
REPORT TO: FINANCE AND MANAGEMENT
COMMITTEE

**AGENDA
ITEM:** 13

**DATE OF
MEETING:** 30 AUGUST 2001

CATEGORY:
DELEGATED

REPORT FROM: CHIEF FINANCE OFFICER

**MEMBERS'
CONTACT POINT:** PAUL CULLEN (595872)

**OPEN
PARAGRAPH NO:** N/A

SUBJECT: TREASURY MANAGEMENT
REPORT 2000/2001

**REPORT
STATUS:**

**WARD(S)
AFFECTED:** ALL

1.0 Recommendations

- 1.1 That the Treasury Management Report 2000/2001 be received.
- 1.2 That the revised Treasury Management Policy be accepted.

2.0 Purpose of Report

- 2.1 It is a requirement of the Council's Treasury Management Policy that a report on Treasury Management activities is presented to the Finance and Management Committee at the end of each financial year.

3.0 Detail

- 3.1 Annexe A sets out details of the Council's borrowing during 2000/2001. Lending during the year was limited to temporary surpluses which were invested in a Reserve Account with the Cooperative Bank. Also, a deposit of £260,000 is currently being held on behalf of Derbyshire County Council with the Alliance and Leicester plc.

3.2 Long Term Borrowing

Long Term Borrowing is undertaken to finance capital expenditure. The Council has a quota which it can take up from the Public Works Loan Board (PWLb). This is made up of the Credit Approvals for the year plus the amount of principal repayable on existing loans with the PWLB. In addition, the Council may also take up any unused quota carried forward from the previous year (provided it does not exceed 20% of that years quota entitlement).

- 3.3 As the PWLB lends money to local authorities at below market interest rates, all long term borrowing for the year was taken up in two maturity loans from the PWLB amounting to £1.5 million over 25 years at 4.875% (this being one of the lowest rates on offer during the year). This figure falls short of the original quota entitlement for the year as it was based on an anticipated under spend of credit approvals at the time the loans were taken out in mid March. However, the balance of unused quota of approximately £300,000 will be carried forward to 2001/2002 once approval has been received from the PWLB.

- 3.4 The possibility of replacing some of the higher interest rate PWLB loans with new lower interest loans was considered as part of a Treasury Management review during the year. It was concluded however that no significant benefit would be obtained from such a rescheduling of debt due to the substantial premia that the Council would have to pay.
- 3.5 The Council has one long term market loan (LOBO – Lender Option Borrower Option) of £1 million. An opportunity was taken during the year to reduce the interest rate on this loan from 4.9375% to 4.875% whilst extending its term from 25 years to 33 years 8 months.

3.6 Short Term Borrowing

The average level of short term borrowing during the year (ie. loans taken out for less than 12 months) was £5.6 million, fluctuating between a low of £2.3 million in mid November to a high of £8.9 million in mid March.

- 3.7 Although a certain amount of short term borrowing will always be necessary, because of fluctuations in cash flows, the current level still represents a high proportion of all borrowing. This position has been arrived at because the PWLB quota was not always taken up in previous years. This issue was looked at as part of the review of treasury management during the year. As a consequence an exercise to replace short term borrowing with PWLB will be carried out when a suitable opportunity arises that will maximise the benefit to the Council.

3.8 Interest Rates

Base Rate started the year at 6.00% and remained unchanged until February 2001 when it dropped to 5.75% for the rest of the year.

PWLB long term rates (25 year maturity loans) remained low during the year, fluctuating between about 4.75% and 5.375%.

In comparison the Council's average short term borrowing interest rate for the year was 5.71%, whilst its' average long term rate was 8.28 %.

3.9 Treasury Management Policy

In accordance with the Council's Treasury Management Policy the Policy Statement has been reviewed and amended to reflect the recent restructuring and some operational changes. The revised Policy appears at Annexe B.

4.0 Financial Implications

- 4.1 As set out above.