

Appendices:
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CABINET REPORT

Report Title	TREASURY MANAGEMENT STRATEGY 2013-14 to 2015-16
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AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	20 February 2013
Key Decision:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Resources
Accountable Cabinet Member:	Alan Bottwood
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 2013-14
- The Treasury Management Strategy for 2013-14
- Other associated treasury management information for 2013-14

2. Recommendations

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 2013-14 at **Appendix E**

- d) The Treasury Management Strategy for 2013-14 at **Appendix F**, incorporating:
- (i) The Capital Financing and Borrowing Strategy for 2013-14 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 2013-14 as required by the Local Government Act 2003.
- (ii) The Investment Strategy for 2013-14 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 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

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 adoption is included in the Council's Constitution, approved by the Council on 14 March 2011, at paragraph 6.10 of the Financial Regulations.

CIPFA Prudential Code for Capital Finance in Local Authorities

3.1.2 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.

3.1.3 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 2013-14 to 2015-16 is included elsewhere on this agenda.

3.1.4 Four key treasury indicators are prudential indicators and form part of the Prudential Code.

- Gross debt and the capital financing requirement
- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt

Apart from the actual net external debt figure, which is an outturn position and will be reported in the Treasury Management Outturn report, these prudential indicators are included in the Council's Treasury Management

Strategy for completeness. The Prudential Code also requires that where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy. See Section 10 of **Appendix F**.

3.1.5 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**).

3.1.6 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.

3.2 Issues

Economic Background

3.2.1 An analysis of the economic position as at January 2013 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 average annual rates of return on the Council's investments have ranged between 1.08% and 1.35%, averaging at around 1.23%, (as at 31 January 2013) against a budgeted figure of 0.70%.

3.2.3 Forecasts of investment returns remain depressed for the three year period from 2013-14 to 2015-16. This continues to have a significant impact on the Council's income from investments. The Council has budgeted for a 1% average rate of return on investments for each of the next three years.

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 2013-14 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 2013-14

3.2.11 The Council's Treasury Management Strategy for 2013-14 is set out at **Appendix F**. The strategy incorporates:

- (i) The Capital Financing and Borrowing Strategy for 2013-14 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 2013-14 as required by the Local Government Act 2003.
- (ii) The Investment Strategy for 2013-14 as required by the CLG revised Guidance on Local Government Investments issued in 2010.

Debt Financing Budget 2013-14 to 2015-16

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 2013-14 to 2015-16 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 £3.1m should be the minimum for 2013-14. This policy is included in the Council Wide General Fund Revenue Budget 2013-14 to 2015-16 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 require 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 2013-14 to 2015-16 report to Cabinet.

Shared Service Arrangement with LGSS

3.2.16 Cabinet agreed on 14 November 2012 to deliver certain services, including treasury management, under the auspices of the LGSS Joint Committee. This decision, which is expected to be implemented from 1 May 2013, will impact on the way that treasury management is managed and delivered, particularly in terms of the posts responsible for certain functions. Once the detail of the new arrangements has been agreed, it may be necessary to bring revised Schedules to the Treasury Management Practices, reflecting the new arrangements, back to Council for approval.

Abbreviations

3.2.17 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)

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 2013-14 to 2015-16 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 2013-14 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 Equalities Impact Assessment (EIA) screening has been carried out on the Council's Treasury Management Strategy for 2013-14, and the associated Treasury Management Practices (TMPs) and Schedules to the TMPs.
- 4.4.2 The EIA screening has determined 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 making every £ go further.

4.7 Other Implications

- 4.7.1 No other implications have been identified.

5. Background Papers

Equalities Impact Assessment Screening: Treasury Management Strategy 2013-14

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