

REPORT TO THE COUNCIL MEETING OF 23 February 2015

Meeting:	Council
Date:	23 February 2015
Subject:	Prudential Indicators and Treasury Management Strategy 2015/16
Report of:	Simon Riley, Head of Finance and Commercial Services (S.151 Officer)
Portfolio Holder:	Councillor Phil King
Status:	For Approval
Relevant Ward(s):	All

1 Purpose Report

- 1.1 This report details the Council's proposed prudential indicators for the period 2015/16 to 2017/18 and sets out the forecast treasury activities over the same period.
- 1.2 It also fulfils four key requirements of local government legislation as follows
- The reporting of the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities;
 - The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year;
 - The Treasury Management Strategy, in accordance with the CIPFA Code of Practice on Treasury Management in the public services; and
 - The Annual Investment Strategy in accordance with the Department of Communities and Local Government (CLG) investment guidance.

2 Recommendations:

- 2.1 **To Approve the capital prudential indicators and limits for 2015/16 to 2017/18 contained within Appendix A**

- 2.2 To Approve the Minimum Revenue Provision (MRP) Statement, contained within Appendix A
- 2.3 To Approve the Treasury Management Strategy 2015/16 and the treasury prudential indicators contained in Appendix A
- 2.4 To Approve the Annual Investment Strategy 2015/16 contained in Appendix A and the detailed criteria included in Appendix B.
- 2.5 To Approve the inclusion of Market Harborough Building Society on the list of approved counterparties.

3 Summary of Reasons for the Recommendations

- 3.1 The Local Government Act 2003, as amended, and supporting regulations requires the Council to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable
- 3.2 The Council is also required by the Local Government Act 2003 to undertake an annual review of its policy for calculating the minimum revenue provision (MRP) for repayment of external debt.
- 3.3 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments

4 Impact on Communities

- 4.1 An appropriate Treasury Management Strategy is required to maximise the cash flow of the Council to enable investment income to be generated, which in turn will enable any impact to the community via Council Tax levels to be minimised.

5 Key Facts

- 5.1 The Council is required to operate a balanced budget, which broadly means that there will be adequate funds in place, including the use of reserves, where appropriate, to meet the Council’s annual expenditure plans. Part of the treasury management operation is to ensure that this cash flow is planned in such a way as to ensure the cash is available when it is needed. Surplus monies are invested in approved counterparties (financial institutions) or instruments, e.g. government bonds, commensurate with the Council’s risk appetite, until such time as they are needed. The overarching requirement being to providing adequate liquidity ahead of investment returns.

5.2 The second main function of the treasury management service is the funding of the Council's capital expenditure plans. These capital plans provide a guide to the borrowing need of the Council. Cash flow planning is essential to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using underlying cash flow surpluses as an alternative to borrowing. Debt re-structuring can also be undertaken from time to time to ensure the Council is minimising its debt servicing costs.

5.3 CIPFA defines treasury management 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.”

5.4 Members in the past have shown their desire to support local business and therefore to include Market Harborough Building Society on the list of Counterparties for the Council. As a small Building Society its does not meet the minimum requirements of the proposed Annual Investment Strategy and as such would normally be excluded. This report asks Members to consider whether they wish to add Market Harborough Building Society onto the counterparty lists for which the Council can make investments for the financial year 2015/16

5.5 Reporting Requirements

The Council is required to approve annually the Treasury Management Strategy and Prudential Indicators. The requirements of this report is summarised below and for 2015/16 is attached at **Appendix A** of this report.

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

Arising from the overall Treasury Management Strategy the Council is required to set down its investment criteria (**Appendix B**). This then generates a counterparty list with institutions we can invest in (**Appendix F**). The report provides the governance arrangements around Treasury Management (**Appendix G & H**) and economic forecasts (Appendix C & D). Finally the current level of borrowing and investments are detailed in **Appendix E & I**

Treasury Management Activity is then reported back to Council in a mid year treasury management report and following the financial year the Annual Treasury Report. These update Members with the progress of the capital position, amending prudential indicators as necessary, and identifying whether the treasury strategy is meeting its objectives (mid year report) and provides details of a selection of actual prudential and treasury indicators and actual treasury operations as compared to the estimates set out in the strategy (annual treasury report). In 2014/15 the mid year report was due at Council in January 2015 (which was cancelled). This report and the figures included as Revised Estimates for 2014/15 therefore substitutes for Council not receiving a mid year Treasury Report.

The Treasury Management Strategy are supported by a set of Treasury Management Practices that govern Treasury Decisions, documentation, reporting and governance arrangements. These are currently being reviewed and updated. It is proposed that these be reviewed by the Governance and Audit Committee in detail to ensure full compliance with the code of practice. Relevant extracts have been appended to this report

- 5.6 This report fulfils the requirements of the code to annually approve the Annual Investment Strategy and Prudential Indicators

6 Legal Issues

- 6.1 This report covers the requirement for capital financing and treasury management as set out in the Local Government Act 2003 and subsequent Regulations.

7 Resource Issues

- 7.1 These are covered in detail in this report. The current investments in February 2015 are attached at **Appendix I**

8 Equality Implications

- 8.1 There are no equality and diversity issues relating to this strategy.

9 Impact on the Organisation

- 9.1 The Prudential Code has had wide reaching implications for local authorities, providing greater flexibility for capital investment where spending plans can be demonstrated to be affordable, prudent and sustainable.
- 9.2 The Treasury Management function is an important element of the Council's overall financial affairs. It is inextricably linked to any financial decision, which

the Council may take, both in revenue and capital terms, and has taken on an even greater importance with the introduction of the Prudential Code.

10 Community Safety Implications

10.1 There are no community safety implications arising from this report.

11. Carbon Management Implications

11.1 There are no carbon management implications arising directly from this report.

12. Risk Management Implications

12.1 Management of the Council's financial resources is key to achieving targets set out in the budget. Security of the Council's money in the current banking market is paramount.

13 Consultation

13.1 The Prudential Indicators contained within this report have been compiled to take account of the borrowing requirements and available resources determined as part of the Council's capital programme and overall budget setting process. Members and officers have been involved in the budget process from the outset.

14 Options Considered

14.1 None

15 Background Papers

15.1 None

Previous report(s):

Information Issued Under Sensitive Issue Procedure: No

Ward Members Notified: Not Applicable

Appendices:

- A Treasury Management Strategy and Prudential Indicators for 2015/16
- B Detailed Criteria for Investment of Surplus Funds
- C Interest Rate Forecasts 2015 - 2018
- D Economic Background
- E External Debt Analysis
- F Approved Counterparty List

G Treasury Management Scheme of Delegation
H Role of the Section 151 Officer
I Investments at February 2015