

## RESOURCES SCRUTINY COMMITTEE – 10<sup>th</sup> MARCH 2004

### Report of the Head of Financial Services

#### ITEM 5      TREASURY MANAGEMENT

##### Purpose of the Report

To provide an overview of the current position with regard to treasury management and to enable the Committee to express its views to Cabinet on the future strategy to be adopted for the investment of the Council's surplus funds.

##### Consultants

Sector plc, a division of Capita, have been appointed as the Council's consultants to advise on treasury management generally and also to monitor the performance of the Council's external fund managers, Investec (vide Policy & Finance Committee Min. 198, 1999-2000). Ms Phiroza Katrak, from Sector, will attend the meeting to provide information on:

- The performance achieved by Investec as fund managers, comprising a brief review of the year 2002/03 and a more detailed review of the current year to the end of December 2003
- The performance of Investec compared with other fund managers
- The continued viability of retaining Investec as fund managers if the portfolio is reduced by the Council to fund the redemption of outstanding long term debt

##### Background

In 1997 the Council appointed Investec as its external fund managers with an initial portfolio of £12 millions, to which was added following satisfactory results, a further £3 millions in June 1998. This has not been increased since, but growth from investment has increased the fund balance to £17 millions at the end of January 2004.

Balances invested at mid February 2003 were:

Investec	£17,071,000
Internally Managed	£9,000,000
Total	£26,071,000

Of the internally managed funds, approximately £4.3 millions will be required to meet the County Council's precept in the second week in March. There will also be expenditure on day to day matters such as payment to creditors and employees but

income from government grants, Council Tax and rents will offset this outlay to some extent.

As has been previously reported the Head of Financial Services is actively seeking to redeem part of the outstanding loan debt which the Council still has in order to achieve “debt free” status for the authority before the end of the current financial year. This would confer considerable financial advantages on the Council. Ms Katrak will be able to report on the current state of negotiations on this subject. If they prove successful the Council’s cash reserve would be reduced by approximately £4 millions and the Head of Financial Services will then take a view as to whether this can be financed by a reduction in the internally managed funds or whether it will be necessary to make a partial withdrawal from Investec’s managed funds.

With regard to alternative investment options, the Council has, in the past, invested in fixed rate supranational bonds but at the present time the government has issued a consultation paper that indicates that such instruments may, in the future, be regarded as capital expenditure, which they are not at the moment. The inward flow from the redemption of such investments would then be classed as a capital receipt. Until this uncertainty is resolved, it is considered unwise to invest in these bonds.

No long-term or temporary borrowing has occurred in the current financial year, nor is any envisaged. The report on the Prudential Code for Capital Finance in Local Authorities, a requirement under the Local Government Act 2003, was considered by Cabinet on 12<sup>th</sup> February (vide Min 235). This report gave an indicative figure of a need to finance capital expenditure in 2004/5 from borrowing to the extent of £1.3 millions but this will be kept under review.

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Background Papers: Local Government Act 2003  
CIPFA’s Prudential Code on Local Government Capital  
Finance