

CITY COUNCIL – 7 MARCH 2011

REPORT OF THE DEPUTY LEADER

TREASURY MANAGEMENT 2011/12 STRATEGY

1 SUMMARY

- 1.1 This report seeks approval for a number of strategies relating to treasury management in 2011/12. The strategies were considered as part of a number of reports on the 2011/12 budget process and were endorsed by Executive Board on 22 February 2011 and by Audit Committee on 25 February 2011.

A copy of the Executive Board report (Appendix 1) has been circulated separately to the agenda, and the strategies and other material referred to below are shown as **Annexe 1** within the Appendix. The specific strategies included are:

- the overall treasury management strategy for 2011/12 (**Annexe 1**);
- the strategy for debt repayment in 2011/12 (**section 5 of Annexe 1**);
- the investment strategy for 2011/12 (**section 6 of Annexe 1**).

Approval is also required for the Prudential Indicators and limits from 2009/10 to 2013/14 (**Appendix A within Annexe 1**).

2 RECOMMENDATIONS

2.1 It is recommended that:

- 1) the 2011/12 treasury management strategy document, including the strategy for debt repayment and the investment strategy, detailed in **Annexe 1**, is approved.
- 2) the prudential indicators and limits from 2009/10 to 2013/14, detailed in **Appendix A within Annexe 1**, are approved.

3 REASONS FOR RECOMMENDATIONS (INCLUDING OUTCOMES OF CONSULTATION)

3.1 To ensure compliance with the Code of Practice on Treasury

Management in Public Services (the Code), adopted by the City Council in February 2002.

4 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 4.1 The approval of a treasury management strategy, including Prudential Indicators, is a requirement of the adopted Code, so no other options are available for consideration.

5 BACKGROUND

- 5.1 Treasury management is the management of the Council's cash flows, including borrowings and investments. It is regulated by CIPFA's Treasury Management Code of Practice
- 5.2 Treasury Management is subject to robust governance arrangements including legislation, government guidance, codes of practice and financial regulations. The approval of a strategy relating to treasury management, including a strategy for debt repayment and investment, is good practice and ensures that the City Council complies with the governance framework.
- 5.3 Prudential indicators for the forthcoming and following two financial years must be set before the beginning of that year. They may be revised at any time, following due process, with any changes to the current indicators being approved at a meeting of the full City Council.
- 5.4 A revision to the CIPFA Code of Practice, issued in December 2009, requires some changes to the City Council's treasury management-related Financial Regulations, to reflect revised reporting requirements.
- 5.5 On 22 February 2011, Executive Board considered a report detailing the proposed treasury management strategy for 2011/12. This report was endorsed, with a recommendation for approval by City Council.

6 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)

- 6.1 Total treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is recharged to the Housing Revenue Account (HRA) and funded

through the Housing Subsidy system. The remaining costs are included within the treasury management section of the General Fund budget. **Table 1** sets out the budget for 2011/12:

TABLE 1: REVENUE BUDGET POSITION			
DESCRIPTION	BUDGET 2010/11 £m	FORECAST OUTTURN 2010/11 £m	BUDGET 2011/12 £m
External interest	27.634	22.931	23.703
Debt repayment provision	13.940	13.244	16.631
Less: HRA recharge	(14.224)	(11.403)	(11.629)
General Fund expenditure	27.350	24.772	28.705
Investment interest	(2.157)	(1.376)	(1.885)
Prudential borrowing recharge	(1.607)	(1.600)	(1.303)
Treasury Management Reserve	-	1.865	3.310
NET GENERAL FUND POSITION	23.661	23.661	28.827

The 2010/11 forecast outturn is £1.865m less than the original budget. This has arisen through the active management of the debt and investment portfolios and has been transferred to the Treasury Management Reserve.

The 2011/12 budget of £28.827m is included in the MTFP for 2011/12 – 2013/14. This figure reflects the annual repayment cost of £2.844m for the equal pay capitalisation of £10.513m in 2010/11.

A reduction in the estimated 2011/12 borrowing requirement, together with management of the debt and investment portfolios, provides an estimated surplus of £3.310m in 2011/12. However, in light of current economic and financial uncertainties and likely upward pressures, this sum has been retained within the Treasury Management Reserve.

7 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS AND EQUALITY AND DIVERSITY IMPLICATIONS)

- 7.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of

Treasury Management Practices and Procedures and a risk register is prepared for the treasury function. The adopted Risk Management Action Plan in respect of treasury management activity is included in the strategy documents.

The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The current rating for this risk is 6 (Likelihood is rated unlikely, Impact is rated moderate) which represents a reduction from the previous rating. Details of the Risk Management Action Plan are provided in Annexe 1 Appendix B.

8 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

8.1 Treasury management working papers.

9 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

9.1 Executive Board report and minutes, 22 February 2011

COUNCILLOR CHAPMAN - DEPUTY LEADER