

Appendices
10



Item No.

6

NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	TREASURY MANAGEMENT STRATEGY 2011-12 to 2013-14
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	23 February 2011
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Finance and Support
Accountable Cabinet Member:	David Perkins
Ward(s)	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 2011-12
- The Treasury Management Strategy for 2011-12
- Other associated treasury management information for 2011-12

2. Recommendations

2.1 That Cabinet recommend to Council that they approve:

- a) The Treasury Management Policy Statement at **Annex C**
- b) The Treasury Management Practices (TMPs) Main Principles at **Annex D**
- c) The TMP Schedules for 2011-12 at **Annex E**
- d) The Treasury Management Strategy for 2011-12 at **Annex F**, incorporating:
 - (i) The Capital Financing and Borrowing Strategy for 2011-12 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 2011-12 as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for 2011-12 as required by the CLG revised Guidance on Local Government Investments issued in 2010.

2.2 That Cabinet recommend to Council that they note:

- a) The proposed Debt Financing Budget 2011-12 to 2012-13 (paragraph 3.2.12 and **Annex G**).
- b) Adherence to the Council's policy on reserves and balances (paragraph 3.2.13).
- c) 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

3.1 Report Background

Treasury Management in the Public Services - CIPFA Code of Practice

- 3.1.1 In 2009 CIPFA published a fully revised second edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Code) and a fully revised third edition of the Guidance Notes for Local Authorities.
- 3.1.2 The Council adopted the revised Code, as set out at **Annex A**, on 25 February 2010. The adoption of the Code is included in the Council's Financial Regulations.

CIPFA Prudential Code for Capital Finance in Local Authorities

- 3.1.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code), fully revised second edition published in 2009 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 2011-12 to 2013-14 is included elsewhere on this agenda.
- 3.1.5 Three treasury indicators are required by the Prudential Code, and are included as such in this report:
- Authorised limit for external debt
 - Operational boundary for external debt
 - Actual external debt.
- 3.1.6 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.
- 3.1.7 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 **Annex F**.

3.2 Issues

Economic Background

- 3.2.1 An analysis of the economic position as at December 2010 is attached at **Annex 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. As anticipated, rates of return on the Council’s investments continued to fall at the beginning of the year; the average monthly rate of return on investments fell from 1.30% to 0.84% between April and July, as investments placed before the banking crisis matured and the funds were reinvested at lower rates. Subsequently the rates of return have remained fairly stable.
- 3.2.3 Forecasts of investment returns remain depressed for 2011-12, with gradual increases for the two following years, 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	Forecast Rate of return on investments %
2011-12	0.70%
2012-13	1.70%
2013-14	3.10%

- 3.2.4 The economic situation continues to be unstable and fluid, 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 **Annex D** and **Annex E**. The Council’s proposed approach for 2011-12 is set out at Section 18 of the Treasury Management Strategy attached at **Annex F**.

Treasury Management Policy Statement

- 3.2.6 The Council’s Treasury Management Policy Statement is set out at **Annex C**. The statement follows the wording recommended by the revised 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 **Annex D**)
- Part 2: Schedules (Set out at **Annex 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 2011-12

3.2.11 The Council's Treasury Management Strategy for 2011-12 is set out at Annex F. The strategy incorporates:

- (i) The Capital Financing and Borrowing Strategy for 2011-12 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 2011-12 as required by the Local Government Act 2003.
- (ii) The Investment Strategy for 2011-12 as required by the CLG revised Guidance on Local Government Investments issued in 2010.

Debt Financing Budget 2011-12 to 2013-14

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 Revenue Budget 2011-12 to 2013-14 report to Cabinet. A copy is attached at **Annex G** for information.

3.2.13 The debt financing budget has been prepared on the basis of the Council's policy on reserves and balances – i.e. 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 2011/12. This policy is included in the Revenue Budget 2011-12 to 2013-14 report to Cabinet and Council.

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 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.

3.2.15 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 Revenue Budget 2011-12 to 2013-14 report to Cabinet & Council.

Abbreviations

3.2.16 A list of abbreviations used in this report and the accompanying annexes is provided at **Annex I**.

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 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's Revenue Budget 2011-12 to 2013-14 report to Cabinet and Council.

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 2011-12 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 **Annex F** affirms that priority will be

given to the security of capital and liquidity 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.

4.2.5 There is a risk that proposed changes to the arrangements for housing finance and the HRA subsidy mechanism could have a significant impact on the Council's capital financing and borrowing position at some point in the coming three-year period. The details, impacts and timing of such changes are not yet fully known or understood, and a separate report will be brought to Cabinet (and Council if applicable) at a later date.

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 Management Strategy for 2011-12, and the associated Treasury Management Practices (TMPs) and Schedules to the TMPs. This is attached at **Annex J**.

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 external treasury advisers 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 reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services (Fully Revised Second Edition) 2009. This supports the Council's priority to be

“an efficient well-managed organisation that puts our customers at the heart of what we do”.

4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

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 (Fully Revised Second Edition) 2009

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009

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 2011-12 to 2013-14 - Report to Cabinet 23 February 2011

General Fund Revenue Budget 2011-14 - Report to Cabinet 23 February 2011

Prudential Indicators for Capital Finance 2011-12 2013-14 - Report to Cabinet 23 February 2011

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