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REPORT TO:	FINANCE & MANAGEMENT	AGENDA ITEM: 14
DATE OF MEETING:	19 <sup>TH</sup> FEBRUARY 2002	CATEGORY: DELEGATED
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN PARAGRAPH NO: N/A
MEMBERS' CONTACT POINT:	PAUL CULLEN (EXT.5872)	DOC:
SUBJECT:	TREASURY MANAGEMENT STRATEGY	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

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### 1.0 Recommendations

- 1.1 That the Council be recommended to reduce the Short-Term Borrowing Limit for 2002 / 2003 to £10 million.
- 1.2 That the Council be recommended to set the following limits for 2002 / 2003:

Overall Borrowing Limit	£20 million
Short-Term Borrowing Limit	£10 million
Proportion of interest at Variable Rates	20%

- 1.3 That the Committee approve the Strategy for 2002 / 2003.

### 2.0 Purpose of Report

- 2.1 Under Section 45 of the Local Government and Housing Act 1989 the full Council has to make a number of determinations relating to the Council's borrowing. In addition the Council's Treasury Management Policy requires a strategy to be approved for the coming year.

### 3.0 Detail

#### 3.1 Determinations

The Council has to make determinations in respect of:

- The Overall Borrowing Limit.
- The Short-Term Borrowing Limit.
- The proportion of interest payable where the interest rate is variable.

### 3.2 Short-Term Borrowing Limit

In recent years the Council has required a consistent level of short-term borrowing. Consequently, Committee has always set a relatively high short-term borrowing limit to accommodate any peaks during the year. The current limit stands at £15 million.

However, there have been several factors during the last year (eg. amendment of the NNDR payments profile following the Foot and Mouth crisis.) and there will be others to follow in the forthcoming year (eg. large capital receipts from the sale of land.) that will reduce the need for such a high limit. Next year the normal level of borrowing is expected to be no more than £1 million, with peaks unlikely to exceed £5 million.

3.3 Members are therefore recommended to reduce the limit on the total amount to be outstanding for short-term borrowing at anytime for next year from £15 million to £10 million. This will still allow for some flexibility as the limit can only be varied by full Council.

### 3.4 Overall Borrowing Limit

The Council's borrowing is made up of:

- Long-term fixed rate loans from the Public Works Loan Board (PWLB).
- Other long-term loans.
- Short-term loans.

Short-term loans are defined as loans taken out for less than 12 months.

3.5 A schedule of the Council's existing long-term loans is shown at Annex A. The amount currently outstanding is approximately £9.1 million ( £8.1 million from the PWLB and £1 million from other lenders). Part of the 2001/02 Treasury Management Strategy was for this figure to have increased to £10.2 million following the take-up of this years PWLB quota. However, as already reported, some unforeseen factors arose during the year that have caused the cashflow to remain in surplus since the middle of this year.

3.6 This together with the £5 million expected from the sale of land over the next few months is forecast to maintain a surplus cashflow throughout most of next year, even without taking up the PWLB quotas for 2001/02 and 2002/03 of £1.1 million and £0.8 million respectively. As a consequence it is proposed not to borrow from the PWLB either this year or next.

3.7 If circumstances change in the future and the Council needs to replace short term borrowing with a PWLB loan over and above a normal years quota, then there is an option available to apply for additional quota.

3.8 The normal level of overall borrowing for 2002/03 will therefore be around £10.1 million. However, at the end of the year this could rise to around £14.1 million. Members are therefore asked to recommend an Overall Borrowing Limit of £20 million, again to allow flexibility.

### 3.9 Proportion of Variable Rate Borrowing

The estimated interest payable on the Council's loans next year is as follows:

	£	%
PWLB Loans	689,170	92.9
Other Long-Term Loans	48,750	6.6
Short-Term Loans	4,070	0.5
	<u>741,990</u>	<u>100.0</u>

3.10 The interest on the Other Long-Term Loans and on Short-Term Loans is variable. Members are therefore asked to recommend 20% as the proportion of interest at variable rates.

### 3.11 Strategy

The speed of world economic recovery will directly influence the speed at which the Bank of England raises the base rate and the biggest influences on this lie outside the UK.

The United States is expected to begin recovering from recession in the second quarter of 2002. However, rising unemployment and very little stimulus from Europe and Japan could see the world economic recovery delayed until much later in 2002.

Forecasters therefore believe that the current base rate of 4% will not fall any further, however it will be the middle of the year before the Bank of England will begin to raise interest rates again.

- Cash Flow Management and Investment of Surplus Funds

Based on forecasts of base rate movement, it is proposed to avoid investing surplus funds for longer than 6 months at the beginning of the year, unless there is a change in outlook. The situation will then be reviewed again if and when base rates begin to rise.

The Council's surplus funds will be invested with the minimum of risk, at the same time aiming to achieve maximum returns whilst fulfilling short-term cash flow requirements.

- Short Term Borrowing

For the following 12 months period the Council will borrow short term if this becomes necessary for the purposes of cash flow (in accordance with the limit to be set by Committee).

- Long Term Borrowing

No allowance has been made during 2002/03 for long-term borrowing.

However, in line with the Finance Services Division Action Plan, it is proposed to continually review the feasibility of rescheduling long-term debt in order to reduce overall borrowing costs. Although, the current low level of interest rates means there is now a wide margin with rates on existing debt. Therefore at present, the cost of early termination penalties would outweigh any savings on interest accrued from rescheduling loans.

## **4.0 Financial Implications**

4.1 As contained in the report.

## **5.0 Background Papers**

5.1 Treasury Management Policy Statement 2001 / 2002.