

## **For publication**

### **Treasury Management Strategy 2020/21**

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Meeting: Standards & Audit Committee  
Council

Date: 5<sup>th</sup> February 2020  
26<sup>th</sup> February 2020

Cabinet portfolio: Deputy Leader

Report by: Chief Finance Officer

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### **For publication**

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#### **1.0 Purpose of report**

- 1.1 To approve the Treasury Management Strategy Statement for 2020/21.
- 1.2 To approve the Capital Strategy Report for 2020/21.
- 1.3 To approve the Investment Strategy Report for 2020/21.
- 1.4 To approve the Minimum Revenue Provision (MRP) policy for 2020/21.

#### **2.0 Recommendations**

- 2.1 That the Treasury Management Strategy Statement be approved.
- 2.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.
- 2.3 That the Investment Strategy Report be approved.
- 2.4 That the Minimum Revenue Provision policy 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 CIPFA amended the Code in 2017 to take account of recent developments in the financial market place and the introduction of the Localism Act.
- 3.3 CIPFA also amended the Prudential Code for Capital Finance in Local Authorities in 2017, which now includes the requirement for the Council to produce a separate Capital Strategy.
- 3.4 In 2018 the Ministry of Housing, Communities and Local Government completely revised their statutory guidance on

treasury management investments. This included the requirement for the Council to produce an Investment Strategy for non-treasury investments.

#### 4.0 **Treasury Management Strategy**

4.1 The Treasury Management 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. However, the strategy allows sufficient flexibility for the Council to diversify into higher yielding asset classes where appropriate. The credit ratings of the approved counterparties for investments are regularly reviewed.

4.2 The Treasury Management Strategy Statement 2020/21 can be found at Appendix A.

#### 5.0 **Capital Strategy Report**

5.1 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.

5.2 The Code was revised in 2017 and introduced the requirement for the Council to produce a capital strategy, with the purpose of demonstrating that capital expenditure and investment decisions are taken in line with service objectives, and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy Report 2020/21 can be found at Appendix B.

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

## 5.4 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans.

Capital expenditure £millions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>General Fund</b>	8.0	9.7	22.1	3.2	1.0
<b>HRA</b>	17.7	24.7	25.9	19.8	16.4
<b>Total</b>	<b>25.7</b>	<b>34.4</b>	<b>48.0</b>	<b>23.0</b>	<b>17.4</b>

The table below shows how these plans are being financed by external sources such as grants and contributions, internal sources such as reserves and capital receipts and debt.

Capital expenditure £millions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Financed by:</b>					
External sources	5.3	2.5	4.3	2.2	0.8
Internal sources	20.4	26.6	28.3	20.8	16.6
Debt	0	5.3	15.4	0	0
<b>Total</b>	<b>25.7</b>	<b>34.4</b>	<b>48.0</b>	<b>23.0</b>	<b>17.4</b>

## 5.5 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 capital financing requirement for 2020/21 and subsequent years includes a £2.1m increase due to a change in the accounting for leases standard.

£millions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Capital Financing Requirement</b>					
CFR – General Fund	14.9	20.0	36.7	35.5	33.6
CFR – HRA	130.4	128.4	126.5	124.6	122.7
<b>Total CFR</b>	<b>145.3</b>	<b>148.4</b>	<b>163.2</b>	<b>160.1</b>	<b>156.3</b>
<b>Movement in CFR</b>	<b>-2.2</b>	<b>3.1</b>	<b>14.8</b>	<b>-3.1</b>	<b>-3.8</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	0	5.3	15.4	0	0
Increase in CFR due to changes to lease standard	0	0	2.1	0	0
Less MRP/VRP and other financing movements	-2.2	-2.2	-2.7	-3.1	-3.8
<b>Movement in CFR</b>	<b>-2.2</b>	<b>3.1</b>	<b>14.8</b>	<b>-3.1</b>	<b>-3.8</b>

## 5.6 Affordability Ratio

**Estimates 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.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	1.12	1.84	7.33	9.90	9.56
HRA	18.88	18.52	18.16	17.18	16.41

The General Fund ratio increases from 2019/20 to 2021/22 due to increased financing costs associated with the capital programme. Financing costs are also increased in 2020/21 and

subsequent years due to a change to the accounting standard for leases. The HRA ratio decreases steadily over the forthcoming years due to reducing financing costs.

## 5.7 External Debt

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

### 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.

£millions	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Operational Boundary (£m)	129.3	143.4	141.3	138.5
Operational Boundary – Leases (£m)	0	3.0	3.0	3.0
Authorised Limit (£m)	140.1	158.0	156.0	152.0
Authorised Limit – Leases (£m)	1.0	5.0	5.0	5.0

5.8 **Borrowing Strategy** – The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. The Authority has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including banks, pensions and local authorities.

## 6.0 **Investment Strategy**

- 6.1 In 2018 the Ministry for Housing, Communities and Local Government's Investment Guidance was revised, and introduced the requirement for Authorities to produce an Investment Strategy Report.
- 6.2 The report focuses on non-treasury investments and sets out how these contribute towards the Council's core objectives to deliver services to residents, and the procedures for risk assessing potential investments.
- 6.3 The Investment Strategy Report 2020/21 can be found at Appendix C.

## 7.0 **Minimum Revenue Provision (MRP) Policy**

- 7.1 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).
- 7.2 The Minimum Revenue Provision (MRP) Policy 2020/21 can be found at Appendix D.

## 8.0 **Recommendations**

- 8.1 That the Treasury Management Strategy Statement be approved.

8.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.

8.3 That the Investment Strategy Report be approved.

8.4 That the Minimum Revenue Provision policy be approved.

## 9.0 **Reasons for recommendations**

9.1 To comply with regulations and recognised best practice.

### **Decision information**

<b>Key decision number</b>	
<b>Wards affected</b>	
<b>Links to Council Plan priorities</b>	

### **Document information**

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<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix A	Treasury Management Strategy Statement 2020/21
Appendix B	Capital Strategy Report 2020/21
Appendix C	Investment Strategy Report 2020/21
Appendix D	Minimum Revenue Provision (MRP) Policy 2020/21