



## CABINET REPORT

<b>Report Title</b>	TREASURY MANAGEMENT STRATEGY 2012-13 to 2014-15
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**AGENDA STATUS: PUBLIC**

<b>Cabinet Meeting Date:</b>	22 February 2012
<b>Key Decision:</b>	NO
<b>Listed on Forward Plan:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Finance and Support
<b>Accountable Cabinet Member:</b>	Alan Bottwood
<b>Ward(s)</b>	Not Applicable

### 1. Purpose

The purpose of the report is to bring to Cabinet:

- The Treasury Management Policy Statement
- The Treasury Management Practices (TMPs) and TMP Schedules for 2012-13
- The Treasury Management Strategy for 2012-13
- Other associated treasury management information for 2012-13

## **2. Recommendations**

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2.1 That Cabinet recommend to Council that they approve:

- a) The Treasury Management Policy Statement at **Appendix C**
- b) The Treasury Management Practices (TMPs) Main Principles at **Appendix D**
- c) The TMP Schedules for 2012-13 at **Appendix E**
- d) The Treasury Management Strategy for 2012-13 at **Appendix F**, incorporating:
  - (i) The Capital Financing and Borrowing Strategy for 2012-13 including:
    - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
    - The Affordable Borrowing Limit for 2012-13 as required by the Local Government Act 2003.
  - (ii) The Investment Strategy for 2012-13 as required by the CLG revised Guidance on Local Government Investments issued in 2010.
- e) That authority be delegated to the Council's Chief Finance Officer, the Director of Finance and Support, in liaison with the Portfolio Holder for Finance, to make any temporary changes needed to the Council's borrowing and investment strategy to enable the authority to meet its obligations.

2.2 That Cabinet recommend to Council that they note:

- a) Adherence to the Council's policy on reserves and balances (paragraph 3.2.13).
- b) Compliance with the requirement under the Local Government Finance Act 1992 to produce a balanced budget (paragraph 3.2.14 & 3.2.15).

### 3. Issues and Choices

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#### 3.1 Report Background

##### Treasury Management in the Public Services - CIPFA Code of Practice

3.1.1 The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Code), as set out at **Appendix A**. The latest adoption of the Code was formalised at the Council meeting of 25 February 2010, and is included in the Council's Financial Regulations.

3.1.2 In November 2011 CIPFA published new revised editions of both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Code) and the associated Guidance Notes for Local Authorities (Guidance Notes). The requirements of the revised and updated Code and Guidance Notes have been fully incorporated into the Council's treasury management function and are reflected in this Cabinet report and Appendices.

##### CIPFA Prudential Code for Capital Finance in Local Authorities

3.1.3 CIPFA also published a new and updated edition of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) in November 2011. The Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.

3.1.4 The Prudential Code requires the Council to set a range of prudential indicators for capital finance and a report setting out the prudential indicators for 2012-13 to 2014-15 is included elsewhere on this agenda.

3.1.5 Three key treasury indicators are prudential indicators and form part of the Prudential Code.

- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt

The authorised limit and the operational boundary for external debt are included in the Council's Treasury Management Strategy for completeness (Section 10 of **Appendix F**).

The actual net external debt is an outturn position, which will be reported in the Treasury Management Outturn report.

3.1.6 In addition three treasury management indicators are required by the Prudential Code but are not treated as prudential indicators

- Upper limits on fixed and variable interest rate exposures

- Upper and lower limits to the maturity structure of borrowing
- Upper limits to the total of principal sums invested for periods longer than 364 days

These are included in the Council's Treasury Management Strategy (Sections 11 and 24 of **Appendix F**).

- 3.1.7 The Code states that all the indicators are to be presented together as one suite. The Council's prudential and treasury indicators have all been set within an integrated strategy for capital expenditure and financing and treasury management, and they are both brought to this same budget setting meeting for approval. The Council's Treasury Management Strategy includes both the prudential indicators relating to treasury, and the treasury indicators.
- 3.1.8 The Prudential Code requires that where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy. This is covered at Section 9 of the Council's Treasury Management Strategy attached at **Appendix F**.

## 3.2 Issues

### Economic Background

- 3.2.1 An analysis of the economic position as at November 2011 is attached at **Appendix B**. This has been provided by Sector, the Council's treasury management advisers.
- 3.2.2 External economic events and market conditions have continued to have an impact on the Council's debt financing budget in the current year. Monthly rates of return on the Council's investments have remained fairly stable at figures between 0.93% and 1.00%, averaging at around 0.96%, (as at 30 November 2011) against a budgeted figure of 0.70%.
- 3.2.3 Forecasts of investment returns remain depressed for 2011-12 and 2012-13, with a small increase for 2013-14, as set out below. This continues to have a significant negative impact on the Council's income from investments and its revenue resources.

Financial Year	Budgeted rate of return on investments %
2012-13	0.70%
2013-14	0.70%
2014-15	0.70%

- 3.2.4 The economic situation continues to be fluid and relatively unstable, and it is essential to have a counterparty selection policy that can respond quickly to

changes. A balanced view must be taken, but management of risk takes a higher priority over returns, so that the Council's balances are protected.

3.2.5 Policies for the management of credit and counterparty risk are set out at Section 1 of TMP 1 and the Schedule to TMP1, attached at **Appendix D** and **Appendix E**. The Council's proposed approach for 2012-13 is set out at Section 18 of the Treasury Management Strategy attached at **Appendix F**.

### **Treasury Management Policy Statement**

3.2.6 The Council's Treasury Management Policy Statement is set out at **Appendix C**. The statement follows the wording recommended by the latest edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes.

### **Treasury Management Practices (TMPs)**

3.2.7 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities.

3.2.8 The TMPs are split as follows:

- Part 1: Main Principles (Set out at **Appendix D**)
- Part 2: Schedules (Set out at **Appendix E**)

3.2.9 The Main Principles follow the wording recommended by the revised CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes.

3.2.10 The Schedules cover the detail of how the Council will apply the Main Principles in carrying out its operational treasury activities.

### **Treasury Management Strategy 2012-13**

3.2.11 The Council's Treasury Management Strategy for 2012-13 is set out at **Appendix F**. The strategy incorporates:

- (i) The Capital Financing and Borrowing Strategy for 2012-13 including:
  - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
  - The Affordable Borrowing Limit for 2012-13 as required by the Local Government Act 2003.
- (ii) The Investment Strategy for 2012-13 as required by the CLG revised Guidance on Local Government Investments issued in 2010.

## **Debt Financing Budget 2012-13 to 2014-15**

- 3.2.12 The debt-financing budget has been prepared in accordance with the requirements of the relevant legislation and guidance and with full regard to the Council's proposed capital programme, treasury management strategy and prudential indicators and is included in the Council Wide General Fund Revenue Budget 2012-13 to 2014-15 report to Cabinet.
- 3.2.13 The debt-financing budget has been prepared in line with the Council's policy on reserves and balances, which is that a prudent level of General Fund balances, along with appropriate application of reserves, should be part of the overall budget. An annual risk assessment is undertaken to ascertain the minimum level of General Fund balances the authority should hold. This suggests that £3.0m should be the minimum for 2012-13. This policy is included in the Council Wide General Fund Revenue Budget 2012-13 to 2014-15 report to Cabinet.
- 3.2.14 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby the impact of charges to revenue from higher interest charges caused by extra borrowing to finance additional capital expenditure, and any growth in running costs from new capital projects, are limited to a level which is affordable within the projected income of the Council for the foreseeable future.
- 3.2.15 The CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes requires this report to include a reference to compliance under the Local Government Act 1992 to produce a balanced budget. Such compliance is demonstrated within the Council Wide General Fund Revenue Budget 2012-13 to 2014-15 report to Cabinet.

## **HRA Self Financing Reforms**

- 3.2.1 The Localism Act incorporates statutory changes to housing finance, with a move from the present housing subsidy system to the self-financing of the HRA. As part of the changes the Council are required to make a settlement payment of £194.2m (on current figures) to the Department of Communities and Local Government (CLG) on 28 March 2012 to buy out of the housing subsidy system. The payment will be funded by borrowing from the PWLB at a reduced rate on 26 March 2012.
- 3.2.2 The reforms have a significant impact on the Council's treasury management position and indicators, primarily in terms of the debt portfolio, which will rise by around £194m before the end of the 2011-12 financial year. Changes to the 2011-12 treasury strategy to deal with the operational impacts of the settlement have already been agreed by Council. Some of these are ongoing - for example the raising of borrowing limits - and where this is the case they are reflected in the proposed treasury strategy for 2012-13.

3.2.3 The treasury management impacts will be kept under review in the light of government and other announcements on the regulatory and accounting changes that are required as a result of the reform.

## **Abbreviations**

3.2.16 A list of abbreviations used in this report and the accompanying Appendices is provided at **Appendix H**.

## **3.3 Choices (Options)**

3.3.1 Cabinet are asked to agree the recommendations at paragraph 2 above.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

4.1.1 The Treasury Management Strategy report sets the Council's policy on its debt and investment portfolios over the next financial year. It is revisited annually and reported to Cabinet and Council as part of the budget setting process.

### **4.2 Resources and Risk**

4.2.1 The resources required to deliver the Council's treasury management strategy and policies over the next three years are incorporated into the Council's debt financing and debt management budgets, which are included in the Council Wide General Fund Revenue Budget 2012-13 to 2014-15 report to Cabinet.

4.2.2 Effective risk management is a fundamental requirement for the treasury management function, and this theme runs clearly throughout the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council's Treasury Management Policy, Treasury Management Practices (TMPs) and Schedules, and Treasury Management Strategy for 2012-13 discuss the ways in which treasury management risk will be determined, managed and controlled.

4.2.3 The Council's appetite for risk must be clearly identified in its strategy report. The Treasury Management Strategy at **Appendix F** affirms that priority will be given to the security and liquidity of capital when investing funds. This will be carried out by strict adherence to the risk management and control strategies set out in the Schedules to the Treasury Management Practices and the Treasury Management Strategy. Responsibility for risk management and control lie within the Council and cannot be delegated to an outside organisation.

4.2.4 Risks in the debt financing budget have been taken into account in earmarked reserves and in the Risk Assessment of General Fund Reserves.

### **4.3 Legal**

4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and Appendices and listed in the background papers.

### **4.4 Equality**

4.4.1 An Equalities Impact Assessment (EIA) has been carried out on the Council's Treasury Management Strategy for 2012-13, and the associated Treasury Management Practices (TMPs) and Schedules to the TMPs.

4.4.2 The EIA assessment is that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified.

### **4.5 Consultees (Internal and External)**

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's external treasury advisers and with the Portfolio holder for Finance.

4.5.2 The Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council.

### **4.6 How the Proposals deliver Priority Outcomes**

4.6.1 The proposals support the Council's priority of providing quality services.

### **4.7 Other Implications**

4.7.1 No other implications have been identified.

## **5. Background Papers**

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### **Current Statute, Regulation and Guidance**

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008



CIPFA Prudential Code for Capital Finance in Local Authorities - 2011 Edition

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes - 2011 Edition

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities – 2011 Edition

CLG Guidance on Minimum Revenue Provision (11 March 2010)

CLG Guidance on Local Authority Investments (11 March 2010)

### **Reports to Cabinet & Council**

Treasury Strategy 2010-11 to 2012-13 - Report to Council 25 February 2010 (Contains formal adoption of the revised CIPFA Code of Practice for Treasury Management)

Capital Programme 2012-13 to 2014-15 - Report to Cabinet 22 February 2012

Council Wide General Fund Revenue Budget 2012-13 to 2014-15 - Report to Cabinet 22 February 2012.

Prudential Indicators for Capital Finance 2012-13 to 2014-15 - Report to Cabinet 22 February 2012

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