

COMMITTEE:	CABINET
DATE:	6TH FEBRUARY 2002
SUBJECT:	BORROWING LIMIT AND TREASURY MANAGEMENT POLICY FOR 2002-2003
REPORT OF:	DIRECTOR OF FINANCE AND CORPORATE SERVICES
Ward(s):	All
Purpose:	To determine the Council's borrowing limit for 2002-2003. To recommend that Council formally adopts the new Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services to apply with effect from 1 st April 2002.
Contact:	Sue McHugh, Telephone 01323 415104 or Bruce Bird, Telephone 01323 415146.
Recommendations:	1. Cabinet is recommended that for 2002-2003:-
	a) an overall Borrowing Limit of £42m be determined;
	b) the short term borrowing limit be set at 15% of the overall Borrowing Limit;
	c) the proportion of the total amount of interest payable by the Council which may be at variable rates be up to 25%;

	<p>2. Cabinet is further recommended to make the following recommendations to full Council :-</p>
	<p>1) Eastbourne Borough Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services : Code of Practice (the Code) as described in Section 4 of that Code.</p>
	<p>2) Eastbourne Borough Council will create and maintain, as the cornerstones for effective treasury management :</p>
	<p>- a treasury management policy statement, stating the policies and objectives of its treasury management activities</p>
	<p>- suitable treasury management practices, setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.</p>
	<p>The content of the policy statement and the treasury management practices will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key recommendations.</p>
	<p>3) Eastbourne Borough Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its treasury management practices</p>

	4) Eastbourne Borough Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet Committee, and for the execution and administration of treasury management decisions to the Director of Finance and Corporate Services, who will act in accordance with the Council's policy statement and treasury management practices, and CIPFA's Standard of Professional Practice on Treasury Management.
	5) Eastbourne Borough Council determines that its treasury management policy statement shall be :
	1) The Council defines its treasury management activities as : "The management of its cash flows, banking, money market and capital market transactions; the effective management and control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
	2) The Council regards the successful identification, monitoring and management and control of risk to be the prime criteria by which effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of its treasury management activities will focus on their risk implications for the Council.
	3) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

1.0	<u>Introduction</u>	
1.1	The Local Government and Housing Act 1989 requires that before the beginning of each financial year a local authority must determine for that year:-	

	a) an overall borrowing limit.		
	b) a short term borrowing limit which, within the overall borrowing limit, is the maximum amount which may be outstanding by way of short term borrowing; and		
	c) a limit on the proportion of the total amount of interest payable by the authority which is at a rate or rates which can be varied by the lender or by references to external factors.		
	The determination may be varied at any time	by the Council.	
1.2.	In addition, CIPFA has recently published a new Code of Practice on Treasury Management in the Public Services to apply from 1 st April 2002. The Code continues to have the status of a proper practice under the provisions of the Local Government and Housing Act 1989 and, as a consequence of this, CIPFA recommends its formal adoption by the Council of each local authority.		
2.0	<u>Borrowing Limit</u>		
2.1	The borrowing limit needs to be set at a level to cover the existing loan debt outstanding, capital expenditure financed by credit approvals, capital expenditure incurred while awaiting receipt of grants and contributions, and revenue expenditure incurred before the collection of income due.		
2.2.	For 2002-2003 it is estimated that the borrowing limit should be determined as:-		
		2002-2003	2001-2002
		£m	£m
	Credit Ceiling (net capital indebtedness) at 1 st April	36	39

	New advances during year (credit approvals used)	1	1
	Normal loan repayments and set aside capital receipts	<u>(3)</u>	<u>(3)</u>
	Total Credit Ceiling	34	37
	Temporary Capital Borrowing Limit (pending receipt of capital grants and contributions)	-	-
	Temporary Revenue Borrowing Limit (pending collection of income due)	2	2
	Approved Investments and cash less usable capital receipts	<u>6</u>	<u>4</u>
	Total Borrowing Limit	<u>42</u>	<u>43</u>

	2001 -2002 figures are shown for comparative purposes.
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2.3.	Existing long term borrowing currently totals £39m, equivalent to 93% of the overall borrowing limit, all of which is fixed. The remaining £3m (7%) is, therefore, the maximum short term borrowing that would be permitted within an overall borrowing limit of £42 million for 2002-2003.
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	<p>However, to give our current portfolio of loans the flexibility which may be needed to achieve debt restructuring savings in the present (and forecast) interest rate environment, the officers recommend that the short term borrowing limit for 2002-2003 be set at 15%. This is an increase compared with the limit of 10% set for the current financial year, which will allow the officers to act decisively, following consultation with Butlers our treasury advisors, if and when market conditions exist to deliver beneficial savings to the Council through debt restructuring opportunities. Members may be assured that, as now, any restructuring will only be carried out where it accords with the Council's approved treasury management policy statement</p>
2.4	<p>Cabinet approved a maximum limit of 25% for interest payable at variable rates on 7th February 2001 and it is recommended that this is continued for 2002-2003 to continue the necessary flexibility for our portfolio.</p>
3.0.	<p><u>CIPFA Code of Practice : Treasury Management in the Public Services</u></p>
3.1.	<p>The new CIPFA Code of Practice was released in December 2001 and received by officers in January 2002. It represents a substantial revision from the previous 1996 Code, not least because it consolidates into one generic volume the previously service specific versions of the Code.</p>
3.2.	<p>CIPFA undertook to revise the Code for three main reasons :</p>
	<p>1) the increasing size and complexity of the public services' treasury management activities and the demands placed on them, particularly with regard to effective risk management, performance management and best value.</p>
	<p>2) the growth of cross-sectoral partnerships</p>
	<p>3) the sophistication of the financial and money markets</p>

3.3.	There are no fundamental differences between the 1996 and the 2001 versions of the Code, but there is an increased emphasis on risk and there are changes to presentation and documentation. The Code continues to be a proper practice under the Local Government and Housing Act 1989 and as such is required to be formally adopted by this Council.
3.4.	The Code of Practice recommends that four clauses are formally adopted, as set out in Section 5 of the Code. The officers support these and they are reproduced as recommendations 2.1, 2.2, 2.3 and 2.4.
	Recommendation 2.1 includes reference to the four key recommendations described in Section 4 of the Code. For completeness these are reproduced below :
	1. Public sector organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
	2. Their protocols and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.
	3. They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.
	4. In order to achieve the above, organisations should :
	1) adopt the four clauses in Section 5 of the Code (recommendations 2.1, 2.2, 2.3 and 2.4 achieve this)

	<p>2) adopt a treasury management policy statement, as recommended in Section 6</p> <p>(recommendation 2.5 achieves this)</p>
	<p>3) follow the recommendations in Section 7 concerning the creation of treasury management practices</p>
3.5.	<p>Section 6 of the Code further recommends that the treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities -</p>
	<p>1) The Council defines its treasury management activities as :</p> <p>"The management of its cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."</p>
	<p>2) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of its treasury management activities will focus on their risk implications for the Council.</p>
	<p>3) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.</p>
	<p>Whilst the officers support these form of words there is an exception in the choice of the word "control" in the context of risk. It seems to us that because of the very nature of risk, its control is an unachievable objective. We believe the word "management" should be added to be consistent with key recommendation 2 set out in paragraph 3.4 above, so that "management and control" are set together in this context.</p>

	<p>Section 6 of the Code, and recommendation 2.2 of this report, does allow amendment to the recommended wording where "Such amendments will not result in the Council materially deviating from the Code's key recommendations".</p> <p>The officers believe that the inclusion of the wording "management and control" actually strengthens the treasury management policy statement in the context of risk management.</p>
	<p>We recommend therefore that the Council's treasury management policy statement includes the words management and control in place of the word control in sections 1) and 2) above. This is the text that has been reproduced as recommendation 2.5.</p>
3.6.	<p>The Code also recommends the adoption of suitable treasury management practices (see recommendation 2.2).</p>
	<p>CIPFA has produced 12, which it recommends for adoption, although it acknowledges that not all may be relevant in every organisation. Officers need to spend some time reviewing and discussing these before bringing a further report to Cabinet.</p>
	<p>Assuming that recommendation 2.4 of this report is ultimately approved by Council, delegated powers will, as now, be given to this Committee, and the officers subsequent report on the detail of treasury management practices will be brought to the March Cabinet Committee for approval.</p>
4.0.	<p><u>Corporate Values</u></p>
4.1	<p>The adoption of the new CIPFA Code is relevant to statements 1 and 2 of the Council's Values, namely :</p>
	<p>1) conduct our business with integrity, impartiality and remain open and accountable</p>

	2) make the most efficient and effective use of public resources.
	This will be further evidenced when the more detailed treasury management practices are brought to Cabinet for approval.
4.2	Adoption of the Code also demonstrates the growing importance of corporate governance and risk management to the Council, both in the way it organises and conducts its affairs and as a response to growing demands from a wide range of external sources.
5.0	<u>Consultations</u>
5.1.	The report has been discussed with Butlers, our treasury advisors.
6.0	<u>Implications</u>
6.1.	These have been included within the report where appropriate.
Sue McHugh Director of Finance and Corporate Services	
Background Papers: The Background Papers used in compiling this report were as follows: Local Government and Housing Act 1989. CIPFA Code of Practice 2001 – Treasury Management in the Public Services. To inspect or obtain copies of background papers please refer to the contact officers listed above.	
Ref: openlinkCFOreports/Cabinet 6/2/02-1 BorrowingLimitTreasury statement	