SELBY DISTRICT COUNCIL

TO ACT FOR OTHERS

Report Reference Number: C/19/17

To:	**Council**
Date:	**20 February 2020**
Lead Executive Member:	**Councillor Lunn, Lead Executive Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer**

Title: **Treasury Management – Treasury Management Strategy Statement 2020/21, Minimum Revenue Provision Policy Statement 2020/21, Annual Investment Strategy 2020/21 and Prudential Indicators 2020/21.**

Summary:

This report presents for approval the proposed Treasury Management Strategy together with the Minimum Revenue Provision Policy Statement, Annual Investment Strategy for 2020/21, Capital Strategy 2020/21 and Prudential Indicators 2020/21 as required by the Ministry for Housing, Communities and Local Government and CIPFA (as updated 2017). A review of CIPFA's Commercial Property Investment Guidance (issued in autumn 2019) has also been undertaken.

The capital expenditure plans for the next three years, along with re-profiled budgets carried forward from 2019/20 total £42m, which includes Housing Delivery projects and programme for growth. Given the anticipated level of expenditure, whilst there are no immediate plans to externally borrow, authorised borrowing limits remain at £90m to enable prudent assessment of the Council's borrowing needs over the year.

Cash balances are expected to remain relatively high over the three year period, whilst Programme for Growth projects are still in progress, and due to re-profiled capital plans. The Council will continue to adopt the NYCC investment strategy for cash balances, along with consideration of other alternative investment opportunities, where considered prudent and operating within CIPFA's investment guidance.

Recommendations:

It is recommended to Council that:

i) **The Operational Borrowing Limit for 2020/21 is set at £85m.**

ii) The Authorised Borrowing Limit for 2020/21 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 2020/21 onwards.

iv) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed operational boundary limits for long-term borrowing for 2020/21 onwards.

v) The treasury management strategy statement 2020/21 be approved.

vi) The minimum revenue provision policy statement for 2020/21 be approved.

vii) The treasury management investment strategy for 2020/21 be approved.

viii) The prudential indicators for 2020/21 which reflect the capital expenditure plans which are affordable, prudent and sustainable be approved.

ix) The Capital Strategy for 2020/21 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). The strategy also takes into consideration the introduction of IFRS 16 – Leases in 2020/21, although it is expected that this will have no impact on the Council's capital plans at present.

2. The Report

2.1 Treasury Management Strategy

- The Council's 'Authorised Limit for External Debt' is £90m for 2020/21, 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 2020/21, which includes £5m headroom for any unusual cashflow purposes, should this be required.

- The borrowing limits reflect capital spending plans arising from capital programmes and the Programme for Growth (P4G).

- 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 31/12/19 is £59.3 at an average rate of 4.19%.

- In 2020/21 a market loan of £6.5m is due to be repaid, as this loan has the highest interest rate in the portfolio (8.79%), this will bring the average borrowing rate down to 3.63%.

- Total treasury deposits are around £65m at an average rate of 0.9%, along with investments in Property Funds of £4.9m, achieving a net rate of return of around 2.71%.

- 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 up to 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 2020/21 is £0.289m (£0.211 internal borrowing, and £0.078 for leases);

- VRP for 2020/21 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 £37m and £55m over the coming year dependent upon cashflows.

- An average rate of return of 1% has been estimated for 2020/21 and loans to Selby District Housing Trust will help to increase overall returns although there are delays to the Housing Development programme which drive these loans.

- 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 continue to investigate 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 should market conditions and available resources suggest this is prudent.

2.4 Prudential Indicators

- The Council plans to spend £19.1m on capital projects in 2020/21;

- 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 0.1% of the General Fund Budget and 28.7% of the HRA net budget in 2020/21.

- Taking into account all capital spending plans during 2020/21 there is a borrowing requirement of £1.69m for the General Fund, relating to Housing Development Programme/Housing Trust Loans This reflects the estimated re-profile of carried forward slippage from 19/20 plans.

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 Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy.

- The Capital Programme currently includes existing investment in Property Funds, a Commercial Property acquisition 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. In accordance with CIPFA's Commercial Property Investment guidance, issued in autumn 2019, the Council does not plan to externally borrow to finance commercial investments.

3. Implications

3.1 Legal Implications

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

3.2 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 (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. The underpinning purpose is to ensure the Council considers the key financial risks associated with managing cash flows, prudent investment decisions, financing of capital spending plans, and to ensure that capital investment is prudent, affordable and sustainable in the long term. The strategies and prudential indicators are also designed to demonstrate proportionality and balance of risk.

5. Background Documents

None

6. Appendices

Appendix A – Treasury Management Strategy 2020/21
Appendix B – Minimum Revenue Provision Policy 2020/21
Appendix C – Capital Prudential Indicators 2020/21
Appendix D – Borrowing Strategy 2020/21
Appendix E – Annual Investment Strategy 2020/21
Appendix F – Capital Strategy 2020/21

Contact Officer:

Karen Iveson
Chief Finance Office
kiveson@selby.gov.uk