Report To:	**CABINET**	**Date:**	**24th FEBRUARY 2020**
Heading:	**TREASURY MANAGEMENT STRATEGY (TMS)**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE**		
Ward/s:	**ALL**		
Key Decision:	**YES**		
Subject to Call-In:	**YES**		

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2020/21. The report includes:

- Treasury Management Policy;
- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

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 Ministry for Housing, Communities and Local Government (MHCLG) Local Government Investment Guidance.

Recommendation(s)

1) For Cabinet to review and note the contents of the Treasury Management Strategy (TMS) for 2020/21

2) For Cabinet to recommend to Council that they approve the Treasury Management Policy Statement incorporating:
   - Treasury Management Strategy Statement (TMSS)
   - Borrowing Strategy
   - Annual Investment Strategy
   - Minimum Revenue Provision (MRP) Policy;
   - Prudential Indicators and Treasury Management Indicators
   - Treasury Management Practices: Risk Management.

Reasons for Recommendation(s)
In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and 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 (TMS) and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Detailed Information
The TMS contains:

- Treasury Management Strategy Statement (TMSS), which outlines what treasury management is and how it is managed by its borrowing an investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges.
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority,
- Annex B shows the borrowing and investment position of the Council as at 30th September 2019 as well as projections for future interest rates
- Annex C shows the Treasury Management Practice (TMP) for risk management 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. 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 to allow for working capital requirements. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is greater than the proposed Operational Boundary by a level which matches the financed part of the Capital Programme. The rationale for doing this is to ensure the capital programme can still be financed, should the expected non borrowing funding not be available.

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 the following minor changes (largely increasing transparency) to its MRP policy:

- Details of the annuity rates to be used in the MRP calculation. This being the average annual PWLB certainty rate when calculating the annuity rate for projects where payments are likely to phased, and using the PWLB certainty rate applicable on the day where expenditure is incurred in a single transaction e.g. Investment Properties.
- The Council will not charge MRP on Housing Revenue Account borrowing (no change)
- Voluntary Revenue Provision (VRP) may be made at the discretion of the Section 151 Officer. VRP may be reversed in future financial years if required.
- For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.

3. Prudential Indicators

Prudential Indicators are designed to show the Council's capital expenditure plans are affordable, prudent and sustainable. They include the estimated effect that future capital expenditure will have on individual council tax payers and on individual rent payers.

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 (but with no net additional cost to the revenue budget).

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £59.62 in 2020/21, £39.40 in 2021/22 and £21.92 in 2022/23. 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 Investment Properties and the new Kirkby Leisure Centre. 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 as part of the TMS for 2019/20. The Council has revised its criteria for specified and unspecified investment for TMP1 Risk Management (See Annex D). TMP1 also now includes the Treasury Management Role of the Section 151 Officer. All other TMPs remain unchanged.

Implications

Corporate Plan:
The Treasury Management Strategy 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. It is a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The Council will be required to make an MRP provision for leased assets this will replace the existing rental payment so should have no overall General Fund impact. The option to charge voluntary revenue provision may increase the charge in year but the total charged to finance the borrowing over the asset lives remain unchanged. The financial implications of this Strategy are factored into the Medium Term Financial Strategy.
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.

Environment / Sustainability
Not Applicable.

Equalities:
Not applicable.

Other Implications:
Not applicable.

Reason(s) for Urgency
Not applicable.

Reason(s) for Exemption
Not applicable.

Background Papers

- 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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