Agenda Item No. 7

TAYSIDE JOINT POLICE BOARD

FINANCE COMMITTEE

28th March, 2001

Report by the Treasurer No. PB 16/2001

SUBJECT : TREASURY MANAGEMENT STRATEGY STATEMENT – 2001/2

ABSTRACT

This report apprises Members of the proposed Treasury Management Strategy for Angus Council (the Council) in 2001/2 which also incorporates the proposed Treasury Management Strategy for the Tayside Joint Police Board (the Board).

The production of a Treasury Management Strategy Statement is a requirement of the revised Code of Practice on Treasury Management in Local Authorities (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in May, 1996. The Treasury Management Strategy Statement is submitted for consideration by Members with a view to obtaining approval for adoption by the Board.

1. RECOMMENDATION

It is recommended that Members consider and approve the attached Treasury Management Strategy Statement for the Board for 2001/2.

2. INTRODUCTION

The Loan Portfolio in support of Tayside Joint Police Board Capital Debt is managed along with the Loan Portfolio in support of Angus Council Capital Debt by the Director of Finance for Angus Council (Treasurer to Tayside Joint Police Board) with support from the Treasury Management Section within the Finance Department of Angus Council. The Loan Portfolios for Tayside Joint Police Board and Angus Council are not managed separately but are taken together as a Total Loan Portfolio in support of Total Capital Debt for both the Board and the Council. The loans which constitute the Total Loan Portfolio cannot, therefore, be identified as loans which specifically relate to the Board or the Council.

The amount of capital debt outstanding at 1st April, 2000 and administered throughout 2000/1 for Tayside Joint Police Board was £11.374 million. This compares with Total

External Capital Debt of £108.567 million outstanding at 1st April, 2000 and administered throughout 2000/1 by Angus Council. The Tayside Joint Police Board element of capital debt, therefore, constitutes approximately 10 per cent of Total External Capital Debt administered by Angus Council.

3. BACKGROUND

The need to prepare a Treasury Management Strategy Statement is a requirement of the Code of Practice on Treasury Management in Local Authorities published by the Chartered Institute of Public Finance and Accountancy in May, 1992 and revised in May, 1996.

The Treasury Management Strategy Statement for Angus Council, which incorporates Treasury Management Activities of Tayside Joint Police Board, has been prepared and presented by the Director of Finance for Angus Council (Treasurer to Tayside Joint Police Board) for approval and adoption by Members of Angus Council and is attached for approval and adoption by Members of Tayside Joint Police Board.

4. TREASURY MANAGEMENT STRATEGY STATEMENT

A copy of the Treasury Management Strategy Statement is attached for consideration and approval by Members of the Board.

5. CONCLUSION

It is concluded that Members of the Board should consider and approve the attached Treasury Management Strategy Statement for financial year 2001/2 as attached.

6. CONSULTATION

The Chief Constable and the Clerk have been consulted in the preparation of this report.

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NOTE

No background papers as defined by Section 50D of the Local Government (Scotland) Act, 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this report.

Angus Council - Treasury Management Strategy Statement

Introduction

The Treasury Management Strategy details the expected activities of the Treasury Function in the financial year 2001/2. Its production and submission to the Finance and Information Technology Committee is a requirement of the Council's approved Treasury Management Policy most recently approved at the Finance and Information Technology Committee dated 17th October, 2000 and further submitted for information to this meeting of the Finance and Information Technology Committee dated 13th March, 2001. The strategy covers:

- the current treasury position;
- the treasury limits in force which will limit treasury risk and activities of the Council;
- the prospects for interest rates;
- the capital borrowings required and the portfolio strategy;
- the investments strategy;
- debt rescheduling opportunities.

1. Current Portfolio Position

The Council's total external debt position at the commencement of financial year 2000/1 was, as follows:

		1 April 2000 Total Principal	
Fixed Rate Funding	PWLB	£96.144 m	
	Market	£ 1.869 m	£98.013 m
Variable Rate Funding	PWLB	£ 2.741 m	
	Market	£ 7.813 m	£10.554 m

Total External Debt	**£108.567 m**
Total Investments - internally managed	£12.829 m

The Council's equated external debt position and corresponding equated external interest rate for the financial year 1999/2000 was, as follows:

		1999/2000 Equated Principal		**1999/2000 Equated Rate**	
Fixed Rate Funding	PWLB	£95.239 m		8.23 %	
	Market	£ 1.888 m	£97.127 m	6.67 %	8.15 %
Variable Rate Funding	PWLB	£ 2.741 m		5.44 %	
	Market	£ 3.750 m	£ 6.491 m	8.19 %	7.68 %
Equated External Debt			**£103.618 m**		**8.12 %**
Equated Investments - internally managed			£13.879 m		5.43 %

2. Treasury Limits for 2001/2

Section 45 of the Local Government and Housing Act, 1989 requires English and Welsh Councils to approve at the commencement of each financial year certain treasury limits. Although this Act only applies to English and Welsh Authorities it is also recommended as good practice for Scotland. Whilst the Director of Finance is empowered to borrow as circumstances require, the limits set by Angus Council as part of its Treasury Policy are, as follows:

- temporary borrowing should not normally exceed 20 per cent of total external borrowing or 25 per cent at the discretion of the Director of Finance or £20 million or £25 million respectively, whichever is less
- long term variable interest rate loans should not normally exceed 25 per cent of long term external borrowing or 30 per cent at the discretion of the Director of Finance
- temporary borrowing and long term variable interest rate loans when taken together should not normally exceed 45 per cent of total external borrowing or 55 per cent at the discretion of the Director of Finance

3. Prospects for Interest Rates

The United Kingdom (UK) Economy has maintained sound growth, low inflation and low unemployment throughout the last 12 months. The Government's Finances are very healthy and have been further bolstered by the sale of new telecom licenses. The higher growth performance has been primarily due to improvements in net exports.

The immediate outlook is for a period of growth albeit lower than last year. Household consumption is likely to moderate offsetting a likely growth in public spending. Cash flow considerations are likely to depress private investment growth and with an expected moderation in world growth net exports are unlikely to improve further. Despite a tight labour market, competition is likely to suppress inflation with the expectation that inflation will drift lower over the 12 month period.

With domestic demand moderating short term interest rates are unlikely to rise further, although in the face of a tight labour market the Monetary Policy Committee (MPC) will remain cautious. As the Economy moves into 2001 it is likely that these concerns will ease and monetary policy will be relaxed.

The effect on interest rates for the UK is expected to be, as follows:

Shorter term interest rates – Taking all the evidence together, including the level of the exchange rate and the continued general tightness of the labour market, the bias of the MPC is likely to remain towards tightening in the near term. This should ease with the base rate falling from 5.75 per cent to 5.5 per cent later in 2001.

Longer term interest rates – Given the positive inflationary outlook, the view on longer term fixed interest rates is broadly neutral. However, the scope for further improvements in yields is low and the likely scenario is a gradual drift upwards in rates from current levels. Current long term rates of around 4.75 per cent are likely to drift above 5 per cent. However, technical factors may from time to time overlay the fundamentals determining yields (as occurred in December, 2000) causing yields to fall.

4. Capital Borrowings Required and the Portfolio Strategy

Based upon the prospects for interest rates outlined above, there are a number of strategy options available. The anticipation is that shorter term rates will be more expensive than longer term fixed borrowing throughout 2001/2. However, with shorter term rates expected to fall and longer term fixed rates expected to rise, the differential is likely to narrow over time. The interest rate market should continue to remain relatively calm with interest rate movements occurring within narrower bands than compared to previous years.

Against this background the Director of Finance will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

Sensitivity of the forecast - The Council Officers, in conjunction with the Treasury Advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of view:

- *In the event of an acceleration in growth and an expected rise in longer and shorter term interest rates* - the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are relatively cheap.

- *In the event of a slowdown in growth and an expected fall in longer and shorter term interest rates* - fixed rate borrowings will be postponed (waiting for borrowings to get cheaper) and any rescheduling from fixed rate funding into variable or shorter rate funding will be exercised.

5. Temporary Investments Strategy

It is anticipated that there will be no longer term investments during the course of the year. Temporary investments will be made depending on the amount and duration of surpluses and the structure of interest rates at the time. Investments will be made in accordance with the Approved Investment Regulations (1990) and with the Institutions approved as part of the Treasury Policy Statement.

6. Debt Rescheduling

Any debt rescheduling is likely to take place when fixed interest rates are anticipated to be at their highest, although the situation will be continually monitored in order to take advantage of any perceived abnormalities in the yield curve.

Any action taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above.

The reasons for rescheduling will include the following:

- the generation of cash savings at minimum risk;

- in order to assist the strategy outlined in Section 4 above; and

- in order to enhance the balance of the longer term portfolio (amend the maturity profile and/or the balance of volatility).