

TREASURY MANAGEMENT STRATEGY STATEMENT AND AGGREGATE CREDIT LIMIT

1 SUMMARY

- 1.1 This report details the expected activities of the Treasury function in the forthcoming financial year (2003/2004). Its production and submission to this committee is a requirement of the Treasury Management Policy.

2 INTRODUCTION

- 2.1 The adoption of CIPFA's Code of Practice for Treasury Management was agreed on the adoption of the new Financial Regulations . The Code clarifies the reporting requirements for treasury management functions and this report covers those requirements.
- 2.2 The suggested strategy for 2003/2004 in respect of the following aspects of the treasury management function is based upon the Head of Financial Services' views on interest rates supplemented with leading market forecasts provided by the Council's treasury advisors, Sector Treasury Services Ltd. The strategy covers:
- Prospects for interest rates
 - Treasury limits in force which will limit the treasury risk and activities of the Council
 - The borrowing strategy
 - The investments strategy
 - Treasury Management Practices

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

3 DETAILED CONSIDERATIONS

Prospects for Interest Rates

- 3.1 The Council appointed Sector Treasury Services as a treasury adviser and part of their service is to assist the Council to formulate a view on interest rates. Sector's forecast to the end of 2003 is that the base rate will remain at 4%, with a small risk of a temporary fall to 3.75% during the year. PWLB rates have fallen considerably during 2002 and are anticipated to remain low into 2003.
- 3.2 The Head of Financial Services will continue to monitor the interest rate market and adopt a pragmatic approach to any changing circumstances. Any decisions made will be reported in the Annual Report on Treasury Management performance after the end of the financial year.

Borrowing

- 3.3 The aggregate credit limit is the maximum amount which an Authority can have outstanding as borrowing or credit arrangements and must be determined, in advance for each financial year, by the Council.
- 3.4 At the Finance & General Purposes Committee meeting held on 14th February 2002 the borrowing policy for 2002/2003 was determined with an aggregate credit limit of £18M and a temporary borrowing limit of £6M and a variable rate loans limit of £2M.
- 3.5 The limit is made up of the following:-
- The temporary revenue borrowing limit
 - The temporary capital borrowing limit
 - The credit ceiling of the Authority
 - The sum of approved investments less usable capital receipts
- 3.6 As in previous years the calculation produces a figure higher than is required for total borrowing by this Authority. Therefore for 2003/2004 it is proposed that the aggregate credit limit be set at the same level as the current financial year i.e. a total of £18M, with a temporary borrowing limit of £6M. All external borrowing will be by way of fixed interest loans apart from £2M of the £6M of temporary borrowing which can be at variable rates. Temporary borrowing will only be made for short-term cash flow requirements.
- 3.7 Other than temporary borrowing, 100% of the external debt of the Authority is from the Public Works Loans Board (PWLB) at fixed rates.

- 3.8 In December 2002 our advisers, Sector Treasury Services Ltd, advised the Council to prematurely repay debt of £1.6m. This was required so that Housing Subsidy claims could be maximised and to improve interest receipts to the General Fund. Further premature repayment of debt or new borrowing will only be made after seeking advice from our Consultants.

- 3.9 The position on PWLB loans for 2002/2003 is as follows:-

Description	2002/2003 £000	2003/2004 £000
Opening Balance	13,530	11,573
Less Repayments	1,957	357
Plus Additional Loans	-	-
Closing Balance	11,573	11,216

- 3.10 The new facility at the former Park School site will entail a capital commitment from this Authority. The expected funding towards the scheme may include the use of new borrowing powers to be made available to the Council. This will be reported to Committee as part of the Capital Programme. As above, the actual decision on new borrowing will be taken after seeking advice from our Consultants.

Investments

- 3.11 The Authority maintains only temporary, short term investments which are made with reference to cash flow requirements.
- 3.12 The Authority's lending policy permits loans only to those Banks and Buildings Societies on the authorised list together with Local Authorities. The attached list shows those organisations currently falling within the scope of this policy. (Appendix 1)
- 3.13 Our policy is to lend to those who, at the date of the loan, are on the authorised list and who offer the most competitive rate of interest. Alternatively, the funds are deposited in one of the Authority's Reserve accounts if their rates are higher. The Council invests small balances with Barclays Bank and has arrangements for Business Reserve Accounts with Abbey National and Bank of Scotland.
- 3.14 The attached graph (Appendix 2) show the investments made by the Authority from April 2002 to December 2002. With no change in the base rate since November 2001, the graph clearly shows how the rates of interest have remained low.

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- 3.15 All borrowing and investment is undertaken within the Council's Treasury Management Policy (Appendix 3) and Treasury Management Practices.

4 RESOURCE IMPLICATIONS

All interest paid and received is accounted for within the General Fund. Charges to the Housing Revenue Account are made in accordance with Government Regulations.

4 RECOMMENDATION

- 4.1 It is proposed that the Committee **RESOLVES**

(1) That the aggregate credit limit for 2003/2004 be £18M and that the temporary borrowing limit be £6M and that the limit for variable rate loans is £2M.

(2) To note the Treasury Management Strategy. (HFS)

Dave Deeks

Head of Financial Services

Background Papers:

Treasury Management In the Public Services: Code of Practice 2001

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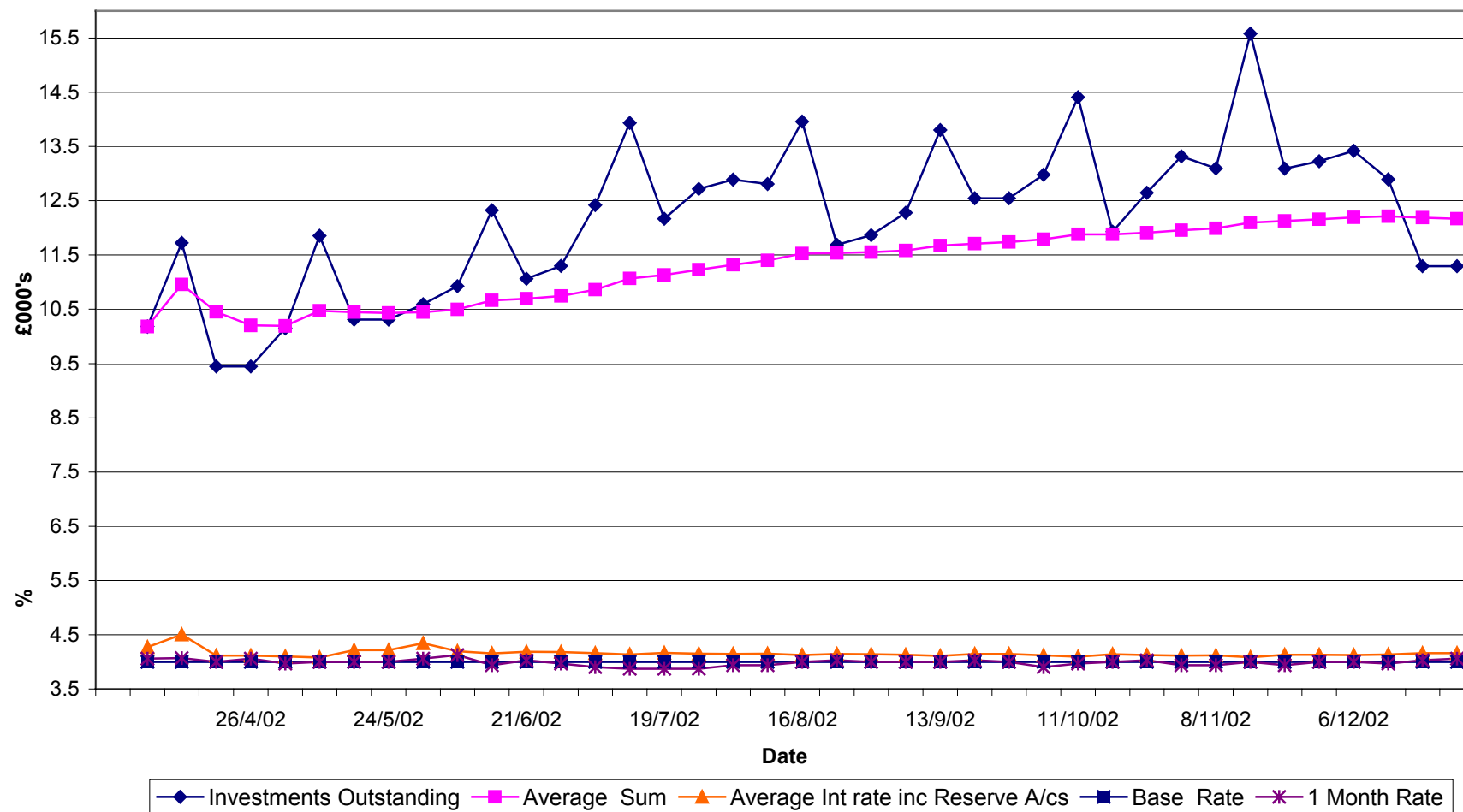
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Appendix 1

Approved Lending List.

	Individual Limit £ M	Limit of Total Holding £ M
Abbey National PLC	6	6
Abbey National Treasury Services PLC	6	
Royal Bank of Scotland	6	6
National Westminster	6	
Ulster Bank	3	
Barclays	6	6
Woolwich	6	
Lloyds/TSB	6	6
Cheltenham & Gloucester	3	
HSBC		6
Bank of Scotland	6	6
Halifax	6	
Alliance & Leicester		4
Nationwide		4
Bradford & Bingley		3
Clydesdale Bank		3
Northern Rock PLC		3
Bristol & West		2
Other Local Authorities		6

Sums Invested April 2002 - December 2002



Appendix 2

TREASURY MANAGEMENT POLICY STATEMENT

This organisation defines the policies and objectives of its treasury management activities as follows:

- 1 This organisation defines its treasury management activities as:
“The management of the authority’s cash flows, its 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”.
- 2 This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 3 This organisation 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.