ANNEX 1

Treasury Management Policy Statement

1. Overall Objective

The Treasury Management function should seek to ensure that at all times monies are available to the Authority to meet its operational requirements, and that in achieving this objective transactions involving the borrowing and lending of monies should seek to maximise the benefit, or minimise the cost, to the Authority in terms of interest earned or paid, whilst taking into account the security of any investment and its associated risks.

2. Responsibilities

The Chief Finance Officer is responsible for the day to day aspects of Treasury Management. In exercising his delegated powers the Chief Finance Officer must operate in accordance with the policies outlined in the remainder of this Statement.

He will also be responsible for ensuring that this Policy Statement is reviewed periodically and that any changes necessary are brought to the attention of the Authority.

3. Treasury Management Strategy

(a) Borrowing

The Authority may borrow for two reasons:

(i) To fund its capital programme within the Prudential Code limits,

and

(ii) temporarily pending the receipt of revenue monies.

The main source of any new long term borrowing will be from the Public Works Loans Board (PWLB). No other form of borrowing will be used except for "operating leases" approved mainly for the provision of vehicles and plant.

The Authority's current Capital Financing Requirement means that further borrowing will need to be taken out to finance existing proposals for capital expenditure. This financing can take the form of internal resources (e.g. using existing positive cashflows) and under the current market conditions this is advantageous as the loss of interest receipts (in the region of 0.5 – 1.5%) is more than offset by savings in interest payments by deferring external borrowing, where the interest rates are in the region of 4 - 4.5% interest per annum. This can only be a short term measure however as the Authority will need to replace these funds in the future from borrowing, and the interest rates would then be dependant upon market conditions prevailing at that time, over which the Authority would have no control. This could lead to difficulties if rates rose higher than existing budgetary provision could accommodate.

Where the Authority is financing capital expenditure over a long term period (up to 25 years) the policy will be to seek fixed interest rate borrowing over the same time period in order to reduce overall interest rate risk in future budgets. Therefore, notwithstanding the availability of low interest rates on variable loans, it is expected that some long term finance will be secured at fixed rates during 2009 whilst these rates remain at relatively low levels. This will incur higher interest charges in the short term (within budget), but will reduce the risk of exposure to higher interest rates in the medium to long term if rates rise.

(b) Lending Policies

This relates to the temporary loan of revenue funds/capital receipts pending their use. The timing of the main sources of the Authority's income are agreed with the Government with the aim of broadly matching expenditure.

However, it is anticipated that the Authority will have surplus cash to lend.

Interest receipts are very sensitive to changes in interest rates and cash flows. Although cashflows are not expected to be affected significantly in 2009/10, base interest rates are currently 0.5% and the current budget assumes investment rates in the region of 1.5% will be achieved. This will need to be monitored carefully and a number of contingencies may be developed to protect the Authority from an adverse impact on the overall Revenue Account.

It is recommended that surplus funds are invested only with Derbyshire County Council who will pay interest at an appropriate money market rate on this cash. This policy meets the Authority's objectives of ensuring a reasonable return on its surplus funds while minimising risk, and is consistent with DCLG guidelines on investment strategy. As all lending is to Derbyshire County Council it qualifies as a specified investment. There will be no non-specified investments.

The recent turbulent economic conditions have tested many Local Authority investment strategies to the limit, with some £858m of Local Authority deposits frozen in Icelandic Banks nationally. The Authority's funds available for investment represent an average of about £2.5m during the year, whereas the investments managed within Derbyshire County Council's portfolio total in the region of £300m, supported by their in-house professional team and professional investment advice. The Authority's investments with Derbyshire County Council are managed by way of a Service Level Agreement.

(c) Interest Rate Strategy

Short term interest rates will impact on the interest earned by the Authority on its deposits with the County Council. As these deposits could be significant the impact of interest rate changes could also be significant, although the Authority has reduced the risk considerably in its revised approved 2009/10 Budget.

Longer term interest rates are more relevant for the funding of the capital programme.

Any new longer term borrowing will be determined according to its availability and interest rate levels, within the authorised limit specified for 2011/12.

4. Policy on External Managers

The day to day cash position of the Authority is monitored under the terms of the Service Level Agreement with Derbyshire County Council.