Report Reference Number: C/18/10

To:	**Council**
Date:	**21 February 2019**
Ward(s) Affected:	**All**
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Lead Executive Member:	**Councillor Lunn, Executive Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer**

Title: **Treasury Management – Treasury Management Strategy Statement 2019/20, Minimum Revenue Provision Policy Statement 2019/20, Annual Investment Strategy 2019/20 and Prudential Indicators 2019/20.**

Summary:

This report presents for approval the proposed Treasury Management Strategy together with the Minimum Revenue Provision Policy Statement, Annual Investment Strategy for 2019/20, Capital Strategy 2019/20 and Prudential Indicators 2019/20 as required by the Department of Communities and Local Government and CIPFA (as updated 2017).

Recommendations:

It is recommended that:

i) **The Operational Borrowing Limit for 2019/20 is set at £85m**

ii) **The Authorised Borrowing Limit for 2019/20 is set at £90m**

iii) **Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed authorised boundary limits for long-term borrowing for 2019/20 onwards.**

iv) **Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed operational boundary limits for long-term borrowing for 2019/20 onwards.**

v) **The treasury management strategy statement 2019/20 be approved.**

vi) **The minimum revenue provision policy statement for 2019/20 be approved.**

vii) **The treasury management investment strategy for 2019/20 be approved.**

viii) **The prudential indicators for 2019/20 which reflect the capital expenditure plans which are affordable, prudent and sustainable be approved.**

ix) **The Capital Strategy for 2019/20 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 programmes. 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.

1.4 The strategy incorporates Statutory MRP guidance where it has been updated in 2018, which has largely had little impact for this Council. The key difference within the strategy is disclosures relating to Voluntary Revenue Provision payments, (VRP).

2. The Report

2.1 Treasury Management Strategy

- The Council's 'Authorised Limit for External Debt' is £90m for 2019/20, which is the maximum that can be borrowed in the year;

- The 'Operational Boundary' (the maximum amount that is expected to be borrowed) is £85m in 2019/20, which includes £5m headroom for any unusual cashflow purposes, should this be required;

- The increase in borrowing limits reflects the stepping up of the Housing Delivery Programme, which includes HRA investment and loans to Selby & District Housing Trust.

- 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 31/12/18 is £59.3 at an average rate of 4.19%;

- Total investments are around £64m at an average rate of 0.89%.

- 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 have been developed, with £5m invested in property funds, and a further £3.5m fund earmarked for direct Commercial Property Investment. Whilst the latter is not strictly classified as Treasury Investment, it is important to recognise the inter-relationship with the Treasury function and the impacts on cashflow and revenue returns. .

2.2 Minimum Revenue Provision (MRP) Policy

- 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. Under the new guidance, any amount charged above the statutory minimum provision as voluntary payments (VRP), can if needed be reclaimed for use in future years, if required and prudent, providing the cumulative amounts are disclosed each year in the policy.

- MRP for new borrowing will be based on the asset life;

- Total MRP for 2019/20 is £0.255m (£0.179m internal borrowing, and £0.076 for leases).

- VRP for 2019/20 is £1.26m, in relation to HRA external borrowing.

2.3 Annual Investment Strategy

- 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 £36m and £51m over the coming year dependent upon cashflows;

- An average rate of return of 1% has been estimated for 2019/20. and 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 were identified as an instrument for investment following discussions with the County Councils Treasury Management consultants. £5m was placed during 2018/19 and consideration will be given to further investment.

2.4 Prudential Indicators

- The Council plans to spend £18.6m on capital projects in 2019/20;

- This expenditure will be funded from the HRA major repairs reserve, earmarked revenue reserves, 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 0.18% of the General Fund Budget and 35.65% of the HRA net budget in 2019/20.

- Taking into account all capital spending plans during 2019/20 there is a borrowing requirement of £7.474m for the General Fund and £1.900m for the HRA.

2.5 Capital Strategy

- 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 progressing 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. Alternative investments are currently earmarked as capital expenditure and as such are 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.

- The Capital Programme currently includes existing investment in Property Funds, a Commercial Property investment fund and further loans to support the Housing Delivery Programme. Whilst there are no plans at present to place further investments with Property Funds, it will remain a consideration, subject to performance of current investment and pending purchase of commercial property

3. Alternative Options Considered

A range of investment and borrowing options are available within the proposed strategy.

4. Implications

4.1 Legal Implications

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

4.2 Financial Implications

There are no direct financial implications as a result of this report. However, the Chief Finance Officer will, with advice from the Council's advisor (Link) look to maximise opportunities with the Council's investment and borrowing position.

4.3 Policy and Risk Implications

Effective management of the Council's treasury activities seeks to minimise the cost of borrowing and maximise investment returns within a framework where surplus monies are invested to maximise returns and commensurate with a policy which prioritises security of capital and liquidity of funds. The setting and monitoring of Prudential Indicators, long term cash flow forecasting, the appropriate spread of borrowing and investment terms, investment in approved investment types and adherence to a risk assessed counter party list provides a robust framework for managing treasury related risk.

4.4 Corporate Plan Implications

There are no Corporate Plan implications as a result of this report – the proposed strategy is in accordance with current Corporate Plan objectives and seeks to support delivery of 'Great Value'.

4.5 Resource Implications

The resources to manage the Council's treasury activities are contained within the Better Together collaboration agreement with North Yorkshire Council and funded from existing budgets.

4.6 Other Implications

None

4.7 Equalities Impact Assessment

There are no equalities impacts as a result of this report

5. Conclusion

5.1 The Council has a statutory duty to produce its annual treasury management and investment strategies. The strategy proposed aims to effectively manage the Council treasury activities in order to deliver 'Great Value' in support of the Council's corporate priorities.

6. Background Documents

Accountancy treasury management files

7. Appendices

Appendix A – Treasury Management Strategy 2019/20
Appendix B – Minimum Revenue Provision Policy 2019/20
Appendix C – Capital Prudential Indicators 2019/20
Appendix D – Borrowing Strategy 2019/20
Appendix E – Annual Investment Strategy 2019/20
Appendix F – Capital Strategy 2019/20

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