Public Session

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To:	**Council**
Date:	**22 February 2018**
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Executive Member:	**Councillor C Lunn, Lead Executive Member for Finance & Resources**

Title: Treasury Management – Treasury Management Strategy Statement 2018/19, Minimum Revenue Provision Policy Statement 2018/19, Annual Investment Strategy 2018/19 and Prudential Indicators 2018/19.

Summary:

This report presents for approval the proposed Treasury Management Strategy together with the Minimum Revenue Provision Policy Statement, Annual Investment Strategy for 2018/19, Capital Strategy 2018/19 and Prudential Indicators 2018/19 as required by the Department of Communities and Local Government and CIPFA (as updated 2017). The Report also presents opportunities to maximise investment returns through Property Funds.

Recommendations:

It is recommended to Council that:

i) The Operational Borrowing Limit for 2018/19 is set at £79m;

ii) The Authorised Borrowing Limit for 2018/19 is set at £84m;

iii) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed authorised boundary limits for long-term borrowing for 2018/19 onwards;

iv) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed operational boundary limits for long-term borrowing for 2018/19 onwards;

v) The treasury management strategy statement 2018/19 be approved;

vi) The minimum revenue provision policy statement for 2018/19 be approved;

vii) The treasury management investment strategy for 2018/19 be approved;

viii) The prudential indicators for 2018/19 which reflect the capital expenditure plans which are affordable, prudent and sustainable be approved.

ix) The Capital Strategy for 2018/19 be approved.

Reasons for recommendation

To ensure the Council's Treasury Management Strategy and associated policies are prudent and affordable.

1. Introduction and background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested to maximise returns within a policy which prioritises security of capital and liquidity of funds.

1.2 The second main function of the treasury management service is the funding of the Council's capital programmess. These capital programmes provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Council's Treasury Management Strategy is attached at Appendix A. The strategy sets out the limits to borrowing and investments that officers will apply over the coming year in order to ensure the Council's capital investments plans are affordable, prudent and sustainable.

2 The Report

Treasury Management Strategy

2.1
- The Council's 'Authorised Limit for External Debt' is £84m for 2018/19, which is the maximum that can be borrowed in the year;
- The 'Operational Boundary' (the maximum amount that is expected to be borrowed) is £79 in 2018/19, which includes £5m headroom for any unusual cashflow purposes, should this be required;
- Within its Treasury Management Strategy, the Council will contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums, by setting limits for the amounts that can be invested from 1 up to 5 years (ranging from £20m down to £5m respectively);
- The Council operates 2 borrowing pools – one for the General Fund and one for the HRA;
- The Council has a range of loans with differing maturity limits in order to smooth out the repayment profile – the value of loans at 31/12/17 is £60.3 at an average rate of 4.19%;
- Total investments are around at an average rate of 4.47%;
- Investment rates available continue to remain at relatively low levels as a result of the historically low Bank Rate. Whilst the Council is experiencing exceptional annual receipts as a result of Renewable Energy Business Rates, options to earmark some of those receipts for Commercial Investment are being developed to maximise returns.

Minimum Revenue Provision (MRP) Policy

2.2
- The Council is required to determine the amount of MRP it considers prudent for each financial year. The MRP policy is based on the Government's statutory guidance and following review of this policy, the MRP Policy for 2018/19 has been extended to incorporate 'Assets Acquired or Developed for Resale' and 'Investment Properties';
- MRP for new borrowing will be based on the asset life;
- Total MRP for 2018/19 is £1.517m (£0.183m internal borrowing, £1.26m HRA external borrowing and £0.074 for leases).

Annual Investment Strategy

2.3
- The Council's day to day investments are now managed as part of an overall investment pool operated by North Yorkshire County Council (NYCC);
- In order to facilitate the pooling of investments with NYCC, the Council's Annual Investment Strategy and Lending List has been aligned to that of NYCC;
- While it is recognised that there is value in pooling investments, responsibility for risk management lies wholly with the Council and officers of the Council and NYCC are explicitly required to follow Treasury Management policies and procedures;

- The priorities for investing the Council's cash reserves remain the security of capital and liquidity of funds;
- Cash balances for investment are expected to range between £40m and £55m over the coming year dependent upon cashflows;
- An average rate of return of 0.47% has been estimated for 2018/19. Money market returns are expected to below 0.5%, however, loans to Selby District Housing Trust will help to increase overall returns;
- NYCC have included a range of alternative options, including Certificates of Deposit, Bonds and UK Government Gilts within its Investment Strategy in order to improve returns over the coming year;
- In addition to the types of investment set out in Schedule A and B, Treasury Management staff are currently investigating a number of alternative options, in order to assess whether they meet the Councils investment priorities and criteria list;
- As part of the monitoring and review of investment options, Property Funds have been identified as a potential instrument for investment following discussions with the County Councils Treasury Management consultants. Property Funds are pooled investment vehicles investing in commercial property. As a result, Property Funds have been added to the schedule of Non Specified Investments at Schedule B of Appendix A. Appropriate due diligence will be undertaken before an investment of this type is undertaken. The County Council will also consult with the Council service prior to any investment, with an option to 'opt out'.

Prudential Indicators

2.4
- The Council plans to spend £10.3 on capital projects in 2018/19;
- This expenditure will be funded from major repairs reserve, capital receipts, grants or revenue resources & borrowing;
- Principle (Minimum Revenue Provision or MRP) and interest repayments on current and proposed borrowing, less interest on investments, equate to 1.75% of the General Fund Budget and 32.56% of the HRA net budget in 2018/19;
- Taking into account all capital spending plans during 2018/19 there is a borrowing requirement of £4.069m for the General Fund and £1.700m for the HRA.

Capital Strategy

2.5
- In December 2017, CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. The revised Codes require all local authorities to produce a Capital Strategy. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and takes account of stewardship, value for money, prudence, sustainability and affordability. As a result, a Capital Strategy is now included as **Appendix F** to this report;

- The current economic environment is resulting in low returns on traditional treasury management investments. As a result, the Council is currently considering an alternative strategic approach to managing cash resources through alternative, non-core investments, in addition to the Extended Housing Delivery Programme, encompassing loans to SDHT. It is anticipated that alternative investments will predominantly be considered capital expenditure and as such will be included in the Capital Programme;
- The Capital Strategy provides a projection of how capital expenditure plans, including alternative investment plans, impact on capital borrowing and repayment plans;
- While a range of investment options are being considered, no further non-core investments are currently included in the Capital Programme.

3 Legal/Financial Controls and other Policy matters

3.1 Legal Issues

There are no legal issues as a result of this report.

3.2 Financial Issues

There are no financial implications as a result of this report. However, the Chief Finance Officer (s151) will, with support from North Yorkshire County Council and advice from the Council's advisor (Capita Asset Services) look to maximise opportunities with the Council's investment and borrowing position.

4. Conclusion

4.1 The Council has a statutory duty to produce its annual treasury management and investment strategies.

5. Background Documents

CIPFA Treasury Management Code of Practice and Prudential Code

Contact Details

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Appendices:

Appendix A – Treasury Management Strategy 2018/19
Appendix B – Minimum Revenue Provision Policy 2018/19
Appendix C – Capital Prudential Indicators 2018/19
Appendix D – Borrowing Strategy 2018/19
Appendix E – Annual Investment Strategy 2018/19
Appendix F – Capital Strategy 2018/19