debt during the early part of the year at low long-term rates means that the actual Loans Fund interest rate for 2000/2001 is likely to be below the budgeted level resulting in a projected saving of some £0.75million for the Council.

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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.

NMcB/HG(AK) 29-Nov-00
Reports/TREASURYMANACT

DUNDEE CITY COUNCIL**PWLB BORROWING FROM QUOTA 2000/2001**

Date Taken	Amount £	Rate %	Years	Maturity Date
13.04.00	4,000,000	4.875	24.0	09.01.2024
20.04.00	2,000,000	4.875	24.0	08.02.2024
09.05.00	2,500,000	4.875	24.5	15.05.2024
11.05.00	1,000,000	4.875	24.5	15.05.2024
03.08.00	<u>1,000,000</u>	<u>4.875</u>	<u>21.5</u>	15.11.2021
	<u>10,500,000</u>	<u>4.875</u>	<u>23.9</u>	

OTHER AMOUNTS BORROWED**Money Market (LOBO)**

Date Taken	Amount £	Rate %	Years	Maturity Date
14.06.00	5,000,000	4.875	35.0*	14.06.2035*

- * Lender has option to seek changes in the rate of interest at any time to be effective one month later but if the Council is not happy with the proposed change it can exercise its option to discharge the debt in full at that time.