

Governance, Audit and Scrutiny Committee  
5 March 2018

Report by the Executive Director  
Service Support/S.151 Officer

**TREASURY MANAGEMENT AND CAPITAL EXPENDITURE  
PRUDENTIAL INDICATORS, TREASURY MANAGEMENT  
POLICY STATEMENT 2018/19 AND MINIMUM REVENUE  
PROVISION (MRP) FOR 2018/19**

REPORT EXECUTIVE SUMMARY

This report sets out the Prudential Indicators for Treasury Management and Capital and the Treasury Management Policy Statement proposed for adoption for the financial year 2018/19. The Authority's Constitution requires that the Policy Statement is approved by the full Fire Authority and this responsibility cannot be delegated.

This report also outlines the recommended policy to be adopted in respect of creating the Minimum Revenue Provision (MRP) for 2018/19, in line with the statutory requirements set out in The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

## RECOMMENDATIONS

1. Members note and make any recommendations to the Fire Authority as required on the attached Treasury Management Strategy Statement for 2018/19 onwards.

## BACKGROUND

2. Treasury Management, as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2017 is:

‘The management of the organisation’s investments and cash-flows, its banking and money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

3. An updated version of the Code was published in December 2017; this strategy statement has been prepared in accordance with the requirements of the new Code.

## TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

4. The Local Government Act 2003 and supporting regulations require the Authority to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set, on an annual basis, a range of Prudential and Treasury Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable. This report details the proposed indicators relating to the Authority’s Treasury Management activities, capital expenditure and external debt for 2018/19 for Members’ consideration and approval.

5. The suggested strategy for 2018/19 in respect of the following aspects of the treasury management function is based upon the S.151 Officer’s views on interest rates, supplemented with leading market forecasts provided by the Authority’s treasury management advisors and support from the treasury management team within Hull City Council. The strategy covers:

- limits in force which will limit the treasury risk and activities of the Authority;
- the Treasury Management and Prudential Indicators;
- the current treasury position;
- prospects for interest rates;
- the borrowing requirement and strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the MRP strategy;
- policy on use of external service providers

6. The 2003 Act, revised Investment Guidance issued 2010 and the updated CIPFA Code also require that Members give consideration to the Authority’s Annual Investment Strategy, setting out how investments will be managed and the priorities for security and liquidity of those investments as well as the Annual Borrowing Strategy; these have also been incorporated into this report.

7. In addition, it is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital decisions. This therefore means, that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- a. increased interest charges from additional borrowing and;
- b. increased running costs from new capital projects

are limited to a level that is affordable within the projected income of the Authority.

#### STRATEGIC PLAN COMPATIBILITY

- 8. Treasury Management is an integral part of the financial management of the Authority with Prudential Indicators providing a framework for the Authority to monitor key elements of its financial position. Utilising approved Borrowing and Investment Strategies, the Executive Director Service Support/S.151 Officer will seek to minimise borrowing costs and maximise investment income whilst adopting a prudent approach to the Authority's exposure to market risks, especially given the current economic situation.

#### FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

- 9. The approach outlined within the report is aimed at achieving effective and efficient management of the Authority's financial resources and reflects a prudent approach to the management of financial risk for the Authority.

#### LEGAL IMPLICATIONS

- 10. The Authority must comply with the requirements of the CIPFA Code of Practice on Treasury Management 2017 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017. This report ensures such compliance.

#### EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS

- 11. No direct issues arising from this report.

#### CORPORATE RISK MANAGEMENT IMPLICATIONS

- 12. The formulation and application of a prudent Treasury Management Policy and MRP provision ensures that the Authority effectively manages financial risks such as exposure to interest rate changes and liquidity risk whilst minimising borrowing costs and maximising investment income. It further ensures that sufficient levels of resource are set aside for the repayment of debt. Effective treasury management is key to making the best use of the Authority's financial resources and thus the successful delivery of its Strategic Plan.

#### HEALTH AND SAFETY IMPLICATIONS

- 13. No direct issues arising.

#### COMMUNICATIONS ACTIONS ARISING

- 14. No direct issues arising.

#### DETAILS OF CONSULTATION AND/OR COLLABORATION

- 15. No direct issues arising.

## BACKGROUND PAPERS AVAILABLE FOR ACCESS

16. 2018/19 Budget and Precept and Medium-Term Financial Plan 2018/19 to 2021/22 – Report to Fire Authority 12 February 2018  
Treasury Management Mid-year Update Report 2017/18 – Report to Fire Authority December 2017  
CIPFA Prudential Code (Revised 2011) and November 2012 and 2017 update  
The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and 2017.

## RECOMMENDATIONS RESTATED

17. Members note and make any recommendations to the Fire Authority as required on the attached Treasury Management Strategy Statement for 2018/19 onwards.

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23 February 2018