

COMMITTEE:	CABINET
DATE:	6TH MARCH 2002
SUBJECT:	ANNUAL TREASURY MANAGEMENT STRATEGY FOR 2002-2003 AND ADOPTION OF TREASURY MANAGEMENT PRACTICES
REPORT OF:	DIRECTOR OF FINANCE AND CORPORATE SERVICES
Ward(s):	All
Purpose:	To adopt a treasury management strategy for 2002-2003 To adopt the treasury management practices recommended by 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:	Cabinet is recommended to - 1. adopt the treasury management strategy for 2002-2003 as set out in paragraph 2 2. adopt the treasury management practices numbered TMP1 to TMP12 in the Appendix to this report, to apply from 1st April 2002.
1.0	<u>Introduction</u>
1.1	Cabinet received and approved a report at its 6 th February 2002 meeting entitled "Borrowing Limit and Treasury Management Policy for 2002-2003"

	<p>Amongst the reports principal recommendations were -</p> <ul style="list-style-type: none"> · Council 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 1st April 2002 · Council determines its treasury management policy statement (as defined in the report) <p>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.</p>
1.2	<p>Council formally approved the Cabinet recommendations at its meeting on 27th February 2002.</p>
2.0.	<p><u>Treasury Management Strategy for 2002-2003</u></p>
2.1	<p>Underlying Strategy</p> <p>One of the requirements of the new CIPFA Code is the setting of an annual strategy for treasury management. This is no different from the requirements of the previous Code, and has been a feature of our traditional reporting to Members over recent years.</p> <p>The main feature of the Council's Treasury Management Strategy since 1999-2000 has been to use set aside receipts for debt repayment wherever possible, rather than for investment.</p> <p>This is in order to more closely align our borrowing with the Housing Revenue Account (HRA) element of our Credit Ceiling. The term "Credit Ceiling" refers to the total long term capital indebtedness of the Council.</p> <p>The interest paid on the HRA element of the Credit Ceiling is reimbursed through the Housing Subsidy mechanism. Interest on any debt above that level is borne by the General Fund.</p> <p>Therefore the General Fund bears a lower proportion of the interest charge if the total debt outstanding is closely aligned to the HRA Credit Ceiling.</p> <p>It is proposed to continue this policy in 2002-2003, as far as market conditions allow.</p>

2.2.

Interest Rates

The Treasury Management Strategy for 2002-2003 will be determined by movements in both short and long-term interest rates.

Short-Term Rates

The repo (base) rate is currently 4% having fallen from 6% over the past year. Market consensus is that this is probably the bottom of the interest rate cycle and that rates will increase over the next twelve months. However, increases are likely to be modest and limited reaching perhaps 4.75% by March 2003.

Longer Term Rates

Long term interest rates are likely to reflect the concerns that accelerating growth pose to inflation performance. The market will also take account of the effect that deterioration in public sector finances, as a result of the comprehensive spending review, will have on the supply of gilt-edged stock and its demand. For example, the twenty year gilt yield is currently around 4.9% but is expected to rise to 5.2% by March 2003.

As a consequence of this, interest rates offered by the Public Works Loans Board, are likely to increase across all maturity spreads during 2002-2003.

2.3.	<p>Borrowing</p> <p>Our current total borrowing outstanding of £39m exceeds our forecast credit ceiling at 31st March 2003 of £34m. It is unlikely that we will be able to easily reduce our outstanding borrowing because the low level of interest rates compared with our existing debt portfolio make the premia for early repayment prohibitive.</p> <p>Our PWLB Quota for 2002-2003 is expected to be £1.4m being £1.2m of Credit Approvals and £0.2m of maturing loans. We will not be taking any new loans, as our debt outstanding already exceeds our Credit Ceiling.</p> <p>New loans will only be taken as part of a debt restructuring programme, if and when opportunities arise. This may be more likely in 2002-2003 as long term rates start to rise. However, such a decision will only be taken as part of the Council's approved treasury management policy, and where it will be in the long term interests of the Council.</p> <p>We will continue to consult with Butlers, our Treasury Advisors, on any early repayments or new borrowing which beneficially re-profile our debt portfolio.</p>
2.4.	<p>Investments</p> <p>Investments will be kept short in the expectation of an increase in rates. Our core level of investment is likely to grow during 2002-2003 as we set aside further capital receipts - as required by legislation - from £4m up to £6m. This will only change if we are able to utilise set aside receipts to repay debt.</p> <p>Other than our core funds, all other investments will be largely governed by the management of the Council's working capital and the consequent cash flow requirements.</p>
2.5.	<p>Monitoring</p> <p>The Director of Finance and Corporate Services, assisted by her staff and our treasury management advisors Butlers, will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. Any decisions taken and implemented under delegated powers will be reported through the monthly Finance Briefing in the Members Newsletter, and through the bi-monthly budget monitoring report to Cabinet.</p>

3.0	<u>Treasury Management Practices</u>
3.1	As a result of the delegation given by Council to the Cabinet Committee, the detail of the treasury management practices to apply from 1 st April 2002 is now brought to this Committee for approval.
3.2	<p>For convenience the detailed treasury management practices are included in the Appendix. They cover the following key issues -</p> <ul style="list-style-type: none"> · TMP1 - risk management · TMP2 - best value and performance measurement · TMP3 - decision-making and analysis · TMP4 - approved instruments, methods and techniques · TMP5 - organisation, clarity and segregation of responsibilities, and dealing arrangements · TMP6 - reporting requirements and management information arrangements · TMP7 - budgeting, accounting and audit arrangements · TMP8 - cash and cash flow management · TMP9 - money laundering · TMP10 - staff training and qualifications · TMP11 - use of external service providers · TMP12 - corporate governance

3.3.	The content of the treasury management practices detailed in the Appendix follow the recommendations contained in Section 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. These amendments do not result in the Council materially deviating from the Code's key recommendations.
3.4	The purpose of treasury management practices is to set out how the Council will seek to implement the policies and objectives set out in its treasury management policy statement, specifically how it will manage and control its treasury management activities. Effectively they underpin the higher level policy statement, and will themselves be underpinned by the development of a treasury management manual.
4.0.	<u>Treasury Management Manual</u>
4.1.	During the course of the next financial year staff in Financial Management will develop a treasury management manual. This will complete the structure of the Council's treasury management controls by detailing how the Director of Finance and Corporate Services duties and delegations will be executed and administered on a daily basis.
4.2.	Development of a treasury management manual is not a requirement of the new CIPFA Code, but it does represent good practice. Indeed, it was identified as a key action arising from the challenge workshop on treasury management conducted as part of the Best Value review of Finance, and is identified as such within the improvement plan.
5.0.	<u>Corporate Values</u>
5.1	The adoption of the new CIPFA Code, its treasury management policy statement and treasury management practices, is relevant to statements 1 and 2 of the Council's Values, namely :
	1) conduct our business with integrity, impartiality and remain open and accountable

	2) make the most efficient and effective use of public resources.
	This is evidenced within the detailed treasury management practices set out in the Appendix, and which are brought to Cabinet today for approval.
5.2	TMP1 risk management and TMP12 corporate governance in particular demonstrate the growing importance of these two initiatives in the public sector. Adoption of treasury management practices, and the development of a treasury management manual, provides highly visible and tangible support to and delivery of the Council's corporate values.
6.0	<u>Consultations</u>
6.1.	The report has been discussed with Butlers, our treasury advisors.
7.0	<u>Implications</u>
7.1.	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:	
CIPFA Code of Practice 2001 – Treasury Management in the Public Services.	
Cabinet report 6 th February 2002 - Borrowing Limit and Treasury Management Policy for 2002-2003	
To inspect or obtain copies of background papers please refer to the contact officers listed above.	
Ref: openlinkCFOreports/cabinet/Cabinet 6/3/02 TreasuryManagement	