



PORTFOLIO AREA:

REPORT TO EXECUTIVE

Agenda item

14(b)

Date of Meeting: 30 September 2002

Public

Key Decision: No

Recorded in Forward Plan: No

Inside Policy Framework

Title: TREASURY POLICY STATEMENT 2002/03

Report of: The City Treasurer

Report reference: Financial Memo 2002/03 No 54

Summary:

To report on any requirement to amend the Treasury Policy Statement for 2002/03 in the light of revisions to the CIPFA Code of Practice on Treasury Management.

Recommendations:

The Portfolio Holder for Finance and Resources is requested to propose to the City Council that the Treasury Policy Statement for 2002/03 be agreed until 31 March 2003 without any further amendment.

Contact Officer: David Steele

Ext: 7288

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

CIPFA Code of Practice on Treasury Management (2001 edition)
Financial Memo 2001/02 No 138

CITY OF CARLISLE

To: The Executive
30 September 2002

Financial Memo
2002/03 No 54

TREASURY POLICY STATEMENT 2002/03

1. INTRODUCTION

- 1.1 In March 2002 the City Council formally approved the Treasury Policy Statement (TPS) for 2002/03. The TPS, which is produced before the start of each financial year, was drawn up in conjunction with the CIPFA Code of Practice on Treasury Management which has been formally adopted by the City Council. Its key clauses are now included within the Council's constitution while the TPS for 2002/03 is attached to this report.
- 1.2 The most recent version of the Code was only published at the start of 2002. The 2002/03 TPS reflects the requirements of the new Code but at the time of its adoption, some more detailed guidance relating to local government practice, as opposed to other elements of the public sector, was still awaited. The Council therefore agreed that a further report on the TPS would be submitted prior to 1 October 2002.
- 1.3 That guidance has recently been received. Whilst I will have proper regard to its requirements in preparing the TPS for 2003/04, I am satisfied that the content of the current TPS is sufficiently robust as not to require any amendment for the remaining six months of this financial year.

2. STAFFING/RESOURCES COMMENTS

Not applicable.

3. CITY TREASURER'S COMMENTS

Contained within the report.

4. LEGAL COMMENTS

Not applicable.

5. CORPORATE COMMENTS

Not applicable.

6. RISK MANAGEMENT ASSESSMENT

Not applicable.

7. EQUALITY ISSUES

Not applicable.

8. ENVIRONMENTAL IMPLICATIONS

Not applicable.

9. CRIME AND DISORDER IMPLICATIONS

Not applicable.

10. RECOMMENDATIONS

- 10.1 The Portfolio Holder for Finance and Resources is requested to propose to the City Council that the Treasury Policy Statement for 2002/03 be agreed until 31 March 2003 without any further amendment.

11. REASONS FOR RECOMMENDATIONS

- 11.1 As per paragraph 1.

D THOMAS
City Treasurer

Contact Officer: David Steele

Ext: 7288

City Treasury
Carlisle
20 September 2002
DKS/CH/f540203

REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE AND RESOURCES

Date of Meeting: 18th February 2002

Public

Key Decision: Yes

Recorded in Forward Plan: Yes

Inside Policy Framework

Title: TREASURY POLICY STATEMENT AND EXTERNAL BORROWING DETERMINATIONS 2002/03

Report of: The City Treasurer

Report reference: Financial Memo 2001/02 No 138

Summary:

The report sets out the Treasury Policy Statement for 2002/03 in accordance with the requirements of the Revised CIPFA Code of Practice on Treasury Management which has just been issued. Also embraced within the report are the External Borrowing Determinations for 2002/03 as required under the 1989 Local Government and Housing Act.

Recommendations:

1. The Portfolio Holder for Finance and Resources is requested to propose to the City Council that:
 - a) The City Council adopts the key recommendations of the CIPFA Treasury Management Code 2001 as described in Section 4 of that Code.
 - b) Accordingly, the City Council will create and maintain, as the cornerstones for effective treasury management:
 - a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities
 - suitable Treasury Management Practices (TMP), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
 - c) The City 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 TMPs.
 - d) The City Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive and for the execution and administration of treasury management decisions to the City Treasurer who will act in the accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
2. The Treasury Policy Statement as set out in Appendices A-C be agreed for 2002/03 subject to any revisions required under the 2001 Code being reported to the City Council no later than 1 October 2002.
3. The City Council agrees the borrowing determinations for 2002/03 as agreed in Appendix D.

Contact Officer: David Steele

Ext: 7288

CITY OF CARLISLE

To: The Executive
18 February 2002

Financial Memo
2001/02 No 138

TREASURY POLICY STATEMENT AND EXTERNAL BORROWING DETERMINATIONS 2002/03

1. INTRODUCTION

- 1.1 The CIPFA Code of Practice on Treasury Management in Local Authorities was first issued in 1992 and updated in 1996. It has now been substantially revised for a number of reasons. These include:-
- 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, by performance measurement and the pursuit of best value
 - the growth of cross-sectoral partnerships
 - the volatility and sophistication of the financial and money markets.
- 1.2 In addition, various versions of the Code have been issued over time for different parts of the public sector. It was felt that these should be consolidated into one document encompassing common principles but allowing for variations as appropriate to each sector.
- 1.3 The Code therefore requires that a report be submitted to the council, board or other appropriate body, setting out four clauses that should be formally passed in order to approve adoption of the new version of the Code. These are set out in para 2.
- 1.4 The council, board or other appropriate body, will in addition receive each year the following reports:-
- Annual strategy and plan in advance of the year
 - Annual report after its close.
- 1.5 The new Code also requires each organisation to draw up a much truncated and more strategic treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

- 1.6 The 1996 Code required chief finance officers to draw up a treasury systems document to cover how treasury management activities are actually implemented. The new Code has laid out a framework of treasury management practices (TMPs) to replace this and to incorporate parts of the previous approach to the treasury management policy statement. The Code does not require these TMPs to be approved by the council, board or other appropriate body.

2. RESOLUTIONS

- 2.1 CIPFA recommends that public service organisations adopt, as part of their financial regulations, the following four clauses:-

1. The City Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) 2001 as described in section 4 of that Code.
2. Accordingly, the City Council will create and maintain, as the cornerstones for effective treasury management:
 - a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities
 - suitable Treasury Management Practices (TMP), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
3. The City 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 TMPs.
4. The City Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive and for the execution and administration of treasury management decisions to the City Treasurer who will act in the accordance with the organisation's Policy Statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

3. TREASURY MANAGEMENT POLICY STATEMENT (TMPS) AND TREASURY MANAGEMENT PRACTICES TMPs)

3.1 It will be noted from para 1.5 and 1.6 that while local authorities are required to draw up a TMPS and TMPs, they are not required to be formally approved by the City Council.

3.2 However it has always been the practice within this authority for the TMPS to receive formal Council approval and this Statement also embraced much of the material in the TMPs. The Code has only been issued in the last few weeks while CIPFA guidance on the TMPs is still awaited. In order to secure formal adoption of the new Code by 1 April 2002, which is the recommended date, I propose to reissue the 2001/02 TPS, suitably amended where appropriate with a view to replacing it with an updated document that incorporates the TMPs prior to 1 October 2002.

4. EXTERNAL BORROWING DETERMINATIONS 2002/03

4.1 As a separate but related issue, the Council is also required to agree the annual borrowing determinations required under the 1989 Local Government and Housing Act. These are included in Appendix D to the TPS.

5. CONSULTATION

5.1 Consultation to Date.
None.

5.2 Consultation proposed.
None.

6. STAFFING/RESOURCES COMMENTS

Not Applicable

7. CITY TREASURER'S COMMENTS

Included with the report

8. LEGAL COMMENTS

Not Applicable

9. CORPORATE COMMENTS

Not Applicable

10. RISK MANAGEMENT ASSESSMENT

Not Applicable

11. EQUALITY ISSUES

Not Applicable

12. ENVIRONMENTAL IMPLICATIONS

Not Applicable

13. CRIME AND DISORDER IMPLICATIONS

Not Applicable

14. RECOMMENDATIONS

3.1 The Portfolio Holder for Finance and Resources is requested to propose to the City Council that:

- e) The City Council adopts the key recommendations of the CIPFA Treasury Management Code 2001 as described in Section 4 of that Code.
- f) Accordingly, the City Council will create and maintain, as the cornerstones for effective treasury management:
 - a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities
 - suitable Treasury Management Practices (TMP), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- g) The City 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 TMPs.
- h) The City Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive and for the execution and administration of treasury management decisions to the City Treasurer who will act in the accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

3.2 The Treasury Policy Statement as set out in Appendices A-C be agreed for 2002/03 subject to any revisions required under the 2001 Code being reported to the City Council no later than 1 October 2002.

3.3 The City Council agrees the borrowing determinations for 2002/03 as agreed in Appendix D.

D THOMAS
City Treasury

Contact: David Steele

Ext: 7288

City Treasury
Carlisle
11 February 2002
DKS/EL/f1380102

CARLISLE CITY COUNCILTREASURY POLICY STATEMENT 2002/031. DEFINITIONS

- 1.1 This Policy Statement applies to all funds, borrowings and liabilities held by the City Council which will be aggregated for the purposes of Treasury Management. They shall be under the control and direction of the City Treasurer in accordance with the Council's Scheme of Delegation (Ref 2001/02 5.2.13 and 5.2.14).
- 1.2 The City Council 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".
- 1.3 The City Council 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.
- 1.4 The City 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".
- 1.5 The City Council's bankers are HSBC plc who have been re-appointed from 1 April 1998 for a period of five years on agreed terms to be varied only by reference to defined variations in volumes and the Retail Price Index.
- 1.6 The City Council maintains a National Giro Account for the receipt (mainly from tenants) of transfer payments by account holders and to provide local banking facilities using the Post Office.
- 1.7 The City Council has appointed Sector Treasury Services as consultant advisers in connection with Treasury Management activities.
- 1.8 The City Council has appointed Dresdner RCM Global Investors as managers of the City of Carlisle Investment Fund on a three year mandate from 1 May 2000.

- 1.9 The Approved Activities for the Treasury Management Operation shall include the followings:-

i. Borrowing

	<u>Working Capital</u>	<u>Short Term Capital and Revenue</u>	<u>Long Term Capital</u>
Assessment of:			
Borrowing Requirement	*	*	*
Sources	*	*	*
Interest Rates	*	*	*
Loan Period	*	*	*
Repayment Options			*
Documentation			*

ii. Lending

Assessment of:
Amount Available
Counterparty
Creditworthiness
and Limits
Nature of Investment
Period
Documentation
Security of Capital
Expected Returns

iii. Funding Decisions

Assessment of:
Requirement and
Authorisations
Economic Climate
Repayment Profile
and Period
Variable or Fixed
Rate
Alternatives to
Borrowing
Revenue Costs and
Implications

iv. Financial Instruments Used
by the City Council

Assessment of:
Legality
Objectives
Suitability
Risks
Costs (relative and
absolute)
Status of Counterparty

- v. Risk Exposure
Interest Rate
Variable Rate Loans
Repayments
- Volume in Year
- Options for Cover
- Prepayment Options
- Prepayment Costs
- vi. Cash Flow Improvements
Scheduling of Payments
Pricing and Charging
Policies
Levels of Debtors
and Creditors
Collection and
Recovery Procedures
Timing of In-Payments
Advance or Arrear
Payments
Use of - Direct Debit/
Direct Credit
- vii. External Managers
The City Council's policy is to appoint external investment fund managers to manage the City of Carlisle Investment Fund. All other cash management is carried out in-house.

2. APPROVED METHODS OF RAISING CAPITAL FINANCE

- 2.1 The following list specifies which borrowing instruments on and off balance sheet, can be adopted:

	<u>Fixed</u>	<u>Variable</u>
Public Works Loans Board	*	*
European Investment Bank	*	*
Market Long Term	*	*
Market Temporary	*	*
Local Temporary	*	*
Local Bonds	*	
Overdraft		*
Negotiable Bonds	*	
Stock Issues	*	*
Internal (capital receipts and revenue balances)	*	*
Commercial Paper	*	
Medium Term Notes	*	
Leasing	*	*
Deferred Purchase	*	*

3. DEFINITION OF APPROVED SOURCES OF FINANCING

- 3.1 The following list specifies those sources of finance which the City Council may adopt during 2002/03:-

Public Works Loans Board
Stock Issue
Money Market (Temporary and Long-Term)
Local Temporary
Overdraft
Internal Capital Receipts and Revenue Balances
Leasing - Financial and Operational

- 3.2 Finance will only be raised in accordance with the Local Government and Housing Act 1989. All forms of funding will be considered dependent upon the prevailing economic climate and other relevant factors.

4. CITY OF CARLISLE INVESTMENT FUND

The City Council has appointed Dresdner RCM Global Investors to manage surplus funds arising from 'frozen' set aside capital receipts via the City of Carlisle Investment Fund (the Fund). The current value of the Fund is £14.2m and is projected to rise to over £15.0m during 2002/03. Dresdner were appointed on a three year minimum period mandate with effect from 01 May 2000.

The City Council has previously satisfied itself as to the legality of these arrangements for external management. Documentation relating to the appointment of a fund manager covers:-

- terms of appointment;
- performance criteria and fee payment;
- objectives and limits;
- reporting;
- security and repayment;
- indemnity.

5. DEFINITION OF APPROVED ORGANISATIONS FOR INVESTMENTS

5.1 The following organisations constitute the counterparties with whom temporary investments will be made to the limits quoted:-

		<u>Cash</u> <u>Limit</u>	<u>Time</u> <u>Limit</u>
(a) <u>Public Sector</u>			
Local Authorities in England:			
- County Councils		£3m	364 days
- Metropolitan, London Borough and Unitary Councils		£3m	364 days
- District Councils		£2m	364 days
Local Authorities in Scotland & Wales		£3m	364 days
Local Authorities in Northern Ireland		£2m	364 days
Public Corporations and Nationalised Industries			
- United Kingdom		£3m	364 days
No changes are proposed to the above limits.			
(b) <u>Building Societies</u>		<u>Cash</u> <u>Limit</u>	<u>Time</u> <u>Limit</u>
Asset Base in excess of £1bn		£3m	364 days
Asset Base £300m - £999m		£2m	364 days
Asset Base £100m - £299m		£1m	6 months
Asset Base below £100m		NIL	NIL
No changes are proposed to the above limits.			
(c) <u>Clearing Bank Sector</u>		<u>Legal</u> <u>Rating</u> <u>(IBCA)</u>	<u>Cash</u> <u>Limit</u>
Abbey National plc		2	£3m
- Abbey National Treasury Services			£1m
- Cater Allan			£1m
Alliance & Leicester plc		2	£3m
- Alliance & Leicester Group Treasury			£1m
Bank of Scotland		2	£3m
- Bank of Scotland Treasury Services			£1m
Barclays Bank plc		1	£3m
- Barclays de Zoete Wedd (BZW)			£1m
- Barclays Bank Trust Co Ltd			£1m
- Woolwich plc	2		£3m

Halifax plc	2	£3m	364 days
HSBC plc	2	£3m	364 days
- HSBC Asset Finance		£1m	364 days
- (formerly Forward Trust Ltd)		£1m	364 days
Lloyds/T.S.B. Group	2	£3m	364 days
- Cheltenham & Gloucester plc		£1m	364 days
- Hill Samuel Bank Ltd		£1m	364 days
- T.S.B.Scotland plc		£1m	364 days
- United Dominions Trust Ltd		£1m	364 days
National Westminster Bank plc	1	£3m	364 days
- Coutts & Co		£1m	364 days
- Lombard Bank Ltd		£1m	364 days
- Lombard North Central plc		£1m	364 days
- Lombard & Ulster Ltd		£1m	364 days
- Ulster Bank Markets Ltd		£1m	364 days
- Ulster Bank Ltd		£1m	364 days
Northern Rock plc	4	£2m	364 days
Royal Bank of Scotland	2	£3m	364 days
- Adam & Co plc		£1m	364 days
- Royscot Trust plc		£1m	364 days

No changes are proposed to the above limits apart from those arising from banking mergers etc. Cater Allan has been added as a wholly owned and guaranteed subsidiary of Abbey National.

- (d) Merchant Banking Sector
No deposits are to be placed with the Merchant Bank Sector.

- (e) Foreign Banks
No investment deposits are to be placed with U K branches of Foreign Banks for the time being, with the exception of those funds held in connection with management of the City of Carlisle Investment Fund.

(f) <u>*Supranational Bodies</u>	Cash Limit	Time Limit
1. The European Atomic Energy Community.	}	
2. The European Coal and Steel Community.	}	
3. The European Economic Community.	}	
4. The European Investment Bank.	}	

5.	The International Bank for Reconstruction and Development.	}		
6.	The International Finance Corporation.	}	£15 million	5 Years
7.	The International Monetary Fund	}	maximum in	
8.	The African Development Bank.	}	total	
9.	The Asian Development Bank.	}		
10.	The Caribbean Development Bank.	}		
11.	The Inter-American Development Bank.	}		
12.	The Guaranteed Export Finance Corporation PLC.	}		
*	Subject to retaining their	}		
	their AAA credit rating	}		

No change is proposed to the above limits.

5.2 IBCA Legal Ratings

IBCA is the only rating agency, as far as is known, which publishes an explicit opinion on the likelihood of government support. In forming its credit ratings for banks, IBCA combines a "legal" rating with an "individual" rating. However, both the "legal" and "individual" ratings are published separately. The "legal" rating definition is as follows:

1. A clear legal guarantee exists or a high likelihood of forthcoming support from the state exists, given the importance of a bank.
2. Forthcoming support expected, even in the absence of a legal guarantee, given the importance of a bank.
3. Likely shareholder support, given the reputation and resources of the institutional owners.
4. Likely, but uncertain support.
5. Cannot rely on outside assistance.

5.2.1 In determining which banks shall be included within the list of approved counterparties, I feel that normally only banks with a legal rating of 1, 2 or 3 should be admitted. The Northern Rock has though been included on the list as although it converted to plc status in 1997 in many respects it is still a building society in terms of its assets and core business. However I have proposed a lower lending limit in view of the present rating.

- 5.2.2 Separate legal ratings are not provided for the wholly owned subsidiaries of the above. Whilst it is highly probable that such a subsidiary would be fully supported by the parent Bank in the event of such support being required, this situation is reflected in the lower limits set for these deposits.

6. POLICY ON INTEREST RATE EXPOSURE

- 6.1 Section 45 of the Local Government and Housing Act 1989 requires the City Council to make a number of Borrowing Determinations and to fix each year the maximum proportion of interest on borrowings which is subject to variable rate interest. For 2002/03 the City Council is recommended to set a level of 30% of its total debt but up to 100% of any new loans taken in 2002/03 subject to the 30% total not being exceeded.
- 6.2 This policy has been set in the light of interest rate forecasts and the Treasury Management strategy. This is attached as Appendix 'B' and is consistent with this policy.

7. REPORTING AND MONITORING

- 7.1 In order to demonstrate compliance with the requirements of the CIPFA Code of Practice on Treasury Management and this Policy Statement, the City Treasurer shall:
- i. issue a Schedule of all outstanding investments at the conclusion of each week to the City Council's Monitoring Officer;
 - ii. report to the Executive each quarter Treasury Transactions undertaken since the previous meeting;
 - iii. report to the Executive twice yearly on the Treasury Management function. The first report shall be submitted by way of an interim report approximately half way through the financial year. The second report, which shall be the Annual Report as required under the Code of Practice, shall be presented no more than six months after the end of the relevant financial year;
 - iv. report to the Executive annually on the management of the City of Carlisle Investment Fund;
 - v. report to the Executive annually on the effectiveness and performance of the services provided by Sector Treasury Services, in connection with the Treasury Consultancy Service.
- 7.2 Where possible and appropriate, the content of the above reports shall incorporate suitable information on performance measurement in the year under review. This requirement shall particularly apply to the Annual Reports on Treasury Management and the City of Carlisle Investment Fund.

City Treasury, Carlisle
11 February 2002
DKS/EL/f1380102

TREASURY MANAGEMENT STRATEGY 2002/031. INTRODUCTION

- 1.1 The basis of the Treasury Management Strategy lies in determining the appropriate borrowing and investment decisions that will be required during 2002/03. These decisions will be taken in the light of the anticipated movement in both short and long term interest rates. Thus borrowing decisions would be postponed if long term rates are expected to fall but accelerated if they are forecast to rise.

2. INTEREST RATE PROSPECTS

- 2.1 The following table shows the current interest rate expectations as forecast by UBS Warburg in the next 18 months:

	2001		2002				2003	
	Q4		Q1	Q2	Q3	Q4	Q1	Q2
	%		%	%	%	%	%	%
Repo Rate (Base Rate)	4.00		4.00	4.00	4.00	4.50	4.50	4.50
10 Year Gilt	4.80		5.20	5.00	5.00	5.00	5.00	5.00
30 Year Gilt	4.60		4.95	4.75	4.75	4.75	4.75	4.75

All rates are forecast as at the end of the Quarter.

- 2.2 Perhaps the most striking feature of the above table is the very limited extent to which rates are expected to vary in the next eighteen months. The rise in short term rates at the end of the year is anticipated as a result of a gradual recovery in the global economy, led by the US, slowly percolating across to Europe including the UK. However with UK inflation consistently well under the Government's 2.5% benchmark, the case for a substantial rise in short term rates is hardly compelling at this stage.
- 2.3 Meanwhile virtually no change is forecast in the longer term Gilt yields. These sums tend to be reflected in the PWLB borrowing rates that dictate the cost of most of the City Council's long term borrowing. The table shows a slight fall in rates after the March 2002 quarter and thereafter a very constant picture. Were the City Council to be considering much long term borrowing in 2002/03, then a strategy of spreading the take up of loans throughout the year would appear to be the most appropriate in the light of these predictions.

3. LONG TERM BORROWING STRATEGY

- 3.1 The City Council's borrowing requirement for capital purposes in 2002/03 is provisionally estimated as:

	£
Basic Credit Approval	1,140,000
Supplementary Credit Approvals	<u>156,000</u>
	1,296,000
Add Maturing Debt 2001/02 - PWLB	4,400,000
- Market	<u>2,000</u>
Gross Borrowing Requirement	5,698,000
Less Principal paid by Borrowing Accounts	612,000 -
Net Borrowing Requirement	<u>£5,686,000</u>

- 3.2 Under current Public Works Loans Board (PWLB) rules, there is an absolute entitlement to replace any PWLB loan maturing in the year with fresh funds. Credit approvals also enable PWLB funds to be drawn down and a PWLB quota of £5,696,000 can currently be anticipated for 2002/03.

- 3.3 Normally I would be giving careful consideration to the most appropriate time to undertake a borrowing requirement in excess of £5.5m, together with an estimated underfunding at 31 March 2002 of some £2m. However the prospect of an SLVT at the end of the year will result in a substantial level of debt repayment and it may not necessarily be to the Council's best advantage to take up a considerable level of long term funding at least until the outcome of LSVT is more certain. Whilst therefore long term rates will be regularly monitored both by myself and Sector (the Council's Treasury advisers), it is unlikely that much long term borrowing will be undertaken in the near future.

4. TEMPORARY INVESTMENT STRATEGY

- 4.1 I would however anticipate that the City Council will continue to be a regular investor in the short-term money market. Whilst it is necessary to allow for retaining a level of liquidity, most short term funds will in practice be invested for fixed periods of up to 364 days, subject to the investment parameters set out in Appendix A. The 2002/03 budget has been framed on an assumed investment rate of 4.50%. Opportunities will therefore be taken whenever practical to secure investment returns in excess of this benchmark although presently even 1 Year money is below this level. This may therefore predicate a strategy of placing some funds for shorter periods earlier in the financial year to secure more attractive yields through compounding of interest. However an element of flexibility in investing funds will be required in case of any unexpected shifts in market sentiment.

- 5.3 All investments will of course be made only in accordance with the Approved Investments Regulations (1990) and with those institutions identified in the Treasury Policy Statement. (Appendix 'A')

6 INVESTMENT OR DEBT REDEMPTION OF SET ASIDE RECEIPTS

- 5.1 As I reported to this Committee during the budget cycle, there is a continuing cost to the Authority in retaining these receipts as opposed to using them to redeem debt. However to redeem or reschedule much of this debt would incur a very substantial premium that would probably more than offset any prospective saving over the lifetime of any replacement loans. It is unlikely therefore that I will be able to recommend any substantial debt repayment in 2002/03. However the issue will be kept under review and should circumstances alter, any revised strategy would be brought to Members' attention e.g. as set out below.

6. STOCK TRANSFER ISSUES

- 6.1 The City Council's decision to apply for a place in the LSVT programme raises a number of issues in the field of treasury management, both before and after any transfer has taken place.
- 6.2 Assuming that the transfer eventually takes place, it would be prudent to avoid taking up long term loans in order to avoid potentially expensive penalties and long term commitments falling on the General Fund. Furthermore debt rescheduling in advance of an LSVT may afford the opportunity to minimise penalties or maximise discounts, particularly in the context of HRA subsidy provisions although the scope may be limited in terms of the authority's debt portfolio.

City Treasury
Carlisle
11 February 2002
DKS/EL/1380102

THE ORGANISATION OF TREASURY MANAGEMENT

1. INTRODUCTION

- 1.1 Treasury Management is a function which must remain centralised if the full benefits of the operation are to be obtained. There are several reasons for this which may be summarised as:-

- (a) Economies of Scale
The financial markets deal in large blocks of money. There are diseconomies in carrying out several small transactions rather than one large one.
- (b) Control
A local authority will benefit from the overall direction in policy that will flow from central control. Furthermore the inherent risk in any treasury transaction can be minimised by centralising risk assessment.
- (c) Expertise
The expertise, knowledge, skills and training that modern treasury management demands are best concentrated in a cohesive area rather than dissipated in various locations.
- (d) Coherence
Local authorities are by nature made up of a whole range of operations. Centralised treasury management provides the opportunity to deal with the net position of the various Funds of the authority in the most advantageous way.
- (e) Communications
Though central control is required, there will from time to time be the need for linkages with other parts of the organisation. A further benefit is that clear and unambiguous lines of communication can be developed on which consultation is needed and instructions issued where appropriate.

2. SCHEME OF DELEGATION

- 2.1 The current approved Scheme of Delegation recognises the benefits of centralised Treasury Management and sets out the duties which have been delegated to the City Treasurer in respect of Treasury Management as cited below:

Scheme Ref:

5.2.13

To arrange the local authority borrowings and loan repayments (including the issue of any loan instruments) and investments as and when required by the various methods statutorily available to the Council, having regard to any Codes of Practice agreed by the Local Authority Associations or Her Majesty's Treasury and in accordance with the Council's Treasury Management Policy and subject to a twice yearly report to the executive in relation to such activities in each financial year.

5.2.14

To determine, monitor and review the criteria against which any investment fund shall be managed by Fund Managers appointed by the City Council for that purpose and to report thereon annually to the executive.

3. ORGANISATIONAL STRUCTURE OF TREASURY MANAGEMENT

3.1 Policy and Strategy

Implementation of the policy and strategy on Treasury Management is the responsibility of the City Treasurer, subject to general compliance with the framework as set out in the Treasury Policy Statement.

3.2 Payments

All payments relating to Treasury Management are to be authorised by one of the following officers:-

City Treasurer	D Thomas
Head of Revenues	P B Mason
Head of Financial Services	A D Brown
Corporate Finance Manager	S McGregor

Payments will normally be made via the HSBC Automated Payments System (APS). This requires three levels of approval before a payment can be transmitted:-

Input Level
Verification Level
Authorisation Level

Authorisation can only be accomplished by one of the four officers named above. The principle of separation of duties is built into the APS and ensures that the three separate approvals must be given by three separate officers before any money can be transmitted to a counter party.

3.3 Dealing Decisions

Dealing decisions which are taken by the Loans Officer or designated substitutes will be within the parameters set out in the Treasury Policy Statement.

City Treasury
Carlisle
11 February 2002
DKS/EL/f1380102

EXTERNAL BORROWING DETERMINATIONS 2002/031. INTRODUCTION

1.1 Part IV of the 1989 Local Government and Housing Act introduced new controls on local authority borrowing, both on a day to day basis and on a longer term basis for funding capital expenditure. Before the start of each financial year, a local authority must now determine for the following year:

- i) An overall borrowing limit for that year.
- ii) A short term borrowing limit within that overall limit.
- iii) A limit on the proportion of the total interest payable by a local authority which can be varied by the lender or by reference to external factors.

1.2 These determinations must be made by a full meeting of the City Council and cannot be delegated to a Committee or an Officer of the Council. While these determinations can subsequently be varied during the year, again this can only be done by a full meeting of the City Council. However day to day administration of the agreed borrowings can be delegated to a Committee or an Officer and I would recommend that as at present this authority continue to be delegated to the City Treasurer or in his absence the Head of Financial Services.

2. DETERMINING THE BORROWING CEILING

2.1 In determining the overall borrowing limit the following items must be taken into account:

2.1.1 Monies required temporarily for revenue purposes. This is the shortfall in monies receivable but not received to the extent that they are required to meet revenue expenditure already disbursed together with any shortfall in income or deficit incurred on the previous year's account.

For the City Council the major source of income receivable comes from the collection of Council Tax and National Non-Domestic Rates which together total £56.3m. The largest single item of expenditure is to meet the County and Police Precepts which total £28.5m. I recommend that a figure of 20% of income receivable from the above sources be included in the calculation - i.e. £11.2m - together with the extent to which the Collection Fund may be in net deficit at 31st March 2002 and for which recovery action will continue. This sum is estimated at £1.0m.

2.1.2 Monies required temporarily for capital purposes. This includes capital expenditure incurred in the previous eighteen months which is due to be reimbursed out of grants but which has not yet been received together with capital expenditure incurred in the year of account to the extent that this is still to be financed by a longer term borrowing for which the City Council holds a valid credit approval.

For 2002/03 credit approvals for capital purposes total £1.3m and this figure should be included within the temporary borrowing limit.

2.1.3 The City Council's credit ceiling.

This relates primarily to the level of advances outstanding from the Consolidated Loans Fund adjusted by the amount to be set aside for debt redemption from capital receipts.

At 31st March 2002 these requirements are estimated to total £52.4m and £20.8m respectively and leave a net requirement for borrowing purposes of £31.6m.

2.1.4 The level of City Council approved investments and cash reserves.

All of the City Council's investments fall within the 'approved' definition and together with cash reserves are expected to total £40m at 31st March 2002.

2.1.5 The level of the City Council's usable capital receipts.

The balance of usable capital receipts available to finance capital expenditure and not applied at 31st March 2002 is expected to be £1m.

2.1.6 Amounts specified by the Secretary of State under directions.

In the main this will relate to local authorities with high levels of rent arrears for which an application can be made for a consent to borrow temporarily. It may also relate to arrears of Community Charge over three years old in excess of any provision maintained against non-collection.

The level of balance maintained on the Housing Revenue Account by Carlisle (£2.1m) compares to the current level of rent arrears (approx. £1.3m). However, given the level of provision against these arrears (£1.0m) this item is not considered to be a relevant factor in providing for a short-term borrowing limit.

3. RECOMMENDATIONS

3.1 On the basis of the information set out in paragraph 2, I recommend that for 2002/3 the City Council be asked to resolve that:

- (i) The City Council's overall borrowing limit be set at £84.1m.
- (ii) Within the overall borrowing limit and subject to compliance with the detailed Regulations the short term borrowing limit be set at £13.5m.
- (iii) The limit on the proportion of loans taken up which are subject to variable interest rates, whether at the discretion of the lender or by reference to external factors be set at 100% in respect of short term loans, and also 100% in respect of long term loans taken up in 2002/03. This latter limit would be subject to the proportion of total City Council long term loans outstanding subject to variable interest rates not being in excess of 30%.

- (iv) The administration and control over all borrowings, the issue of loans instruments, and the making of all investments remain delegated to the City Treasurer, or in his absence the Head of Financial Services.

3.2 Members should be reassured that on a day to day basis the Regulations operate in such a way as to impose much lower limits on borrowings than are suggested in the above recommendations. These reflect a fall back position which would only come into question in the event of a significant failure in collection procedures.

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