

AUDIT COMMITTEE	AGENDA ITEM No. 7
6 SEPTEMBER 2010	PUBLIC REPORT

Committee Member(s) responsible:	Resources portfolio holder, Cllr Seaton		
Contact Officer(s):	John Harrison, Executive Director Strategic Resources	☎ 452398	
	Steven Pilsworth, Head of Strategic Finance	☎ 384569	

TREASURY MANAGEMENT PERFORMANCE

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director Strategic Resources	Deadline date : N/A
<p>Audit Committee is asked to</p> <ol style="list-style-type: none"> 1. To review current performance against the Treasury Management Strategy set in the Medium Term Financial Strategy (MTFS) 2. To approve the revised Prudential Indicators included in the Prudential Code and Treasury Management Strategy 2010 for the change in the PFI accounting policy based on the International Financial Reporting Standards (IFRS) 	

1. ORIGIN OF REPORT

- 1.1 The Treasury Management in the Public Services: Code of Practice 2009 recommends that members receive reports on its treasury management polices, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.2 The annual strategy is approved by Council as part of the Medium Term Financial Strategy (MTFS) and the final performance against the strategy is reported to Audit Committee in June alongside the Statement of Accounts. This report is the mid-year review.

2. PURPOSE AND REASON FOR REPORT

- 2.1 To report current performance and the forecast outturn position against the strategy.
- 2.2 The change in the accounting treatment for Private Finance Initiative (PFI) has resulted in the Prudential Indicators, included in the Prudential Code and Treasury Management Strategy 2010-15, to be revised. This report sets out these amendments.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
---	-----------	---	-----

4. TREASURY MANAGEMENT STRATEGY PRUDENTIAL INDICATORS

- 4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

- a) capital investment plans are affordable
 - b) all external borrowing and other long term liabilities are within prudent and sustainable levels, and
 - c) treasury management decisions are taken in accordance with professional good advice
- 4.2 For the 2009/10 financial year, all Councils were required to amend the accounting treatment for their PFI agreements. A year ahead of the general switch to IFRS-based accounting standards the decision was taken to recognise PFI, and similar contracts, as an asset(s) of the local authority. At the same time a related liability was also recognised.
- 4.3 Where PFI contracts have come 'on to Balance Sheet' as a result of the IFRS based approach, there is a requirement to adjust the Capital Financing Requirement and the Council will therefore need to ensure their authorised limits and operational boundaries are set accordingly.
- 4.4 The Council has revised the 2010 -11 Prudential Indicators to include the PFI financing requirements since the Full Council approval of the Medium Term Financial plan on 8th February 2010 which needs to be approved by the Audit Committee.
- 4.5 The revised Prudential Indicators are attached at Appendix A
- 4.6 The Council had a total of £3m invested in two Icelandic owned banks which went into administration in October 2008. To date the Council has received £425k in dividends from Heritable Bank and received £927k in dividends from Kaupthing Singer & Friedlander Ltd to date. Expected recovery rates are 79p to 85p in the pound and 65p to 78p in the pound respectively, which could result in the total loss being as little as £590k. The Council continues to work with the Local Government Association, undertaking negotiations with the relevant Icelandic banks, to secure as much money as possible.

5. CONSULTATION

- 6.1 As 'The Prudential Code and Treasury Management Strategy 2010-15' forms part of the annual MTFs, it has undergone full consultation and been through the scrutiny process.
- 6.2 The Council continues to liaise with its treasury advisors, Sector Treasury Services Ltd, and specifically in relation to its deposits in the UK subsidiaries of the Icelandic banks, with Administrators, the Local Government Association, City Council Members, Members of Parliament and the Press.

6. ANTICIPATED OUTCOMES

- 6.1 As set out in the report.

7. REASONS FOR RECOMMENDATIONS

- 7.1 This report and update is given to the Committee to review performance against the Treasury Management Strategy set in the MTFs, and approve the revised Prudential Indicators.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The 'The Prudential Code and Treasury Management Strategy 2010-15' is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2009. This report sets out the performance against the associated indicators. The options are therefore limited.

9. IMPLICATIONS

- 9.1 The implications arising from this report are to approve the revised Prudential Indicators
- 9.2 To provide the Committee the opportunity to review current performance against the revised Prudential Indicators.

10. BACKGROUND DOCUMENTS

(Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

The Prudential Code for Capital Finance in Local Authorities – Fully revised second edition 2009, CIPFA

Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes - Fully revised second edition 2009, CIPFA

This page is intentionally left blank