

CABINET

11 February 2004

TREASURY MANAGEMENT

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB320 CIPFA Prudential Code for Capital Finance in Local Authorities 21 May 2003
CAB675 Treasury Management 16 July 2003
CAB695 Treasury Management Stewardship Report 3 September 2003

EXECUTIVE SUMMARY:

This report covers the Policy Statement and Treasury Management Strategy for 2004/05, considers them in the light of the Prudential Code published by CIPFA and the draft ODPM Investment Guidelines and recommends them for adoption by the Council.

RECOMMENDATIONS:

1. That Cabinet approves the revision to TMP4 *Approved Instruments, Methods and Techniques* as detailed in Appendix 3.
2. That Cabinet recommends to Council approval of the Treasury Management Strategy for 2004/05, including the prudential indicators contained therein, as detailed in Appendix 2.

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1 Introduction

- 1.1 The previous complex regulatory framework for capital finance and investment in local government has now been replaced by a new system based largely on self regulation. This new system requires local authorities to make sure their capital spending plans are affordable, prudent and sustainable.
- 1.2 Key aspects of this new system are the *Code of Practice for Treasury Management in the Public Services* and the *Prudential Code for Capital Finance in Local Government*, both developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the *Guidance on Local Government Investments* drawn up by the Office of the Deputy Prime Minister (ODPM). The former have already been published and approved by the government and the latter is currently out for consultation but will be published before 1 April 2004.
- 1.3 The City Council has been moving to this new way of working for some years now, in advance of the changes in legislation.

2 Prudential Code

- 2.1 Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code has been developed as a professional code of practice to support local authorities in taking their decisions. They are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.
- 2.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 2.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and factors that must be taken into account. These indicators are designed to support and record local decision making in a manner that is publicly accountable.
- 2.4 The Prudential Code includes the following as required indicators in respect of treasury management:
 - Compliance with the CIPFA *Code of Practice for Treasury Management in the Public Services*.
 - Upper limits on fixed interest rate and variable interest rate exposures.
 - Upper and lower limits for the maturity structure of borrowings.
 - Upper limit for principal sums invested for periods longer than 364 days.

- Authorised borrowing limits, including other long term liabilities.

3 Treasury Management Policy

- 3.1 The City Council's Constitution contains Financial Procedure Rules in Part 4. Within those rules Section 5 refers to Borrowing and Investments. The CIPFA Code of Practice covering Treasury Management has been adopted by the City Council under Financial Procedure Rule 5.4 and the City Council applies its principles to all investment activity.
- 3.2 The treasury management policy statement referred to in Financial Procedure Rule 5.5 is attached as Appendix 1 to this report. It was approved by the Council on 26 February 2003.
- 3.3 Treasury Management Practices (TMPs) form an integral part of the policy and were approved by Cabinet on 16 July 2003 (CAB675). In accordance with the Prudential Code and to reflect the changes arising from the Local Government Act 2003 one of these, TMP4 *Approved Instruments, Methods and Techniques*, now requires amendment and updating of the limits and the amended version is attached as Appendix 3.

4 Treasury Management Strategy for 2004/05

- 4.1 The Code of Practice recommends that the annual strategy should also be reported to full Council. The annual strategy report is tied in with the budget process.
- 4.2 The Treasury Management Strategy Report for 2004/05 is attached as Appendix 2, and is recommended for approval by Cabinet and Council. Within the strategy is a statement of the proposed Treasury Management Prudential Indicators in 2004/05 for the City Council that must be approved by Council.

5 Annual Investment Strategy

- 4.1 One of the key requirements of the draft *Guidance on Local Government Investments* drawn up by the Office of the Deputy Prime Minister (ODPM) is that each local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year.
- 4.2 The strategy sets out the City Council's policies for giving priority to the security and liquidity of its investments, rather than to the yield.
- 4.3 The Annual Investment Strategy for 2004/05 has been incorporated in the Treasury Management Strategy for 2004/05 which is being recommended for approval by Council.

OTHER CONSIDERATIONS:

6 CORPORATE STRATEGY (RELEVANCE TO):

- 6.1 Treasury Management supports one of the main tenets of the Corporate Strategy - to make the best use of all available resources by continued clear financial planning within the City Council.

7 RESOURCE IMPLICATIONS:

- 7.1 It will still be the case that interest rate changes will have a significant effect on the annual budget, with a change of 1% altering income to the GF by £10,000 for every £1m invested, which on an investment of, say, £25m, equates to £250,000.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Finance Department

APPENDICES:

- Appendix 1 Treasury Management Policy Statement.
Appendix 2 Treasury Management Strategy for 2004/05.
Appendix 3 Revised TMP4 - *Approved Instruments, Methods and Techniques*

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