

**Winchester City Council**  
**Treasury Management Strategy for 2004/05**

**1 Introduction**

The Treasury Management Strategy details the current position and the expected activities of the Treasury function in the financial year 2004/05. Its production and submission to Cabinet is a requirement of the Council's approved Treasury Management Policy.

The strategy for 2004/05 is based on the anticipated movements in interest rates and the projected requirements of the City Council. The Strategy covers: -

- ❖ the current portfolio position
- ❖ the investment strategy
- ❖ prospects for interest rates
- ❖ external debt
- ❖ prudential indicators

**2 Current Portfolio Position**

As at 31<sup>st</sup> December 2003 the Council had no external debt.

The Council had invested cash surpluses at 31<sup>st</sup> December 2003 as follows:

**Non-specified Investments**

Local Authorities Mutual Investment Trust	£975,000
Association of District Councils Debenture	<u>£50,000</u>
	<u>£1,015,000</u>

**Short Term Investments**

Investments	£38,000,000
BoS Instant Access Rate Account	<u>£5,000</u>
	<u>£38,005,000</u>

**3 Investment Strategy**

- 3.1 Under Section 15(1)(a) of the Local Government Act 2003 every local authority is required, before the start of each financial year, to draw up an Annual Investment Strategy for the following financial year.
- 3.2 For this investment strategy the Council's priority is geared to the security and liquidity of its investments, although the yield will be taken into consideration. The Council maintains only cash flow investments that are not generally considered appropriate for longer term investment. All its investment balances will therefore normally be maintained as short term or specified investments, with the exception of the LAMIT and ADC investments noted in Section 2 above.
- 3.3 As a contingency an upper limit allowing for up to £5 million to be invested for periods longer than 364 days is set as one of the prudential indicators for 2004/05 (see paragraph 6.4 below). In line with this the minimum amount to be held during the year

in investments other than long-term investments is 80% of the City Council's overall investments.

- 3.4 An investment is a specified investment if it satisfies the following conditions:
- (a) The investment is denominated in sterling (see TMP1 – section 3)
  - (b) The investment is not a long term investment (364 days or less)
  - (c) The investment does not involve the acquisition of share capital or loan capital in any body corporate
- 3.5 All investments will be made with the UK Government or a local authority, or made with a body with a high credit rating as set out in the third schedule to *TMP4 – Approved Instruments, Methods and Techniques*.
- 3.6 It is not proposed that any non-specified investments should be made in 2004/05 other than the two noted in Section 2 above.

#### **4 Prospects for Interest Rates**

- 4.1 The Bank Base Rate fell to 3.5% during 2003 but has recently been increased to 3.75% and the Council's treasury advisors forecast that the base rate will rise to 4% early in 2004 and thence on to 4.5% before the end of 2004.
- 4.2 Beyond that they forecast that there will be a gradual rise thereafter back towards the 5% level over the next 3 to 4 years.

#### **5 External Debt**

- 5.1 The Council repaid all external debt to become debt free in March 2002.
- 5.2 The strategy for external debt is to continue as a debt-free authority and to borrow only on a short-term basis to cover temporary shortfalls in cash. The need to borrow to fund the Council's capital programme will be kept under review, principally in the light of any changes to Government financing policy which may affect the position.
- 5.3 There is one long term liability which arises from a credit arrangement made with the contractor managing River Park Leisure Centre with a maximum value of £0.5m

#### **6 Prudential Indicators**

- 6.1 The following treasury management prudential indicators are set for 2004/05:
- 6.1.1 The City Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
  - 6.1.2 The upper limits on fixed interest rate and variable interest rate exposures are set at 100% for fixed rate and 20% for variable rate exposure.
  - 6.1.3 Upper limit for principal sums invested for periods longer than 364 days is set at £5million.
  - 6.1.4 The minimum amount to be held during the year in investments other than long-term investments is set at 80% of the City Council's overall investments.
  - 6.1.5 Upper and lower limits for the maturity structure of borrowings – the upper limit is set at 25% for under 12 months, 50% for between 12 and 59 months and 100% for 5 years and above – the lower limit is set at 0% for periods up to 5 years and 0% for periods of 5 years and above.

6.1.6 The authorised limit for borrowing is set at £6million, including £0.5million for other long term liabilities.