

Report to the Audit & Governance Committee



Report reference: **AGC-021-2009/10**
Date of meeting: **8 February 2010**

**Epping Forest
District Council**

Portfolio: Finance and Economic Development

Subject: Prudential Indicators 2010/11 to 2012/13 & Treasury Management Strategy 2010/11

Responsible Officer: Brian Moldon (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

That, as amended if appropriate, the Council's Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11 as attached be considered and recommended to the Council for approval.

Executive Summary:

Following the collapse of the Icelandic Banks, there have been two national reports produced, these reports have resulted in a revised CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. A key change to the Code is the requirement for the Annual Strategy to be scrutinised before being approved by Full Council.

Attached to this report are the proposed Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11 for this Committee to scrutinise.

Reasons for Proposed Decision:

Under the revised Treasury Management Code of Practice, it is recommended that the Prudential Indicators and Treasury Management Strategy are scrutinised by the Audit Committee before being approved by Full Council. As this is within the Purpose but not explicitly part of the Role and Responsibilities of this Committee, an amending report will be going to the Constitution and Members Services Scrutiny Standing Panel.

Other Options for Action:

The Committee could decide that the Prudential Indicators and / or the Treasury Strategy should be amended prior to them being presented to Full Council.

Report:

1. Under the Local Government Act 2003, the Council is required to adopt the CIPFA Prudential Code and to produce prudential indicators each year on the expected capital activity or introduce limits upon that activity and to reflect on the outcome of the Council's underlying capital appraisal system.
2. Councils are also regulated by statutory requirement and a professional code of

practice (the CIPFA Code of Practice on Treasury Management). The Council adopted the Code of Practice on Treasury Management on 22 April 2002 and subsequently formulated a Treasury Management Policy Statement.

3. The purpose of the Audit and Governance Committee within the Council's Constitution is to 'provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process'. Although the Role and Responsibilities of the Committee do not specifically mention treasury management, the wider definition of purpose can be interpreted as covering these issues. The key risks to the Council are around the safeguarding of the investment portfolio and ensuring sufficient funds are available to cover its capital expenditure.

4. Following the collapse of the Icelandic Banks, there have been two national reports as a consequence, one from the Audit Commission (named Risk and Return English local authorities and the Icelandic Banks) in March 2009 and the second from the Communities and Local Government Select Committee (named Local authority investments) published June 2009.

5. Neither report suggested that the current system was fundamentally flawed, though both made recommendations for improvement. Following these reports CIPFA published a revised Treasury Management Code and updated Prudential Code in November 2009.

6. The key changes to the Code are as follows:

(a) *Scrutiny* - The Council will be expected to name a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.

(b) *Approval Process* – The annual strategy can be approved by a named relevant committee and does not have to be approved by full Council. Where approval of the annual strategy is taken by a committee other than Full Council, the annual strategy should be reported to Full Council.

(c) *Training of Members* – The Director of Finance & ICT should ensure that all Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

(d) *Reporting* – In addition to the Annual strategy and year end operation report, a mid year report will be required. This should be presented to a relevant committee.

7. The Department for Communities and Local Government is currently consulting on the Investment Guidance. The revised guidance arising from these Codes has been incorporated within the attached reports, with CLG proposals being incorporated where these do not conflict with current guidance.

8. As this Committee is felt to be the most appropriate to discharge the functions set out above, they should be explicitly mentioned in the Role and Responsibilities of this Committee. Therefore a report will be going to the next Constitution and Members Services Scrutiny Standing Panel on the 22 March 2010 to achieve this.

9. As the purpose of the Committee already covers the key risks, the Committee are asked to consider the attached report on the Council's Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11 and make any comments or amendments as necessary before recommending to Full Council for approval.

Resource Implications:

The approval of the Council's Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11 does not in itself have any resource implications.

Legal and Governance Implications:

Any comments or amendments made by this Committee will be reported to Full Council before they consider the proposed Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:

The attached annual strategy has been reviewed by the Council's treasury advisers to ensure full compliance with the revised Code of Practice.

Background Papers:

None.

Impact Assessments:Risk Management

The Corporate Risk Register includes a risk relating to potential losses on investments, risk 26. This risk is currently scored as C2 (Significant Likelihood, Critical Impact). Robust scrutiny of the proposed Prudential Indicators and Treasury Management Strategy should assist with the effective management of this risk.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.