<u>For publication</u>

Treasury Management Strategy 2017/18

Meeting:	Council
Date:	23 February 2017
Report by:	Director of Finance & Resources

For publication

1.0 Purpose of report

1.1 To approve the Treasury Management Strategy Statement and the Annual Investment Strategy Statement for 2017/18.

1.2 To approve the Minimum Revenue Provision (MRP) policy for 2017/18.

2.0 Recommendations

2.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.

2.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators be approved.

2.3 That the Minimum Revenue Provision policy is approved.

3.0 Background

3.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:

a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.

3.2 The Council first adopted the Code at its meeting on the 22nd October 2003. The Council is required to approve the Treasury Management and Investment Strategies and reaffirm its adoption of the Code before the start of each financial year.

3.3 CIPFA amended the Code in 2011 to take account of developments in the financial market place and the introduction of the Localism Act.

3.4 This report was considered by the Standards and Audit Committee at its meeting on 8 February, 2017 where it was resolved that report and its recommendations be supported and referred to Council for approval.

4.0 Capital Programme & Financing

4.1 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that provides a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable.

4.2 To facilitate the decision making process, the Code requires the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management.

4.3 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

Capital expenditure £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	8,355	5,268	8,182	3,689	4,242
HRA	18,125	14,500	16,500	16,500	16,500
Total	26,480	19,768	24,682	20,189	20,742

The table below shows how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Financed by:					
Capital receipts (GF & HRA)	3,336	3,568	6,180	5,271	4,051
Capital grants & contributions	5,651	2,933	3,896	2,254	2,700
Revenue Reserves & HRA Major Repairs Reserve	16,340	13,267	13,214	12,664	13,991
Net financing need for the year	**1,153**	**-**	**1,392**	**-**	**-**

4.4 The Council's Borrowing Need - Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below. These projections exclude the loan from Sheffield City Region LEP for the £2.4m Waterside project.

£000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – General Fund	14,450	12,371	13,361	12,761	7,524
CFR – HRA	136,405	134,359	132,343	130,358	128,403
Total CFR	150,855	146,730	145,704	143,119	135,927
Movement in CFR	(1,254)	(4,125)	(1,026)	(2,585)	(7,192)

Movement in CFR represented by					
Net financing need for the year (above)	1,153	-	1,392	-	-
Less MRP/VRP and other financing movements	(2,407)	(4,125)	(2,418)	(2,585)	(7,192)
Movement in CFR	(1,254)	(4,125)	(1,026)	(2,585)	(7,192)

4.5 Affordability Ratios

Ratio of financing costs to net revenue stream shows the trend in the cost of capital based on the programme against the net revenue stream (i.e. council tax for the General Fund and rent income for the Housing Revenue Account). The estimates of financing costs include current commitments and the proposals in the budget report.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	4.62	5.60	4.90	4.32	3.09
HRA	18.58	18.59	18.88	18.70	17.85

The General Fund ratio increases in 2016/17 which reflects the prudential borrowing required to finance the rebuild of Queens Park Sports Centre and the Town Hall restack but this reduces in future years as capital receipts are set aside to repay that debt. The HRA ratio is fairly static due to both reducing financing costs and a reducing revenue stream as a result of the 1% per annum rent reduction requirement.

Estimates of the incremental impact of capital decisions on the Council Tax and housing rents identifies the revenue costs associated with proposed changes to the capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans.

Incremental Impact of Capital Investment Decisions on Band D Council Tax

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	0.30	1.01	1.22	2.87

The capital programme includes a project to reconfigure the Town Hall which when completed will provide an opportunity to generate rental income to support the revenue budget.

Incremental Impact of Capital Investment Decisions on Housing Rent Levels identifies the trend in the cost of proposed changes in the housing capital programme report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly Housing Rent Levels	0.01	0.06	0.11	0.20

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

4.6 Minimum Revenue Provision

The Local Authorities (Capital Finance & Accounting) (England) Amendment Regulations 2008 require local authorities to agree a policy on the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the authority has to provide for the repayment of debt. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR (option 2);

  This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

  From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Prudential borrowing will continue to be used for invest-to-save type schemes, even where assets lives might be quite short, provided the anticipated efficiency savings are sufficient to cover the MRP charges i.e.the investment is self financing.

The Council has the discretion to determine the debt repayment policy for the HRA. The Policy from April 2013 is to set aside a provision for debt repayment based on 1.5% of the Capital Financing Requirement. This policy will be reviewed in later years as the Business Plan develops.

5.0 External Debt

5.1 The Code specifies a number of prudential indicators in respect of external debt. These are described below:

5.2 Limits to Borrowing Activity

- Operational Boundary - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.

- Authorised Limit - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.

£000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Operational Boundary	137,660	133,250	131,300	129,340
Authorised Limit	148,000	143,000	141,000	139,000

5.3 **Borrowing Strategy** - the current borrowing strategy is to bring the long term debt into line with the capital borrowing limit as determined by the Capital Financing Requirement. The Public Works Loans Board continues to be the main source of long-term financing.

6.0 Annual Investment Strategy

6.1 The Annual Investment strategy defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. The credit ratings of the approved counterparties for investments are regularly reviewed.

Appendix A provides details of permitted investments.

7.0 Recommendations

7.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.

7.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators be approved.

7.3 That the Minimum Revenue Provision policy is approved.

8.0 **Reasons for recommendations**

8.1 To comply with regulations and recognised best practice.

Decision information

Key decision number	690
Wards affected	ALL
Links to Council Plan priorities	To provide value for money services.

Document information

Report author	**Contact number/email**
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
None	
Appendices to the report	
Appendix A	Treasury Management Strategy Statement 2017/18