

Summary of Treasury Management Activities 2001/2002

1.0 Borrowings

1.1 Borrowing Movements / Interest Paid

	B/Fwd £'000	Borrowed £'000	Repaid £'000	C/Fwd £'000	Interest £'000
<u>Short Term</u>					
Money Market	7200	11,905	18,105	1,000	65
Parish Councils	41	114	24	131	2
<u>Long Term</u>					
PWLB	8,281	-	144	8,137	640
Money Market	1,000	-	-	1,000	49
Total Borrowing /Interest Paid	16,522	12,019	18,273	10,268	756

1.2 Levels Of Borrowing / Variable Rate Borrowing

	Highest Level During 2001/2002 £'000	Limit Set By Committee £'000
Short Term Borrowing	7,241	15,000
Overall Borrowing	16,535	25,000
Proportion Of Interest At Variable Rates	15.16 %	50.00%

2.0 Investments

2.1 Investment Movements / Interest Received

	B/Fwd £'000	Borrowed £'000	Repaid £'000	C/Fwd £'000	Interest £'000
<u>Short Term</u>					
Money Market	-	19,250	15,250	4,000	61
Co-operative Bank Reserve A/c					24
Total Investments /Interest Received	-	19,250	15,250	4,000	85

nb. There were no long term investments during 2001/2002.

TREASURY MANAGEMENT POLICY

STATEMENT

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION

- 1.1 As part of the proper management of the Authority, the Council from time to time will borrow money as empowered under Section 43 of the Local Government and Housing Act 1989. Under Section 111 of the Local Government Act 1972, the Authority also has the power to lend surplus funds to facilitate the discharge of its functions. This power has been further regulated by Statutory Instrument 1990 No 426 as amended from time to time setting out how the investments can be made.

2. POLICY OUTLINE

- 2.1 The purpose of this Policy statement is to establish how the Authority will manage its activities in relation to borrowing and investment. This policy will be reviewed by the Council annually in conjunction with the year end report on Treasury Management to the Finance and Management Committee.
- 2.2 i) The Authority will operate its borrowing activities so as not to exceed its Aggregate Credit Limit as defined by Regulations made under the Local Government and Housing Act 1989.
- ii) The Authority will, before the start of each financial year (and regularly thereafter) determine its Overall Borrowing Limit, if less than the statutory limit, its Short-Term Borrowing Limit and its Variable Interest Rate Proportion.
- iii) The policy of the Authority will be to borrow funds at the lowest achievable interest rates, whilst complying with any legislation determining the methods of borrowing, for a period consistent with the maintenance of a prudent maturity profile, and in a manner which will provide budget stability.
- iv) The Authority will invest surplus funds at the highest achievable interest rates, in accordance with the Local Authorities (Capital Finance) (Approved Investments) Regulations 1990 as amended from time to time, but with particular regard to the security of the principal invested, with regard to the maintenance of a prudent maturity profile, and in a manner consistent with meeting the cash flow requirements of the authority.
- 2.3 The above functions will be undertaken by the Chief Finance Officer as the designated officer under Section 151 of the Local Government Act 1972, Section 73 of the Local Government Act 1985 and Section 113 of the Local Government Finance Act 1988 as enshrined in the Council's financial regulations. The Chief Finance Officer will make arrangements for the delegation of the implementation of these functions in accordance with Section 7 of this Policy Statement.
- 2.4 For the purposes of Treasury Management, all funds of the Authority will be aggregated to achieve better control, expertise and to benefit from economies of scale. All costs incurred will be met initially from a single Treasury budget centre, but may be allocated to appropriate cost centres in accordance with current accounting practice.

- 2.5 For specific project finance the Authority may wish to use alternative financing such as leasing. The decision whether to lease is currently taken by Divisional Managers.
- 2.6 "Treasury Management" is defined as "the management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks". The Council's Treasury activities are for debt and investment management and the Council will not take up speculative positions which may be interpreted as trading activities.
- 2.7 Whilst the credit rating of all local authorities is protected by the legal security offered by the Local Government and Housing Act 1989, the ability of the Authority to attract borrowings at the finest competitive rates will tend to reflect its quality of general financial management. The Authority will seek to conduct its overall financial affairs so as to maintain its reputation in the financial markets.
- 2.8 The Chief Finance Officer through his delegated officers is responsible for ensuring that the Council's surplus cash is properly invested and that the Council's cash flow is sufficient to meet its liabilities. In order to fulfil this responsibility it is the duty of Divisional Managers to provide regular information to the Chief Finance Officer as to expected receipts and payments.
- 2.9 The Council as a matter of policy will comply with the London Code of Conduct for activities in the financial markets as set out by the Bank of England.
- 2.10 Staff members of the Chartered Institute of Public Finance and Accountancy (CIPFA) will comply with the Institute's "Standard of Professional Practice on Treasury Management" and any other relevant Standards of Professional Practice.

3. APPROVED ACTIVITIES FOR THE MANAGEMENT OF THE TREASURY FUNCTION

- 3.1 The Authority is enabled to raise funds
- i) by an overdraft from an authorised institution within the meaning of the Banking Act 1987, or
 - ii) on short term from the Bank of England (short term as defined in Section 45/46 of the 1989 Act), or
 - iii) on short term from an authorised institution within the meaning of the Banking Act 1987, or
 - iv) from the National Debt Commissioners/the Public Works Loan Commissioners, or
 - v) by means of a Loan Instrument as defined by Section 43(4) of the Local Government and Housing Act 1989, or
 - vi) by means of a Stock Issue.
- 3.2 The Authority will only invest surplus funds in accordance with the current Approved Investment Regulations as detailed in Section 5.
- 3.3 The Authority will not engage in any borrowing or lending activities other than those set out within this formal Policy statement.

4. BORROWING

- 4.1 The Chief Finance Officer will report to the Council on the Annual financing Statement showing how the proposed Capital Programme of the Council will be financed.
- 4.2 It will be the function of the Exchequer Manager, or other designated staff, to calculate from cash flow forecasts, the requirements of the Authority to borrow. This will include an assessment of the requirements of the capital programme, as well as the replacement of maturing debt.
- 4.3 The Chief Finance Officer will report annually under Section 45 of the Local Government and Housing Act 1989, the total debt for the next financial year, the amount of debt of a short-term nature, ie less than 364 days to maturity, and the total debt of a variable nature. The detailed strategy for borrowing will be agreed and reviewed at least annually by the Chief Finance Officer and designated staff.
- 4.4 Any borrowing undertaken must be within the limits currently in force under the Local Government and Housing Act 1989, as implemented from time to time by the Secretary of State. It will be the responsibility of the designated officers to ensure that any borrowing is in compliance with such regulations and the Section 45 policy as set out in Section 4.3 above.
- 4.5 Funds may be borrowed from any source, but due regard will be given to obtaining a variety of sources for funding, particularly short-term borrowing.
- 4.6 The maturity pattern of all outstanding debt must be reviewed before any new long-term loan is taken.
- 4.7 Before any long term external borrowing is undertaken, the Chief Finance Officer must review the policy of investing set aside capital receipts and the application of any provisions for credit liabilities to assess the overall financial benefit of the Council. Due consideration should also be given to the volatility balance of the debt.

5. INVESTMENTS

- 5.1 It will be the function of the designated officers to calculate from cash flow forecasts the extent of any surplus cash available for investment.
- 5.2 Subject only to any specifically negotiated domestic banking terms, there will be no requirement for the Authority to maintain a surplus cash balance in the bank account although such surpluses may occur from time to time. The intention should always be to maintain a nil cleared balance as far as possible on nil-interest bearing bank accounts, after taking into account dealing costs.
- 5.3 i) Surplus cash may be invested with the following institutions for a maximum maturity of 364 days, subject to the provisions within Appendix 2.
 - **UK Debt Management Office**
 - **Local Authorities and Police Authorities within the UK;**
 - **Major British clearing banks incorporated in the UK and their subsidiaries;**
 - **UK Building Societies;**
 - **British Merchant Banks and Securities House Association members;**

- **The secondary banking sector.**

- ii) The Chief Finance Officer will be responsible for preparing for the Council a list of institutions in whom the Council's funds may be invested.

Institutions currently approved by this authority are shown in Appendix 3 to this Policy Statement.

- iii) The Council will seek to ensure that the maximum amount of market, media and local intelligence is gathered and communicated on the designated officers to assist them in constantly reviewing sectors and individual institutions on the counterparty list. In any event, the list of counterparties in the Appendix will be reviewed annually by the Finance and Management Committee upon a report of the Chief Finance Officer.

- 5.4 The Chief Finance Officer will invest within the Approved Investment Rules for periods to optimise investment returns having regard to interest rate forecasts. He should ensure a spread of maturities.

6. BANKERS

- 6.1 The Chief Finance Officer will be responsible for making all payments on behalf of the Council and ensuring that all receipts are promptly and properly banked. He will make arrangements for any electronic banking and for the transmission of loans and investment transactions. A clearing bank will be appointed to handle the Authority's bank accounts. All recognised clearing banks, having a presence within the geographical boundaries of the Council should be considered for the provision of this service and the appointment will be periodically reviewed, subject to a market testing exercise taking place every 5 years. Due regard must be given, not only to the level of fees and overdraft rates charged, but also to the quality of service given. The appointment will be made by the full Council on a recommendation from the Finance and Management Committee.

7. DELEGATION AND CONTROLS

- 7.1 The activities set out in Sections 2, 3, 4, 5 and 6 of the Policy Statement will be undertaken by the Chief Finance Officer as set out in Section 2.3.
- 7.2 The Chief Finance Officer may delegate his power to borrow and invest to members of his staff. All dealing transactions must be conducted either by the Exchequer Manager (Post No FN24), the Technical Officer (General) (Post No FN14) or in their absence the Technical Officer (Bank and VAT) (Post No FN15) through the Finance Services Manager. All long term transactions will be conducted by the Exchequer Manager in liaison with the Finance Services Manager and Chief Finance Officer.

8. SYSTEMS AND REPORTING

- 8.1 Any transaction completed must be confirmed in writing to the counterparty within 24 hours of the deal, and preferably sooner by facsimile transmission.
- 8.2 Any treasury payments of monies on the Council's behalf will be made via the Council's bankers. They must be authorised by an authorised signatory of the Council, who must not be the same person who arranged the transaction.
- 8.3 An up to date record of all transactions must be maintained by the Exchequer Section and the Finance Services Manager must receive a report of all transactions

undertaken on a weekly basis. The Chief Finance Officer should also receive a similar report on a monthly basis.

9. BROKERS

9.1 The Authority may conduct transactions either on a direct basis or through Brokers "listed" by the Bank of England. Any direct dealing can only be undertaken if the Officer handling the transactions has checked that the relevant terms of the deal are satisfactory in the light of the market conditions.

9.2 The following brokers may be used by the Authority:

Tullet and Tokyo Ltd
Sterling Brokers Ltd
Prebon Yamane (UK) Ltd
Tradition (UK) Ltd

The quality of service provided by these Brokers shall be monitored on a regular basis and reviewed annually.

10. STAFF TRAINING

10.1 It is the intention of the Council to have in post those designated officers outlined in the attached charts. Should any vacancy for a post be unfilled, then the Policy Statement will immediately be reviewed by the Chief Finance Officer and named officers reported to the Finance and Management Committee.

10.2 It is the intention of the Council that the staff holding these posts will be in receipt of adequate training to conduct their duties.

11. STRATEGY AND REVIEW

11.1 Section 2.1 states that this Policy Statement will be reviewed annually by the Council in conjunction with the Year End Report.

11.2 The Finance and Management Committee may revise the statement in exceptional circumstances during the year, but only if it is necessary to avoid incurring a loss or cost to the Council. Any such interim review must be reported immediately to the Leader of the Council and be endorsed by the next meeting of the Full Council.

11.3 Should any new legislation or regulations make the Policy Statement obsolete, a new policy statement may be submitted at any time for the approval of the Full Council.

11.4 In conjunction with the Revenue Estimates Report, the Chief Finance Officer will include in his Report full details of the current economic scene, the current and forecast levels of interest rates, the estimated average "pool" rates of interest payable on the Council's debt and receivable on investments and details of the financing of the capital programme and revolving debt. A strategy report for the forthcoming year will be made to the Finance and Management Committee at least annually, prior to the start of the financial year concerned.

11.5 The Chief Finance Officer will produce a year end report to the Finance and Management Committee by 30 September following to include details of borrowings and investments at 31 March.

12. MONITORING

- 12.1 The Chief Finance Officer must ensure that all proposed transactions are intra-vires, and if not must make a report under Section 114 of the Local Government Finance Act 1988.
- 12.2 The Chief Finance Officer and Chief Executive must ensure that the stated policy is adhered to and if not must also bring the matter to the attention of the elected members as soon as possible in accordance with Sections 4 and 5 of the Local Government and Housing Act 1989.
- 12.3 In the circumstances of a Section 114 report, the external auditor must be advised immediately.

13. DISASTER PLANNING

- 13.1 The Chief Executive and Chief Finance Officer must include arrangements for the proper and continuous fulfilment of the Treasury Management function in accordance with this Policy Statement, in any disaster planning arrangements.

AUTHORISED POSTS FOR BORROWING AND INVESTMENTS

Chief Finance Officer (Post No SM09)

Finance Services Manager (Post No FN23)

Exchequer Manager (Post No FN24)

Technical Officer (General) (Post No. FN14)
- short term dealing transactions only

Technical Officer (Bank and VAT) (Post No FN15)
- short term dealing transactions only

LIST OF APPROVED COUNTERPARTIES AND LIMITS FOR INVESTMENTS

The Chief Finance Officer, in accordance with Section 5.3 of the Policy Statement is authorised to invest funds surplus to immediate requirements with the following types of institutions subject to the maximum amounts to be invested with any one institution.

MAX AMOUNT PER INSTITUTION

UK Debt Management Office	£5 million
Highest Quality British Financial Institutions	£2 million
Local Authorities and Police Authorities	£1 million
100% Owned Subsidiaries of Clearing Banks	£1 million
F1/AA Rated Building Societies	£1 million
Unrated Building Societies in the top ten	£0.5 million
F1/A Rated Building Societies	£0.5 million
F1 /A Rated merchant or secondary banks	£0.5 million
F2/A Rated merchant or secondary banks	£0.25 million

(The current list of financial institutions meeting the above criteria appears at Annexe 3)

The highest quality financial institutions must have a minimum short-term Fitch IBCA rating of F1+ and long-term rating of AA-.

Co-operative Bank Public Sector Reserve Account.

The normal Co-operative Bank limit, as determined by the above criteria, may be exceeded if surpluses cannot be invested elsewhere or to bridge short periods between receipt of grants and payment of precepts, up to a maximum balance of £2.5m.

NB This list will be reviewed annually and any amendments reported to Finance and Management Committee in accordance with this Policy.

South Derbyshire District Council Approved Lending List (as at 15 Aug 2002).

<u>Name</u>	<u>Type</u>	<u>Rating</u>	<u>Max Invest</u> £	<u>Name</u>	<u>Type</u>	<u>Rating</u>	<u>Max Invest</u>
<u>UK DEBT MANAGEMENT OFFICE</u>				<u>BANKS AND BUILDERS - UP TO £0.5 MILLION</u>			
		Sovereign triple-A	5 million	Anglo Irish	Secondary	F1/A	0.5m
<u>HIGHEST QUALITY(British) - UP TO £2 MILLION</u>				Bank of Butterfield	Secondary	F1	0.5m
Abbey National	HQ	F1+/AA	2m	Bradford & Bingley	B.S.	F1/A+	0.5m
Alliance & Leicester	HQ	F1+/AA-	2m	Bristol & West	Bank	F1/A+	0.5m
Bank of Scotland	HQ	F1+/AA	2m	Britannia	B.S.	F1/A+ (BS No.2)	0.5m
Barclays	HQ	F1+/AA+	2m	Chelsea	B.S.	BS No.7	0.5m
Halifax	HQ	F1+/AA+	2m	Close Brothers	Merchant	F1/A	0.5m
HSBC	HQ	F1+/AA	2m	Co-Operative Bank	Bank	F1/A	0.5m
Lloyds Bank	HQ	F1+/AA	2m	Coventry	B.S.	F1/A (BS No.5)	0.5m
NatWest Bank	HQ	F1+/AA	2m	Derbyshire	B.S.	BS No.9	0.5m
Royal Bank of Scotland	HQ	F1+/AA	2m	HFC Bank (Guaranteed)	Secondary	F1/A	0.5m
				Lazard Bank Ltd	Merchant	F1	0.5m
				Leeds & Holbeck	B.S.	BS No.8	0.5m
				N.M. Rothschild	Merchant	F1/A	0.5m
<u>WHOLLY OWNED SUBS - UP TO £1 MILLION</u>				Nationwide Building Society	B.S.	F1+/AA- (BS No.1)	0.5m
Adam & Co (RBS)	100% sub	F1/AA	1m	Northern Rock	B.S.	F1/A+	0.5m
				Portman	B.S.	BS No.4	0.5m
				Principality	B.S.	F1/A	0.5m
				Schroders	Merchant	F1/A+	0.5m
<u>LOCAL AUTHORITIES & POLICE AUTHORITIES</u>				Singer & Friedlander	Merchant	F1/A	0.5m
				Skipton	B.S.	F1/A (BS No.6)	0.5m
				Sun Trust Bank	Secondary	F1+/AA-	0.5m
				West Bromwich BS	B.S.	BS No.10	0.5m
				Yorkshire	B.S.	F1/A+ (BS No.3)	0.5m
				<u>BANKS - UP TO £0.25 MILLION</u>			
				MENA International	Bank	F1/A-	0.25m

