

**Meeting:** Executive  
**Portfolio Area:** Resources  
**Date:** 10 February 2010

**Agenda Item:**  
**11**

**PRUDENTIAL CODE INDICATORS AND TREASURY MANAGEMENT STRATEGY**

(Accountancy)

**NON-KEY DECISION**

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**1 PURPOSE**

- 1.1 To recommend to Council, the approval of the revised Treasury Management code of Practice 2009, the Treasury Management Strategy and the Prudential Indicators.
- 1.2 To update Members on the changes to the Treasury Management Strategy as a result of changes to the CIPFA code of practice and guidance from the Treasury.

**2 RECOMMENDATIONS**

- 2.1 That Council be recommended to adopt the revised Treasury Management Code of Practice 2009 as shown at Appendix A
- 2.2 That Council be recommended to adopt the 2010/11 Treasury Management Strategy as detailed in Appendix B.
- 2.3 That Council be recommended to adopt the Prudential Code Indicators as detailed in Appendix B attachment 6.
- 2.4 That the Audit Committee is nominated as the body to ensure the effective scrutiny of the treasury management strategy and policies, as recommended in the revised Code.

**3 BACKGROUND**

- 3.1 It was required in the Local Government Act 2003 that from April 2004 Councils must 'have regard to the Prudential Code and set Prudential Indicators to ensure that capital investment plans are affordable, prudent and sustainable. Following the collapse of the Icelandic banks in 2008, questions were raised about treasury management in local authorities, in particular District Councils. There was a critical Audit Commission report published in March 2009 which contained a number of

recommendations for improvements in Council Treasury Management functions. As a consequence, the Chartered Institute of Public Finance Accountants (CIPFA) has updated the Treasury Management in Public Services Code of Practice (the Code) and the requirements for the Treasury Management Policy Statement. It is a requirement of the code of practice that the Code is formally adopted by the Council.

- 3.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that arise as a result of capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue are limited to a level which is affordable within the projected income of the Council for the foreseeable future.
- 3.3 The Council's Capital Strategy's has recently needed to focus on a shortfall in resources, compounded by diminishing land receipts. Decisive action has been taken by the Council to bring the Capital Strategy back into balance by deferring or deleting schemes, however, the Capital Strategy has identified a borrowing need in future years.
- 3.4 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

## **4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

### **4.1 Alterations to the Treasury Management in Public Services code of Practice**

4.1.1 The revised Code has emphasised a number of key areas including the following: -

- a) All councils must formally adopt the revised Code and four clauses, detailed in Appendix B
- b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- c) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
- d) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- e) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- f) The main annual treasury management reports must be approved by Council.
- g) Responsibility for these activities must be clearly defined within the organisation.
- h) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

The above have always been taken into account when drawing up the strategy, but now greater emphasis is being placed on them.

4.1.2 The Code has introduced several new requirements, some of which have already been introduced by the Council ahead of receipt of the revised Code. However the following points have been reviewed and where appropriate updated in the Council's Treasury Management Strategy.

- a) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- b) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out. See Appendix B paragraph 2.1 -2.6.
- c) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- d) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council, it is proposed to approve the Audit Committee to carry out this function.
- e) Treasury management performance and policy setting should be subjected scrutiny before final approval by Council (from 1 April 2010).
- f) Members should be provided with access to relevant training.
- g) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

4.1.3 The Department of Communities and Local Government (CLG) have also issued guidance, most of which mirrors that produced by CIPFA. However, it should be noted that the CLG has undertaken a consultation exercise which ended on 4 January 2010 on draft revised investment guidance. This consultation is expected to result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. A separate report will be made to Members to inform them when this guidance has been finalised. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

4.1.4 Training for Members in Treasury Management will be kept under review. Training was provided for all Members in 2009/10 from the Council's treasury management advisor's, targeted training has been provided to other Members and further training will be provided as required. Similarly, officer training will be kept under review. Both the Head of Finance and s151 officer received training in 2009/10 and the officer who deals day to day with treasury management will be studying for the CIPFA treasury management qualification.

4.1.5 This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code: -

<b>Area of Responsibility</b>	<b>Council/ Committee/ Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement (revised)	Council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / Minimum Revenue Provision (MRP) policy	Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Council	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Council	As required.
Annual Treasury Outturn Report	Council	Annually by 30 September after the end of the year
Scrutiny of treasury management strategy	Audit Committee	Annually before the start of the year
Scrutiny of treasury management performance	Audit Committee	quarterly

## 4.2 Prudential Code Indicators

4.1.2 The prudential code indicators have been updated for 2010/11 and are included in Appendix B attachment 6. The 2010/11 **net borrowing requirement** indicator shows a net borrowing requirement in 2010/11 of £11million, this is for the HRA decent homes programme. This is supported borrowing and the interest costs are reimbursed via the HRA subsidy system. However the 2011/12 the net borrowing requirement is £13.6million, which is £11 million decent homes supported borrowing plus an additional £2.6million prudential borrowing to support the General Fund capital programme. This additional revenue cost has also been included in the Council's latest Medium Term Financial Strategy.

## 5 IMPLICATIONS

### 5.1 Financial Implications

5.1.1 The report is of a financial nature and outlines the Prudential Code Indicators and the principals under which the Treasury Management functions are managed.

### 5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management are intended to ensure that the Council complies with relevant legislation and best practice.

### 5.3 Policy Implications

5.3.1 The proposed limits are in line with current policy.

## **5.4 Equalities and Diversity Implications**

5.4.1 All the services identified in the report have their own Equalities Impact Assessments, which are reviewed where appropriate.

## **6 BACKGROUND DOCUMENTS**

- Sector reports
- Strategy report

## **7 APPENDICES**

- Appendix A – Adoption of the revised CIPFA Treasury Management Code of Practice
- Appendix B – Treasury Management Strategy
- Appendix B attachment 1 – Treasury Management Statement
- Appendix B attachment 2 – Minimum Revenue Provision
- Appendix B attachment 3 – Specified and Non Specified Investments
- Appendix B attachment 4 – Approved Countries for Investment
- Appendix B attachment 5 – Treasury Management Scheme of Delegation and role of s151 officer
- Appendix B attachment 6 – Prudential Indicators