

INTEREST RATES ON DEPOSITS

EXECUTIVE SUMMARY AND RECOMMENDATIONS

INTRODUCTION

Historically surplus cash has been deposited with NatWest Bank PLC either on a Business Reserve Account (by automatically transfer to and from the Current Account). Alternatively fixed sums have been placed on term deposits (usually weekly) on NatWest Treasury Reserve.

An exercise has now taken place which has resulted in discussions with Stuart Woodrow of NatWest and Howard Hickey of Close Brothers Limited (merchant bank).

Revised terms have now been offered by NatWest: The Business Reserve Account will be replaced by a Special Interest Bearing Account (SIBA), an account only available to special preferred customers. The rate paid is Base less 1% (currently 3.75%). This compares to 2.3% currently being earned on the Business Reserve.

Further sums will now be deposited in Corporate Bonds for periods of 3, 6 or 12 months depending on requirements. Surplus cash now largely arises due to prepaid fees and can easily be evaluated using the cash flow forecasting procedures now in place. A Corporate Bond of £500,000 to £5,000,000 is currently paying 4.76% for six months (with a 0.125% additional bonus rate on reinvestment), compared to 4.41% for 2 weeks on Treasury Reserve.

On the recommendation of Daniel Ross, we also reviewed the rates offered by Close Brothers. Generally rates are slightly higher with Close Brothers on fixed deposit rates but there is no facility for an automatic transfer to and from Current Account. CHAPS (Clearing House Automatic Clearing System) charges apply when transferring funds from NatWest to Close Brothers (although they are free when coming back to NatWest).

However the Executive feels that we should restrict our funds to NatWest at present especially as they are offering us a special deal on funds under £1,000,000.

DECISION

The Committee is asked to agree the following:

That the Committee endorses the recommendation of the Executive in that the organisation should continue to make deposits with NatWest by using a Special Interest Bearing Account to replace the Business Reserve Account and by making use of Corporate Bonds instead of weekly deposits on Treasury Reserve where appropriate.

That the Committee confirms that the Finance Director makes use of any NatWest deposit vehicle from time to time, commensurate with the organisation's requirements.

BACKGROUND INFORMATION

None

RESOURCE IMPLICATIONS

None

FINANCIAL IMPLICATIONS

Enhanced investment income

BACKGROUND PAPERS

See attached rates from NatWest (confidential) and Close Brothers

APPENDICES

None

PKHB/HPC/FRC62/04
14.9.04



Corporate Liquidity Solutions: Deposit Interest Rates
Current as at 10th September 2004

TREASURY RESERVE - rates as at 10/09/04

Term	£25-£49,999	£50-£99,999	£100-£249,999	£250-£499,999	£500-£999,999	£1m+
Overnight				2.45	2.70	2.83
1 Week fixed		3.88	3.88	3.88	4.13	4.26
1 Month fixed	4.11	4.11	4.11	4.11	4.36	4.49
3 Month fixed	4.21	4.21	4.21	4.21	4.46	4.59
6 Month fixed	4.29	4.29	4.29	4.29	4.54	4.67
1 Year fixed	4.43	4.43	4.43	4.43	4.68	4.81

CORPORATE BONDS (w.a.f 10/09/04)

Balance	3 Month Standard Rate Gross	6 Month Standard Rate Gross	12 Month Standard Rate Gross
£1m - £5m	4.66	4.76	4.90
£500,000 - £999,999	4.66	4.76	4.90
£250,000 - £499,999	4.42	4.63	4.82
£100,000 - £249,999	4.27	4.38	4.67
£25,000 - £99,999	4.22	4.33	4.62
£10,000 - £24,999	4.12	4.23	4.52

Interest is paid on maturity or when the bond is closed. With early withdrawal before the bonds we may deduct an amount equivalent to total interest accrued, up to a maximum of 90 days interest for a three month bond, 60 days for a six month bond and 30 days for a twelve month bond (based on 365 days in any year).

CHARITY BONDS/LOCAL AUTHORITY BONDS (w.a.f 10/09/04)

Balance	3 Month Bond Gross	6 Month Bond Gross	12 Month Bond Gross
£1m - £5m	4.66	4.76	4.90
£500,000 - £999,999	4.66	4.76	4.90
£250,000 - £499,999	4.42	4.63	4.82
£100,000 - £249,999	4.27	4.38	4.67
£25,000 - £99,999	4.22	4.33	4.62
£10,000 - £24,999	4.12	4.23	4.52

A charity bond can be broken without charge in emergencies in support of the main charitable cause. Non qualifying withdrawals are subject to a charge equivalent to total interest accrued, up to a maximum of 30 days interest for a three month bond, 60 days for a six month bond and 90 days for a twelve month bond (based on 365 days in any year). Interest is paid on maturity or when the bond is closed.

CORPORATE MONEY MARKET ACCOUNT

Balance	9% Gross AER
£2,000,000 to £5,000,000	4.20
£1,000,000 to £1,999,999	3.81
£500,000 to £999,999	3.48
£250,000 to £499,999	3.15
£100,000 to £249,999	2.74
£25,000 to £99,999	2.27
£0 to £24,999	2.27

Interest is paid quarterly

RESERVE ACCOUNT - instant access account (w.a.f 01/08/04)

Balance	9% Gross AER
£250,000 to £1,000,000	2.32
£100,000 to £249,999	2.27
£25,000 to £99,999	2.27
£2,000 to £24,999	2.27
£500 to £1,999	2.27
£0 to £499	2.27

Interest is paid quarterly

CORPORATE DIAMOND RESERVE - 30 day notice account (w.a.f 12/08/04)

Balance	9% Gross AER
£250,000+	3.55
£100,000 to £249,999	3.24
£50,000 to £99,999	2.93
£25,000 to £49,999	2.93
£10,000 to £24,999	2.47

Early withdrawal of funds incurs an early withdrawal fee equivalent to the loss of 30 days interest on the amount withdrawn, calculated at the rate applicable to the balance before the withdrawal is made. Interest is paid monthly.

SME BUSINESS CURRENT ACCOUNT (w.a.f 05/08/04)

Balance	9% Gross AER
	2.27

Interest is paid quarterly

SOLICITORS' RESERVE - instant access account (w.a.f 12/08/04)

Balance	9% Gross AER
£250,000+	2.68
£100,000 to £249,999	2.52
£25,000 to £99,999	2.27
£2,000 to £24,999	2.27
£500 to £1,999	2.27
£0 to £499	2.27

Interest is paid quarterly

CAPITAL RESERVE - 14 day notice account (w.a.f 12/08/04)

Balance	9% Gross AER
£250,000+	3.03
£100,000 to £249,999	2.68
£25,000 to £99,999	2.32
£2,000 to £24,999	1.86

NO LONGER AVAILABLE TO NEW DEPOSITORS
Early withdrawal of funds incurs an early withdrawal fee equivalent to the loss of 14 days interest on the amount withdrawn, calculated at the rate applicable to the balance before the withdrawal is made. Interest is paid quarterly.

NB - Customers who reinvest in the Corporate or Charity Bond (both capital and interest or capital only) on maturity will be paid an extra 0.125% or 0.10% p.a. respectively above the prevailing gross rate at that time. This applies to all subsequent consecutive re-investments. All rates are quoted per annum as at 19th September 2004 and they may change at any time. "Gross" is the contractual rate of interest payable per annum not taking account of deduction of income tax at the basic rate. "Gross AER" is the rate equivalent to gross rate annualised to take account of interest paid either than once a year. National Westminster Bank Plc is a member of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000. In respect of deposits with a UK office, payments under the Scheme are limited to 100% of the first £2,000 of a depositor's total deposits with the bank and 90% of the next £33,000, resulting in a maximum payment of £31,700. Most depositors, including individuals and small firms, are covered. Deposits denominated in all currencies are treated alike. Further details of the Scheme are available on request. Current comparative information is available on the British Bankers association website at www.bba.org.uk

Money Market Sterling Deposit Rates*Week commencing 13th September 2004*

Instant Access Call account up to **4.25%** gross pa

14 days Notice account up to **4.50%** gross pa

Other Notice accounts

Interest is paid half yearly on Instant Access Call accounts and 14 days Notice accounts, on 1st January and 1st July each year.

Longer Term RatesMoney Market Fixed Deposits

1 month fixed up to **4.7600%** gross pa

2 months fixed up to **4.8000%** gross pa

3 months fixed up to **4.8600%** gross pa

6 months fixed up to **4.9700%** gross pa

9 months fixed up to **5.0500%** gross pa

1 year fixed up to **5.1000%** gross pa

2 years fixed (annual interest) up to **5.1400%** gross pa

3 years fixed (annual interest) up to **5.1800%** gross pa

Fixed deposit rates are normally available for sums of £100,000 or foreign currency equivalent and above. The rates quoted are for indication purposes, for sums of £5 million and above and are subject to change at any time without notice. Rates for smaller amounts and other periods are available on request. Interest on fixed deposits is paid at the maturity of the deposit, unless stated otherwise. Lower Rate Tax is deducted from interest paid where applicable.

Clearing bank base rate: 4.75% since 5 August 2004