Part I – Release to Press

Meeting: **EXECUTIVE**

Council agenda Item: **13**

Portfolio Area: Resources

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PRUDENTIAL CODE INDICATORS AND TREASURY MANAGEMENT STRATEGY

KEY DECISION

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1. PURPOSE

1.1 To recommend to Council, the approval of the revised Treasury Management Strategy including its Annual Investment Strategy and the Prudential Indicators.

1.2 The 2011/12 Strategy includes the revisions made to the 2010/11 Strategy reported as part of the mid year review to the December Executive. The Strategy is also aligned to the Councils General Fund Medium Term Financial Strategy and Capital Strategy. The ongoing review of the Strategy is undertaken with regard to the CIPFA code of practice and guidance from the Treasury.

2. RECOMMENDATIONS

2.1 That Council be recommended to adopt the 2011/12 Treasury Management Strategy as detailed in Appendix A.

2.2 That Council be recommended to adopt the Prudential Code Indicators as detailed in Appendix A, attachment six.

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, and the exposure faced, in particular, by District Councils.

As a consequence, The Chartered Institute of Public Finance Accountants (CIPFA) 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. This was mandatory from 1 April 2010.

3.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 (The Act), 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. The costs included in the Treasury Management Prudential Indicators reflect the costing included in the Council's General Fund and HRA Budgets for 2011/12.

3.3 Since 2008/09, the focus on the Council's Capital Strategy has been the shortfall in resources available to fund the approved capital programme. Capital receipts from land and building sales can no longer be relied on to be the major source of funding the investment in the Council's assets. Although decisive action has been taken by the Council to bring about a Capital Strategy that is affordable, (by deferring and deleting schemes), the need to prudentially borrow remains. The Capital Strategy now identifies a minimum requirement to borrow £550,000 in 2010/11, and a further £2,250,000 in 2011/12. It is anticipated that borrowing to fund capital expenditure will be required for the foreseeable future.

3.4 The Act 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.

3.5 No assumptions has been made within the Strategies prudential indicators (Appendix A attachment six) for any HRA debt relating to the proposed HRA self financing regime (as outlined in the Localism Bill) and decent homes funding after 2011/12, until more is known about the level of debt and future provision of decent homes funding.

3.6 This report needs to be considered by the Audit Committee which is the nominated body to provide Scrutiny for the Treasury Management Strategy prior to approval at Council. This report will be considered by the Audit Committee on the 17 February 2011 and any comments that the Committee may have thereon will be reported direct to Council.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Update on the Treasury Management Strategy

4.1.1 The revised Code was fully adopted in 2010/11. The Council also fully complies with the investment guidance issued by Communities and Local Government (CLG). As part of the 2011/12 Strategy review the following points have been considered 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. The Council has continued to keep under review its counterparty list, and responds to any daily updates sent through by its Treasury Advisors, Sector.

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 A paragraph 2.1-2.6.

c) A full mid year review of Treasury Management Strategy and performance was undertaken in 2010/11. This is intended to highlight any areas of concern that have arisen since the original strategy was approved. Changes were made to the Strategy as a result of the review and these are summarised in paragraph 4.2.3 below.

d) Each Council must delegate the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this Council, the Audit Committee will receive this report in February providing scrutiny, before referring on to Council for formal approval on the 23 February 2011.

e) Members should be provided with access to relevant training and training for Members in Treasury Management will be kept under review in 2011/12. 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.

f) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training. Both the Head of Finance and s151 officer received training in 2009/10, and the Treasury Management team are studying for the CIPFA / Association of Corporate Treasurers' International Treasury Management qualification.

4.1.2 This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code: -

Area of Responsibility	**Council Committee Officer**	**Frequency**
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 (General Fund monitoring report)

4.2 Prudential Code Indicators

4.2.1 The prudential code indicators have been updated for 2011/12 and are included in Appendix A. The 2011/11 **net borrowing requirement** indicator shows a net borrowing requirement in 2011/12 of £10,895,000, this includes £8,645,000 for the HRA Decent Homes programme. This is the value of the bid submission to the Government for 2011/12 under the revised arrangements whereby all Council's with housing can now bid for the funding. This expenditure is supported borrowing and most of the interest costs paid by the Council and reimbursed via the HRA subsidy system. There is an additional 2011/12 net borrowing requirement of £2,250,000 of prudential borrowing to support the General Fund capital programme. The associated revenue cost has also been included in the Council's General Fund Budget reported to this Committee and included in the Prudential Indicators (Appendix One, attachment six). The cost of borrowing for the General Fund is estimated to be £0.39 and £5.35 per band D property for 2010/11 and 2011/12 respectively.

4.2.2 The changes reported to the Executive as part of the 2010/11 half year review at the December meeting, have also been incorporated into the

2011/12 Strategy, these are:

- The counter party limit is reduced from £7,500,000 to £5,000,000
- The variable exposure limit has been moved to £25 million from £20 million
- The long term investments limit has been moved from £10,000,000 to £2,000,000.

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.

BACKGROUND DOCUMENTS

- Sector reports
- Strategy report

APPENDICES

- Appendix A – Treasury Management Strategy
- Appendix A attachment one – Treasury Management Statement
- Appendix A attachment two – Minimum Revenue Provision
- Appendix A attachment three – Specified and Non Specified Investments
- Appendix A attachment four – Approved Countries for Investment
- Appendix A attachment five – Treasury Management Scheme of Delegation and role of s151 officer
- Appendix A attachment six – Prudential Indicators