Report To:	CABINET	Date:	18 FEBRUARY 2019
Heading:	TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE POLICY AND PRUDENTIAL INDICATORS		
Portfolio Holder:	CABINET MEMBER (INWARD), COUNCILLOR ROBERT SEARS-PICCAVEY		
Ward/s:			
Key Decision:	YES		
Subject to Call-In:	YES		

Purpose of Report

This report sets out the Council's proposed Treasury Management Strategy (TMSS) for 2019/20 (including the Treasury Management Policy; Minimum Revenue Provision Policy; Investment Strategy; Prudential Indicators and Treasury Management Practices: Main Principles). It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and relevant legislation.

Recommendation(s)

Cabinet recommends to Council:

1) **Approval of the Annual Investment Strategy;**
2) **Approval of the revised Minimum Revenue Provision (MRP) Policy;**
3) **Adoption of the proposed Prudential Indicators; and**
4) **That it notes the remaining contents of the report.**

Reasons for Recommendation(s)

The Treasury Management Strategy Statement recommendations will allow for effective Treasury Management operations within the Authority, the revised Minimum Revenue Provision Policy will ensure that Minimum Revenue Provision (MRP) charges will be applied more effectively and the Prudential Indicator ratios offer a benchmark by which any future capital expenditure decisions should be made. The Treasury Management Code of Practice requires Council approval of these Policies.

Alternative Options Considered

None. It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy Statement (TMSS).

Detailed Information

The TMSS contains the Annual Investment Strategy which sets limits for the maximum amounts to be invested and the types of investments the Council may consider, and the MRP Policy which states how the Council will apply MRP charges. Annex A of Appendix 1 contains the proposed Prudential Indicators for the Authority, Annex B shows the borrowing and investment position of the Council as at 31st December 2018 as well as projections for future interest rates and Annex C shows the Treasury Management Practices (TMPs) of the Authority.

1. Operational Boundary and Authorised Limits

   The Authority is looking to increase its borrowing requirement primarily to fund the proposed acquisition of new Investment Properties and the borrowing requirements associated with the new Kirkby Leisure Centre and pool. The additional borrowing is added to the Capital Financing Requirement (CFR). The CFR represents Capital Expenditure which is still to be financed. The Council should under normal circumstances not borrow any more than its CFR. The Operational Boundary sets a warning level for which total external debt should not exceed. The proposed Operational Boundary has been set at a level which is slightly above the CFR. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is £10m greater than the proposed Operational Boundary; this is consistent with previous years.

2. Minimum Revenue Provision (MRP) Policy

   The Minimum Revenue Provision charge is the means by which capital expenditure which is financed by borrowing or credit arrangements, is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

   The Council is proposing to change its MRP policy to allow an annuity calculation to be used when the asset life is expected to exceed 10 years. The Annuity calculation charges a lower rate of MRP in the early years of the asset life and a higher charge in the later years of the asset life. It is proposed to continue to use the straight line method for those assets with an estimated life of 10 years or below. The straight line method for MRP charges a fixed amount of MRP per annum over the asset life. Note the total MRP charge over the life of the assets will still be the same amount using either methodology.

   Assuming the proposed Capital Programme (elsewhere on this agenda) is approved and the actual capital expenditure in 2018/19 is the same as the proposed 2018/19 Capital Programme, using the existing straight line MRP calculation the MRP charge in 2019/20 would be £2.018m. If the proposed change to the MRP policy is approved then the MRP charge would be £1.703m for 2019/20. This amounts to a revenue saving of £315k for 2019/20.

   The example below based on an asset costing £10m with a 40 year life illustrates the differences between the two MRP calculation approaches.

	Asset Life	Capital Expenditure	Straight Line (S) / Annuity (A)	1	2	3	38	39	40	Total
2019/20				-	-	-	-	-	-	-
Capital Expenditure (Straight Line)	40	10,000,000	S	250,000	250,000	250,000	250,000	250,000	250,000	**10,000,000**
Capital Expenditure (Annuity)	40	10,000,000	A	146,724	150,465	154,302	372,495	381,994	391,735	**10,000,000**
Difference				103,276	99,535	95,698	-122,495	-131,994	-141,735	**- 0**
Discount Factor 3.5%				1	0.966	0.934	0.280	0.271	0.261	
Net Present Value										
Capital Expenditure (Straight Line)				250,000	241,546	233,378	70,008	67,640	65,353	**5,525,625**
Capital Expenditure (Annuity)				146,724	145,377	144,043	104,310	103,353	102,404	**4,930,913**
Difference				103,276	96,169	89,335	- 34,303	- 35,713	- 37,051	**594,712**

In absolute terms there is no difference over 40 years between the two methods of MRP calculation. However, when you factor in the fact that the value of money diminishes each year (assumed by 3.5% in the above example – this being the amount recommend in the HM Treasury Green Book for appraisal of projects), the Annuity version in today's money terms is actually £595k less expensive over the life of the asset.

3. Prudential Indicators

The Prudential Indicators are designed to show the estimated effect that future Capital Expenditure will have on Individual Council Tax payers and on each Council Dwelling. The Prudential Indicators also set appropriate levels for the total debt of the Authority.

The estimate of the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA) remains relatively static over the three years. (See paragraph a) Annex A). The reason for this is that there is not expected to be any new borrowing costs; the ratios will fall slightly as HRA historic debt costs are expected to remain static in future years and HRA revenues are expected to increase slightly.

The estimate of the ratio of financing costs to net revenue stream for the General Fund is expected to increase significantly as a result of additional borrowing for the proposed acquisition of Investment Properties and for new Kirkby Leisure Centre.

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £27.42 in 2019/20, £25.29 in 2020/21 and £20.66 in 2021/22. This represents the estimated amount of Council Tax within the District's annual Council Tax charge from each Band D equivalent that will be used to fund future capital investment. These levels also reflect the use of borrowing to purchase the Investment Properties and to build the new Kirkby Leisure Centre and pool. There is no incremental impact to Council Dwelling Rent payers as there is no borrowing proposed for the HRA.

4. Treasury Management Practices (TMPs)

The Treasury Management Practices were last revised in 2012. The main proposed changes to the TMPs are as follows**:**

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements – this has been revised to reflect current establishment

TMP8 Cash and Cash Flow Management – this has been updated to reflect how the Council forecasts its future cashflow requirement.

Details of the proposed TMP's are attached in Annex C.

Implications

Corporate Plan:

The Treasury Management Strategy Statement will support delivery of the priorities in the Corporate Plan.

Legal:

It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy Statement.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The change to the MRP policy will not affect the total amount of MRP charged over the life of an asset. The revised MRP policy, depending on the life of the asset, may mean that a lesser amount of MRP is charged in the early years but an increased amount is charged in future years.
General Fund – Capital Programme	No Implications
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The Minimum Revenue Provision (MRP) policy is no longer suitable.	Careful monthly monitoring of Capital Expenditure should ensure an appropriate and prudent MRP provision is made annually. Revisions to the Policy in line with Code of Practice updates.
The Annual Investment Strategy is no longer suitable for the Authority.	Information received from our Treasury Management Advisors should allow the Council to take necessary action to mitigate against any risks.

Human Resources:

Not Applicable

Equalities:

Not Applicable

Other Implications:

Not Applicable

<u>Reason(s) for Urgency</u>
Not Applicable

<u>Reason(s) for Exemption</u>
Not Applicable

<u>Background Papers</u>

- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.

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