



## **Contract and Financial Procedure Matters Report – Addendum - Treasury Management**

### **SUMMARY**

- 1.1 This addendum deals with an additional item that requires reporting to and approval by Council Cabinet under financial procedure rules. The report seeks to amend the approved Treasury Management Strategy to permit a wider range of borrowing options in 2005/6.
- 1.2 An extension of the Treasury Management Strategy was approved by Council Cabinet on 8 November authorising the Director of Finance to carry out forward borrowing of external funds from the money market at favourable interest rates to take effect from April 2006.
- 1.3 It was expected that this would be through a facility known as a Lender Option Borrower Option ('LOBO') loan.
- 1.4 However, although Council Cabinet gave approval to the Director of Finance to undertake forward borrowing from the money markets, approval was not sought to undertake advanced borrowing from the Public Works Loan Board (PWLP) in the event of more favourable interest rates being obtained through that route. This approval is now sought to provide a choice of options.
- 1.5 Subject to any issues raised at the meeting I therefore support the following additional recommendation.

### **RECOMMENDATION**

#### **Additional recommendation**

- 2.4 To extend the Treasury Management Strategy to authorise the Director of Finance to undertake, during the remainder of 2005/6, borrowing in advance to fund the 2006/7 capital programme, on the condition that the capital financing requirement for 2006/7 is not exceeded and that the Director of Finance considers market conditions to be beneficial.

**Contract and Financial Procedure Matters Report – Addendum  
- Treasury Management****SUPPORTING INFORMATION****4. Treasury Management – Borrowing Strategy**

- 4.1 On 8 November, Cabinet approved an extension of the Treasury Management Strategy to authorise the Director of Finance to undertake during 2005/6 the forward borrowing of external funds from the money market at favourable interest rates to take effect from April 2006. It was expected that this would be through a 'LOBO' loan which incorporated a lender option, although the terms of the approval would also permit a forward money market loan without a lender option. The approval was to facilitate such borrowing, should market conditions continue to appear favourable.
- 4.2 The option remains under consideration but has not yet been exercised. The wider rationale in terms of the long term interest rate environment remains broadly as set out in the report to Cabinet on 8 November. On 28 November, 25 year plus PWLB rates stood at 4.25%.
- 4.3 An alternative to a forward market loan is for the Council to undertake conventional borrowing from HM Treasury through the Public Works Loan Board, but receiving the cash now rather than in April 2006, again to fund the 2006/7 capital programme. This would add to the scale of the Council's short term investment balances, and as those balances are already large such advanced borrowing had not been planned for in 2005/6. However, recent movements mean that the money markets are no longer forecasting a cut in Bank of England base rates from 4.5% over the next few months. Consequently, there can now be a reasonable expectation that investment rates obtained when investing the cash raised from advanced borrowing will exceed the cost of the borrowing in the remainder of 2005/6, in a still favourable long term rate environment.
- 4.4 An amendment to the approved Treasury Management Strategy is sought to enable the Director of Finance to agree to advanced borrowing in 2005/6 against the 2006/7 capital programme, provided that the overall capital financing requirement for the year is not exceeded. As with the approval to undertake a forward borrowing commitment, the approval is likewise permissive and does not commit the Council to this course.

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Background papers:	None
List of appendices:	Appendix 1 – Implications

<b>IMPLICATIONS</b>
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**Financial**

1. As set out in this report.

**Legal**

2. None

**Personnel**

3. As set out in this report.

**Equalities impact**

4. None

**Corporate objectives and priorities for change**

5. The recommendations are consistent with the Council's priority to minimise increases in council tax.