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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM:</b> 12
<b>DATE OF MEETING:</b>	<b>4 SEPTEMBER 2003</b>	<b>CATEGORY:</b> <b>DELEGATED</b>
<b>REPORT FROM:</b>	<b>CHIEF FINANCE OFFICER</b>	<b>OPEN</b> <b>PARAGRAPH NO: N/A</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>PAUL CULLEN</b> <b>595872</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT REPORT 2002/2003</b>	<b>REF: PAC/LJW/H3</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM08</b>

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## 1.0 Recommendations

1.1 That the Treasury Management Report 2002/2003 be received.

1.2 That the Committee is recommended to:

1.2.1 Adopt the key recommendations of CIPFA's 'Treasury Management in the Public services: Code of Practice' (the Code).

1.2.2 Resolve that this Authority will adopt and maintain, as the cornerstones for effective treasury management:

- the revised Treasury Management Policy Statement attached at annexe B (see annexe B pages 1 to 8).
- the Treasury Management Practices also attached at annex B (see annexe B pages 9 to 37)

## 2.0 Purpose of Report

### Annual Report 2002/2003

2.1 It is a requirement of the Council's Treasury Management Policy that a report on Treasury Management activities is presented to the Finance and Management Committee at the end of each financial year.

### Treasury Management Policy Statement and Practices

2.2 To present to Committee for a approval a redrafted Treasury Management Policy Statement (TMPS) and Treasury Management Practices (TMPs) which follow the latest CIPFA guidance. The revised TMPS and TMPs once adopted will both strengthen the way in which the Authority manages its treasury function and also its commitment to embracing the principles of corporate governance within its treasury management activities.

### 3.0 Detail

#### Annual Report 2002/2003

- 3.1 Annexe A sets out details of the Council's borrowing and investment during 2002/2003.
- 3.2 As expected cashflow remained in surplus during the year, albeit at a higher level than that originally forecast, due in part to higher than anticipated council house sales together with the retention of usable capital receipts. This therefore produced a net surplus in interest on short-term borrowings and investments of £186,827.

#### Long Term Borrowing

- 3.3 Long Term Borrowing is undertaken to finance capital expenditure. The Council has a quota which it can take up from the Public Works Loan Board (PWLB). This is made up of the Credit Approvals for the year plus the amount of principal repayable on existing loans with the PWLB.
- 3.4 In line with the Council's Treasury Management Strategy, the PWLB quota for 2002/3 of £1.2 million was not taken up.
- 3.5 The low level of interest rates during the year meant that there continued to be a wide margin with rates on existing debt. Therefore no rescheduling of long-term debt took place as it was deemed that the cost of early termination penalties would outweigh savings on interest accrued from rescheduling loans.
- 3.6 However, the Government has now introduced an amendment to the treatment of premiums and discounts arising upon the repayment of debt for the purposes of calculating housing subsidy for local authorities. This was effective from 1 April 2003 and, as a consequence could bring benefits to the General fund as the pressure will be eased in terms of financing premiums attributable to the General fund. In the light of this development the feasibility of rescheduling long-term debt will again be reviewed.
- 3.7 The Council still has one long-term market loan (LOBO – Lender Option Borrower Option) of £1 million, for which the interest rate has remained unchanged at 4.875%.

#### Short Term Borrowing

- 3.8 The average level of short term borrowing during the year (ie. loans taken out for less than 12 months) was £136,548, fluctuating between a high of £1.13 million at the beginning of April to a low of £0.13 million for the remainder of the year.
- 3.9 The short-term loans retained throughout the year related to Call monies held for Parish Councils, which totalled £131,069 at the year end.

#### Short Term Lending

- 3.10 The average level of short-term lending during the year was £4.9 million, which briefly reached a high of £8.55 million in February 2003.
- 3.11 All investments were made in accordance with the List of Approved Institutions and Limits as agreed by finance and Management Committee on 5/9/2003 (minute FM/33), which was subsequently amended on 18/2/2003 (minute FM/94).

## Interest Rates

- 3.12 Base Rate started the year at 4.00% and stayed unchanged until 6/2/2003 when it fell to 3.75%, where it remained for the rest of the year.
- 3.13 PWLB long term, higher quota rates (25 year maturity) remained low during the year, fluctuating between about 4.50% and 5.75%.
- 3.14 In comparison the Council's average short-term borrowing interest rate for the year was 3.00%, whilst its' average long-term rate was 7.55 %.
- 3.15 The average short-term interest received on investments in the Money Market during the year was 3.73%.

## **Treasury Management Policy Statement and Practices**

- 3.16 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a code of practice on Treasury Management in 1992 which was revised in 1996. It also published sector specific versions between those two dates for the NHS, Housing Associations and the Higher Education Institutions. The Code required every local authority to adopt a Treasury Management Policy Statement (TMPS) which set out the overarching principles and policy's involved at authority level in managing its treasury activities. During 2002 CIPFA issued a substantial revision to this guidance in a document entitled 'Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes'. The revised document consolidates the previously sector specific versions into one generic volume.
- 3.17 The new version of the Code places greater emphasis on Risk Management, Performance Measurement and Corporate Governance.
- 3.18 The 2002 Code makes four key recommendations:
  - Public service 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.
  - Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.
  - 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 support objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.
  - In order to achieve the above, organisations should adopt the recommendations of this report, adopt a TMPS and follow the recommendations concerning the creation of TMP's.
- 3.19 The redrafted TMPS and TMPs (based on the 2002 Code) for South Derbyshire are set out at annexe B.
- 3.20 A comparison of the 2002 Code with the 1996 Code shows that the 2002 Code recommends a form of wording for a much truncated and more strategic TMPS,

incorporating just three clauses, and including a revised definition of treasury management activities (See annexe B Page 3 Section 2). The new definition is widened to embrace banking and all non-borrowing finance, and to enhance the importance of 'effective control', not merely 'management' of risk.

- 3.21 All issues previously covered in the 1996 Code's recommended policy statement have now been incorporated in the new Code's recommended Treasury Management Practices. (See annexe B Pages 9 to 37)

#### **4.0 Financial Implications**

- 4.1 As set out above.

#### **5.0 Conclusion**

- 5.1 It has been necessary to rewrite the Treasury Management Policy Statement and adopt a number of Treasury Management Practices. The revised TMPS and TMPs are based on the '2002 Code' and provide a basis for clear treasury management objectives and of sound treasury management policies and practices.