

EXECUTIVE BOARD - 24 FEBRUARY 2015

Subject:	TREASURY MANAGEMENT 2015-16 STRATEGY		
Corporate Director:	Glen O'Connell, Corporate Director for Resources		
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration		
Report author and contact details:	Geoff Walker, Acting Director of Strategic Finance 0115 8763740, geoff.walker@nottinghamcity.gov.uk		
Key Decision	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	Subject to call-in
			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Reasons:	<input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision		<input type="checkbox"/> Revenue <input type="checkbox"/> Capital
Significant impact on communities living or working in two or more wards in the City			<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Total value of the decision: Nil			
Wards affected: All		Date of consultation with Portfolio Holder(s): 14 January 2015	
Relevant Council Plan Strategic Priority:			
Cutting unemployment by a quarter			<input checked="" type="checkbox"/>
Cut crime and anti-social behaviour			<input checked="" type="checkbox"/>
Ensure more school leavers get a job, training or further education than any other City			<input checked="" type="checkbox"/>
Your neighbourhood as clean as the City Centre			<input checked="" type="checkbox"/>
Help keep your energy bills down			<input checked="" type="checkbox"/>
Good access to public transport			<input checked="" type="checkbox"/>
Nottingham has a good mix of housing			<input checked="" type="checkbox"/>
Nottingham is a good place to do business, invest and create jobs			<input checked="" type="checkbox"/>
Nottingham offers a wide range of leisure activities, parks and sporting events			<input checked="" type="checkbox"/>
Support early intervention activities			<input checked="" type="checkbox"/>
Deliver effective, value for money services to our citizens			<input checked="" type="checkbox"/>
Summary of issues (including benefits to citizens/service users):			
This report sets out the Treasury Management and Investment strategies for 2015/16 including the debt repayment strategy (Appendix 1). The associated Prudential Indicators are shown within an appendix to the strategy, along with existing risks and a glossary of technical terms.			
Exempt information: None			
Recommendation(s):			
<p>1 To endorse and recommend for approval by the City Council at its meeting on 9 March 2015 the overall Treasury Management Strategy for 2015/16 (Appendix 1), and, in particular:</p> <p>a. the strategy for debt repayment (Minimum Revenue Provision) in 2015/16 (Appendix 4);</p> <p>b. the Investment Strategy for 2015/16 (within Appendix 1);</p> <p>c. the prudential indicators and limits for 2014/15 to 2017/18 (Appendix 3);</p> <p>d. adopt the current Treasury Management Policy Statement (Appendix 5).</p> <p>e. the proposed use of forward starting loans (Appendix 9).</p>			

1 REASONS FOR RECOMMENDATIONS

1.1 Approval of a Treasury Management Strategy is a legal requirement, to comply with:

- Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year;

- guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April;
- guidance issued by the Secretary of State under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP) for the repayment of debt.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.
- 2.2 The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the current requirements of these codes as part of its Treasury Management Policy Statement.
- 2.3 External advisors are retained to provide additional input on treasury management matters. The service provided includes economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy, creditworthiness, credit ratings and other counterparty criteria and technical assistance on other related matters, as required.
- 2.4 The Treasury Management and Investment Strategies will be considered by Audit Committee on 27 February 2015, as part of the scrutiny process required by the CIPFA Code of Practice.
- 2.5 Treasury Management and Investment Strategy 2015/16
- 2.5.1 The Treasury Management Strategy sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the Strategy (i.e. treasury, investment and debt) are set out at Appendix 1. The objectives of the strategy are:
- to achieve the lowest net interest rate costs on the Council's external debt, whilst recognising the risk management implications;
 - to protect the Medium Term Financial Plan (MTFP) from the unbudgeted financial impact of fluctuations in interest rates and to prevent the need for excessive borrowing in future years when rates may be unfavourable;
 - to maintain the security and liquidity of external investments, and within those parameters, to seek to maximise the return on such investments;
 - to manage the Council's cash flows such that sufficient cash is available to meet creditor and other requirements and to minimise the cash balance held in the Council's current bank account each day without incurring bank overdraft charges.
- 2.5.2 Department for Communities and Local Government (DCLG) guidance on local authority investments also requires an annual investment strategy to be in place before the financial year in which it applies. This is incorporated within the

Treasury Management Strategy and sets out how investments will be managed to protect the Council's financial position and the value of funds invested, whilst ensuring that the returns obtained are appropriate, given the stated attitude to risk. The DCLG guidance reiterates security and liquidity as the primary objectives of a prudent investment policy. These are principles embraced by the Council.

2.6 Prudential Indicators (Appendix 3)

2.6.1 The Prudential Code, issued by CIPFA and adopted formally by the Council, requires a series of Prudential Indicators (PIs) to be set and approved for the forthcoming and following two financial years. These financial indicators are derived from proposed treasury management activity and provide insight into the financial impact of such activities.

2.6.2 Appendix 3 within the Treasury Management Strategy (Appendix 1) sets out the indicators for 2014/15 to 2017/18 that are expected to be generated by the proposed strategies. Explanatory notes for each PI are also provided

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 No other options were considered, as approval of a Treasury Management Strategy is a legal requirement

4 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)

4.1 Net treasury management expenditure comprises interest charges, interest receipts and a revenue provision for debt repayment. A proportion of the Council's debt relates to capital expenditure on council housing and from 1 April 2012 separate arrangements have been established for the HRA. The remaining costs are included within the treasury management section of the General Fund budget, although there remain a number of recharges between the General Fund and the HRA. Table 1 summarises the estimate for 2015/16:

TABLE 1: TREASURY MANAGEMENT - REVENUE BUDGET POSITION	
DESCRIPTION	BUDGET 2015/16 £m
External interest	28.594
Less: HRA interest	(12.445)
Debt repayment provision	33.199
General Fund expenditure	49.348
Investment interest	(0.917)
Prudential borrowing recharge	(1.193)
NET GENERAL FUND POSITION	47.238

4.2 The Treasury Management forecast outturn for 2014/15 is reflected in the overall position reported elsewhere on this agenda.

4.3 The budget for 2015/16 is based on the financial implications of the various proposed strategies, as detailed in Appendix 1. The estimate of £47.238m is included within the Medium Term Financial Plan (MTFP).

- 4.4 As part of the Council's MTFP, a number of capital regeneration investment schemes are currently being developed. Funding will come from a variety of sources, including prudential borrowing by the Council. The Capital Programme does not include provision for all of these schemes at present, additional provision will only be brought forward for approval subject to the establishment of a robust scheme business case.

5 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS AND CRIME AND DISORDER ACT IMPLICATIONS)

- 5.1 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 maintained for the treasury function.
- 5.2 The key strategic risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The current rating for this risk is 4.22 (Likelihood = unlikely, Impact = moderate). Full details of the Risk Management Action Plan are provided in Appendix 6.

6 SOCIAL VALUE CONSIDERATIONS

- 6.1 Not applicable.

7 REGARD TO THE NHS CONSTITUTION

- 7.1 Not applicable.

8 EQUALITY IMPACT ASSESSMENT (EIA)

- 8.1 An EIA is not needed as the report does not contain proposals for new or changing policies, services, or functions.

9 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

- 9.1 None.

10 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

- 10.1 None

11 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

- 11.1 Glyn Daykin, Finance Analyst Treasury Management, Tel: 0115 8763724, E-mail: glyn.daykin@nottinghamcity.gov.uk