
Meeting: Corporate Resources Overview & Scrutiny Committee
Date: 28th January 2014
Subject: Treasury Management Strategy And Treasury Policy
Report of: Cllr Maurice Jones , Executive Member for Corporate Resources
Summary: This report outlines the Draft Treasury Policy and Treasury Management Strategy for 2014-15

Advising Officer: Charles Warboys, Chief Finance Officer
Contact Officer: Ralph Gould, Head of Financial Control
Public/Exempt: Public
Wards Affected: All
Function of: Executive

CORPORATE IMPLICATIONS

Council Priorities:

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| <ol style="list-style-type: none">1. Effective management of the Council's financial resources and the associated risks is a cornerstone to the delivery of the Council's priorities. |
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Financial:

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| <ol style="list-style-type: none">2. The Council's Treasury Management Strategy and prudential indicators are derived from the Medium Term Financial Plan (MTFP). Treasury Strategy and prudential indicators are explained within the body of this report.3. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." |
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Legal:

4. The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits. Under the Act, Communities and Local Government has issued Guidance on Local Government Investments (revised March 2010) to structure and regulate the Council's investment activities. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (the Code of Practice).

CIPFA revised the Code of Practice in November 2011 to reflect developments in financial markets and the introduction of the Localism Act for English local authorities

Risk Management:

5. The approved strategy aims to manage the risks to the Council's finances from instability in financial markets.

Staffing (including Trades Unions):

6. Not Applicable.

Equalities/Human Rights:

7. Not Applicable.

Public Health

8. Not Applicable.

Community Safety:

9. Not Applicable.

Sustainability:

10. Not Applicable.

Procurement:

11. Not applicable.

RECOMMENDATION(S):

The Committee is asked to consider the report and submit comments to the Executive.

Background

12. The Council's Treasury Management Strategy has been underpinned by the adoption of the CIPFA Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy covering the likely financing and investment activity for the forthcoming financial year.
13. The Treasury Management Policy is attached at Appendix A; this was revised February 2012 and is subject to review every three years. A revised Treasury Management Strategy is attached at Appendix B with prudential indicators at Appendix C.
14. The Code requires the Treasury Strategy for the year to be approved by Full Council, proposed to be submitted for approval on 20th February 2014. Local arrangements require the Overview and Scrutiny Committee to scrutinise the proposed revised strategy on an annual basis. Both the Policy and the Strategy documents are proposed to be presented to the Executive on 4th February 2014.
15. This report summarises the changes to the Treasury Management Strategy as a result of continuous review with our external advisers, Arlingclose Ltd.

Treasury Management Policy

16. No changes are proposed for the Treasury Management Policy (Appendix A) adopted by the Council in February 2012.
17. The Treasury Management Policy sets out the objectives and the regulatory requirements of the authority's Treasury Management Function.
18. The principal objectives of this Treasury Management Policy Statement are to provide a framework within which:
 - i) Risks which might affect the Council's ability to fulfil its responsibilities or which might jeopardise its financial security, can be identified
 - ii) Borrowing costs can be minimised whilst ensuring the long term security and stability of the Council's financial position;
 - iii) Investment returns can be safely maximised and capital values maintained;
 - iv) The use of assets as loan security is minimised.

Treasury Management Strategy Statement

19. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) on an annual basis.
20. The TMSS is included at Appendix B, and is made up of three main components:

- i) Economic Forecast drafted by the Council's external treasury advisors, Arlingclose Ltd. This is important as the rate at which the Council can borrow and the return it will obtain on cash balances are linked to the performance of the wider UK economy.
 - ii) Borrowing Strategy should any borrowing be required, including the approved sources of long term and short term borrowing.
 - iii) Investment Strategy, including the type of institutions the Council is able to place its cash with and the limits with each type of institution.
21. The TMSS also includes other items that the Council is required by CIPFA or CLG to include as part of its strategy, including the Council's policy on the use of financial derivatives, charges between the HRA and the General Fund and borrowing in advance of need.

Prudential Indicators

22. The CIPFA Prudential Code for Capital Finance in Local Authorities requires performance against specified key indicators to be measured and reported. The purpose of these indicators is to demonstrate prudence, affordability and sustainability.
23. Explanation of prudential indicators is included in Appendix C. Key objectives of the indicators are to:
- Ensure borrowing is less than the capital financing requirement, demonstrating that all long term borrowing has been undertaken for capital purposes in line with the Prudential Code
 - Set the Council's authorised and operational borrowing limits
 - Demonstrate the percentage of the revenue budget required to be spent on financing borrowing.
 - Demonstrate the incremental impact expenditure from the Council's capital programme would have if it was all to be funded by Council Tax, based on the charge for a Band D property.
24. Prudential indicators are monitored throughout the year and reported to Members at Full Council mid-year and at the end of the financial year, in line with best practice requirements within the CIPFA Code for Treasury Management.
25. Appendix C also includes a statement of the Council's Minimum Revenue Provision (MRP) policy, used to calculate the amount the Council is annually required to set aside towards repaying its capital financing requirement.

Background Papers:

None

Appendices:

Appendix A – Treasury Management Policy

Appendix B – Treasury Management Strategy Statement (TMSS)

Appendix C – Prudential Indicators