



CABINET REPORT

Report Title	TREASURY STRATEGY 2009-10 to 2011-12
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 February 2009
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Finance and Support
Accountable Cabinet Member:	Malcolm Mildren
Ward(s)	Not Applicable

1. Purpose

1.1 The purpose of the report is to bring to Cabinet the proposed

- a) Treasury Management Policy Statement
- b) Treasury Management Practices (TMPs) and TMP Schedules for 2009-10
- c) Treasury Strategy for 2009-10

2. Recommendations

2.1 That Cabinet recommend to Council that they approve:

- a) The Treasury Management Policy Statement
- b) The Treasury Management Practices (TMPs) and TMP Schedules for 2009-10
- c) The Treasury Strategy for 2009-10, incorporating:
 - (i) The Capital Financing and Borrowing Strategy for 2009-10 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 2009-10 as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for 2009-10 as required by the DCLG (formerly ODPM) Guidance on Local Government Investments issued in 2004.

2.2 That Cabinet recommend to Council that they note:

- a) The proposed Debt Financing Budget 2009-10 to 2010-11 (paragraph 3.2.15 and Annex D).
- b) Adherence to the Council's policy on reserves and balances (paragraph 3.2.16).
- c) Compliance with the requirement under the Local Government Act 2003 to produce a balanced budget (paragraph 3.2.17).

3. Issues and Choices

3.1 Report Background

Treasury Management in the Public Services - CIPFA Code of Practice

- 3.1.1 The Council adopted the CIPFA Code of Practice on Treasury Management in Public Services following its publication in 2001. This was formally minuted as a decision at the Council meeting of 21 January 2008.
- 3.1.2 The Council's Financial Regulations, approved by Council on 19 November 2007, state, at paragraph 5.9, that:
- a) The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), and specifically adopts the key recommendations as described in Section 4 of that code. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies and objectives of its treasury management activities.
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in the Council materially deviating from the Code's key recommendations.
 - b) The Council will receive reports from the Section 151 Officer on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs.
 - c) The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

CIPFA Prudential Code for Capital Finance in Local Authorities

- 3.1.3 The CIPFA Prudential Code for Capital Finance in Local Authorities, published in October 2003, introduced enhanced requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.
- 3.1.4 The Prudential Code for Capital Finance in Local Authorities requires the Council to set a number of prudential indicators for capital finance and a

report setting out the prudential indicators for 2009-10 to 2011-12 is included elsewhere on this agenda. This report includes those prudential indicators to which regard should be given when determining the Council's Treasury Management Strategy.

3.2 Issues

Economic Background

3.2.1 2008-09 has been a year of rapid economic downturn and unprecedented deterioration in the worldwide and UK banking sector.

3.2.2 The Council's treasury advisers, Sector Treasury Services, provided the following summary of the economic position as at the beginning of January 2009:

"The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slow growth to outright recession. The sub prime crisis of early 2008 was supplanted by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, became yesterday's story and recession fears drove interest rate sentiment and policy. A co-ordinated global interest rate cut of 50bp took place on 8th October 2008. Forecasts in the UK were for further sharp cuts in interest rates as recession hove into view.

The Government has abandoned its 'golden rule'. The pre Budget Report on 14 November revealed the Government's plans for a huge increase in Government borrowing over coming years as a result of falling tax revenues and also due to tax cuts and increases in Government expenditure in the short term designed to help stimulate economic growth to counter the recession"

3.2.3 The situation has continued to deteriorate. The UK bank base interest rates have been cut further to 1%; the stability and standing of individual banks worldwide and in the UK continues to be very volatile, with changes to credit ratings or rating watches announced on a daily or sometimes hourly basis; governments have stepped in to offer guarantees or support to their banks, and sovereign ratings have been downgraded. In January 2009 the UK was officially described as being in recession.

Local Impact

3.2.4 These external events have had a massive impact on the Council's debt financing budget, where rates of return on investments are forecast to plummet, leading to significant budget shortfalls.

3.2.5 The impact on the management of risk associated with the use of investment counterparties has also been enormous. The collapse of the Icelandic banks

in October 2008 sent shock waves through the local government. Fortunately NBC did not hold any investments with these banks at the time of their collapse. However the stability of banks and the reliance that can be placed on credit ratings was brought into question.

- 3.2.6 A report was brought to Cabinet and Council in November and December 2008 setting temporary constraints on the counterparties to be used by NBC for the duration of the banking crisis. Investments were limited to counterparties supported by the UK government or with a guarantee from the Republic of Ireland Government.
- 3.2.7 Since that date further changes have been made to the counterparty list. Due to concerns about the Irish economy, and acting on the advice of Sector, investments are no longer being placed with the banks guaranteed by the Republic of Ireland Government. The lending list then became so restricted that it was not operationally manageable; furthermore risk was increased by reliance on too narrow a list of counterparties. A small number of additional counterparties were added, with the approval of the Chief Finance Officer, in consultation with the Chief Executive and the Portfolio Member for Finance. These were all institutions that had country (sovereign) ratings of AAA, were rated by Sector as being suitable for duration of up to 364 days, and were not under a rating watch, alert or outlook. Some have subsequently been removed from the list due to changes to their status, resulting in them no longer meeting one or more of these conditions.
- 3.2.8 The situation continues to be highly fluid, and it is essential to have a counterparty selection policy that can respond quickly to changes. Management of risk must take a higher priority over returns, so that the Council's balances are protected. Policies for the management of counterparty and credit risk are set out at Section 5 of TMP 1, attached at Annex B. The Council's proposed approach for 2009-10 is set out at Section 16 of the Treasury Management Strategy attached at Annex C.

Treasury Management Policy Statement

- 3.2.9 The Council's Treasury Management Policy Statement is set out at Annex A. The statement follows the wording recommended by the CIPFA Code of Practice on Treasury Management.

Treasury Management Practices (TMPs)

- 3.2.10 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.
- 3.2.11 The TMPs are set out at Annex B, and are split as follows:

- Part 1: Main Principles
- Part 2: Schedules

3.2.12 The Main Principles follow the wording recommended by the CIPFA Code of Practice on Treasury Management.

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

Treasury Management Strategy 2009-10

3.2.14 The Council's Treasury Management Strategy for 2009-10 is set out at Annex C. The strategy incorporates:

(i) The Capital Financing and Borrowing Strategy for 2009-10 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 2009-10 as required by the Local Government Act 2003.

(ii) The Investment Strategy for 2009-10 as required by the DCLG (formerly ODPM) Guidance on Local Government Investments issued in 2004.

Debt Financing Budget 2009-10 to 2011-12

3.2.15 The debt-financing budget has been prepared in accordance with the assumptions outlined above, and is included in the Revenue Budget 2009-10 to 2011-12 report to Cabinet. A copy is attached at Annex D for information.

3.2.16 The debt financing budget has been prepared on the basis of the Council's policy on reserves and balances – i.e. to protect balances wherever possible to allow the option of supporting future years' budgets, aiming for a minimum level of unallocated general fund reserves of £2.5m at the end of 2009-10 having regard to the outcome of the financial risk assessment. This policy is included in the Revenue Budget 2009-10 to 2011-12 report to Cabinet and Council.

3.2.17 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 increases in charges to revenue from increases in interest charges caused by increased borrowing to finance additional capital expenditure, and any increases 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.

3.2.18 The CIPFA Code of Practice on Treasury Management requires this report to include a reference to compliance under the Local Government Act 2003 to produce a balanced budget. Such compliance is demonstrated within the Revenue Budget 2009-10 to 2011-12 report to Cabinet & Council

3.3 Choices (Options)

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

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Treasury 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 report concerns the management of the Council's debt and investment portfolios, and resources and risk are dealt with in the main body of the report and the annexes to the report.

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

4.2.3 The risk management of the treasury function is considered as an integral part of day-to-day treasury activities, and is also specifically covered in the Council's Treasury Management Practices (TMPs) and TMP Schedules.

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 annexes and listed in the background papers.

4.4 Equality

4.4.1 An Equalities Impact Assessment has been carried out on the Council's Treasury Strategy for 2009-10, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This is attached at Annex E.

4.4.2 As a result of that assessment, it should be noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPs) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different

equalities groups of any processes, procedures or outcomes arising from these.

4.5 Consultees (Internal and External)

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

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The Council is required to keep its treasury management strategy under review and monitor against it. The strategy should reflect the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.

4.6.2 This contributes positively to Comprehensive Area Assessment (CAA) Use of Resources requirements. This supports the Council's priority to be a well-managed organisation that puts customers at the centre of what we do.

4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

Statute, Regulation and Guidance

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001

Local Government Act 2003

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

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)

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

CIPFA Prudential Code for Capital Finance in Local Authorities 2003

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

Reports to Cabinet & Council

Financial Regulations - Report to Council 19 November 2007

Capital Programme 2009-10 to 2011-12 - Report to Cabinet 19 February 2009

Revenue Budget 2009-10 to 2011-12 - Report to Cabinet 19 February 2009

Housing Revenue Account (HRA) Budget 2009-10 - Report to Cabinet 19 February 2009

Prudential Indicators for Capital Finance 2009-10 to 2011-12 - Report to Cabinet 19 February 2009

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