<u>**For publication**</u>

Treasury Management Strategy 2018/19

Meeting:	Council
Date:	22 February 2018
Cabinet portfolio:	Deputy Leader
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 2018/19.

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

1.3 To approve the Minimum Revenue Provision (MRP) policy for 2018/19.

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 revised Minimum Revenue Provision policy for 2017/18 be approved.

2.4 That the Minimum Revenue Provision policy for 2018/19 be 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 7 February, 2018 where it was resolved that the report and its recommendations be supported and referred to Council for approval, and it is due to be considered by the Cabinet at its meeting on 20 February, 2018 where it is recommended that the 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.

Capital expenditure £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	5,954	8,265	11,354	1,708	925
HRA	12,901	19,559	16,842	21,462	21,094
Total	18,855	27,824	28,196	23,170	22,019

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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Financed by:					
Capital receipts (GF & HRA)	3,384	5,382	4,862	3,099	2,801
Capital grants & contributions	4,055	4,792	5,266	1,145	660
Revenue Reserves & HRA Major Repairs Reserve	11,416	16,258	12,810	18,926	18,558
Net financing need for the year	**-**	**1,392**	**5,258**	**-**	**-**

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.

£000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement					
CFR – General Fund	13,983	14,898	19,708	16,086	12,495
CFR – HRA	134,359	132,343	130,358	128,403	126,477
Total CFR	148,342	147,241	150,066	144,489	138,972
Movement in CFR	(2,512)	(1,101)	2,825	(5,577)	(5,517)

Movement in CFR represented by					
Net financing need for the year (above)	-	1,392	5,258	-	-
Less MRP/VRP and other financing movements	(2,512)	(2,493)	(2,433)	(5,577)	(5,517)
Movement in CFR	**(2,512)**	**(1,101)**	**2,825**	**(5,577)**	**(5,517)**

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.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	5.39	4.93	5.36	4.85	4.27
HRA	18.40	18.88	18.92	18.67	17.95

The General Fund ratio increases in 2018/19 which reflects the prudential borrowing required to finance the build of the new Saltergate Multi-Storey car Park 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

£	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Council tax - band D	1.01	0.75	2.01	3.11

The capital programme includes projects to reconfigure the Town Hall and to rebuild Saltergate Multi-Storey Car Park 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	0.04	0.11	0.20	0.31

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).

The Council recently commissioned its treasury advisors, Arlingclose, to undertake a review of its MRP calculations for General Fund capital expenditure to determine whether current arrangements are appropriate and whether alternative arrangements impacting on council tax could be put in place that would remain prudent.

Full details of the changes to the Minimum Revenue Provision policy for 2017/18 onwards, following the Arlingclose report recommendations, are attached at Appendix B. The proposed changes to the MRP policy have been discussed with external auditors, who are comfortable with the revised approach.

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);

  An annuity based calculation based on an annuity rate of 2% over 40 years.

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

- **Asset life method** – An annuity based calculation based on an annuity rate of 2% over the estimated life of the assets.

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

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	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Operational Boundary	133,250	138,330	129,570	127,640
Authorised Limit	144,000	147,970	146,151	144,398

5.3 **Borrowing Strategy** - 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 revised Minimum Revenue Provision policy for 2017/18 be approved.

7.4 That the Minimum Revenue Provision policy for 2018/19 be approved.

8.0 **Reasons for recommendations**

8.1 To comply with regulations and recognised best practice.

Decision information

Key decision number	788
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.	
This must be made available to the public for up to 4 years.	
Appendices to the report	
Appendix A	Treasury Management Strategy Statement 2018/19
Appendix B	Revised Minimum Revenue Provision Methodology