

## **CITY COUNCIL – 5 MARCH 2018**

### **REPORT OF THE DEPUTY LEADER**

#### **TREASURY MANAGEMENT 2017/18 STRATEGY AND REVISION TO 2017/18 DEBT REPAYMENT STRATEGY**

## **1 SUMMARY**

- 1.1 This report seeks approval for a series of strategies relating to treasury management in 2018/19. The strategies were considered as part of a number of reports on the 2018/19 budget process. They were submitted for endorsement to Executive Board on 20 February 2018.
- 1.2 A copy of the Executive Board report has been attached. Full details of the strategies and other material referred to below are shown within that document. The specific strategies included within the Executive Board report are:
- the overall Treasury Management Strategy for 2018/19 (Appendix 1, pages 1-13);
  - the Debt Repayment Strategy (Minimum Revenue Provision) in 2018/19 (Appendix 4, page 19 - 20);
  - the Housing Revenue Account Treasury Management Strategy for 2018/19 (within Appendix 1, pages 1 - 13);
  - the Investment Strategy for 2018/19 (Appendix 1, pages 8 - 11)
  - the Borrowing Strategy for 2018/19 (Appendix 1, pages 4 – 7)
  - the Treasury Management Policy Statement (Appendix 5, pages 21 - 22)
- 1.3 Approval is also required for the Prudential Indicators and limits from 2016/17 to 2020/21 (Appendix 3, pages 16 - 18).
- 1.4 Approval is required for the revision to the 2017/18 Debt Repayment Strategy (Appendix 9).

## **2 RECOMMENDATIONS**

- 2.1 To approve the 2018/19 Treasury Management Strategy document, including the strategy for debt repayment and the investment strategy, as detailed in Executive Board report Appendix 1.
- 2.2 To approve the Prudential Indicators and limits from 2016/17 to 2020/21, as detailed in Appendix 3 of the Executive Board report (pages 16 - 18).
- 2.3 To adopt the current Treasury Management Policy Statement, as detailed in Appendix 5 of the Executive Board report (pages 21 – 22).
- 2.4 To approve the revision to the 2017/18 Debt Repayment Strategy, as detailed in Appendix 9 of the Executive Board report.

## **3 REASONS FOR RECOMMENDATIONS**

- 3.1 Approval of a Treasury Management Strategy is a legal requirement.
- 3.2 A Treasury Management Strategy and Policy Statement will ensure compliance with the Code of Practice on Treasury Management in Public Services (the Code).

- 3.3 There is a legal requirement to approve any in year revisions to the current Treasury Management Strategy, including the Debt Repayment Strategy (MRP policy).

#### **4 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS**

- 4.1 The approval of a Treasury Management Strategy is a legal requirement. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the portfolio holder, believes that the proposed strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications can be found in Appendix 7.

#### **5 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)**

- 5.1 Treasury management is the management of the Council's cash flows, including borrowings and investments. It is regulated by CIPFA's Treasury Management Code of Practice.
- 5.2 Treasury Management is the subject of robust governance arrangements including legislation, government guidance, codes of practice and financial regulations. The approval of a strategy relating to treasury management, including a strategy for debt repayment and investment, is good practice and ensures that the City Council complies with the governance framework
- 5.3 Prudential Indicators for the forthcoming and following two financial years must be set before the beginning of that year. They may be revised at any time, following due process, with any changes to the current indicators being approved at a meeting of Full Council.
- 5.4 During 2017/18 the Council has undertaken a review of its minimum revenue provision (MRP) calculation within the Debt Repayment Strategy. The review looked in particular at the methodology applied to capital expenditure financed by borrowing before 1 April 2007. The revised approach which is an adaptation of option 1 of the guidance has been deemed prudent, appropriate and as having regard for the relevant MRP guidance, as detailed in Appendix 9 of the Executive Board report.

#### **6 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY)**

- 6.1 Net treasury management expenditure comprises interest charges, interest receipts and a revenue provision for debt repayment. A proportion of the Council's debt relates to capital expenditure on council housing and from 1 April 2012 separate arrangements have been established for the HRA. The remaining costs are included within the treasury management section of the General Fund budget, although there remain a number of recharges between the General Fund and the HRA.
- 6.2 The Treasury Management forecast outturn for 2017/18 is reflected within the Corporate Budget report elsewhere on this agenda.
- 6.3 The budget for 2018/19 is based on the financial implications of the various proposed strategies, as detailed in Appendix 1 of the Executive Board report. The estimate of £50.171m is included within the Medium Term Financial Plan (MTFP).

6.4 The councils MTFP reflects the capital schemes within the approved capital program and a number of schemes in development which will significantly increase this programme to reflect the potential investment in the City Centre.

6.5 The Council's level of net external debt is anticipated to be £1,112.1m including £208.0m of Private Finance Initiative (PFI) liabilities as at 31 March 2018. Further borrowing of £103.4 is expected to increase the total debt to £1,153.8m including £201.0m PFI debt by 31 March 2019. The cost of interest payments on debt are expected to increase by £3.5m in 18/19.

6.6 The 2018/19 strategy continues to be to fund the borrowing requirement from short term interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities. The relatively low interest rate funding environment is expected to continue for at least the next couple of years. This strategy does increase the Council's exposure to changes in long term interest rates, however this exposure is considered manageable given that £763m of the Council's long term loan portfolio is at fixed rates and funded at less than 3.8% with good spread of maturities.

The treasury management budget assumes the anticipated borrowing requirement will be financed by long term loans, together with an element of short term loans in 2018/19 to take the opportunity afforded by the low interest rates. Appendix 2 of the Executive Board report shows Link Asset Services' Interest Rate Forecast.

6.7 The MRP review identified £28m of overprovision for the repayment of pre 2007 Support Borrowing. An overprovision adjustment is to be applied over 7 years starting in 2017/18 linked to the requirement for service transformation works to support the delivery of a sustainable medium term financial plan. In 2024/25 the revenue budget will need to manage a £4.6m step-up in MRP charge as the overprovision adjustment drops out, however this is currently seen as affordable. The residual Supported Borrowing element of the CFR will continue to be repaid by 2066/67, in line with the current MRP policy.

## **7 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)**

7.1 The legal basis for Minimum Revenue Provision ('MRP') is set out in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended ('the Regulations'). The Regulations provide that local authorities are under a duty to make an amount of MRP which it considers to be 'prudent'. There is no definition for 'prudent' in the Regulations. Local Authorities are obliged by the Local Government Act 2003 to have regard to statutory guidance on MRP. A local authority must make a statement setting out its policy on making prudent provision for MRP to full Council for approval. The current guidance issued by DCLG in February 2012 sets out a series of options for identifying 'prudent' provision. Those options are not the only permissible underpinning for a prudent provision decision but it is understood that the City Council will be relying on one of the options.

## **8 EQUALITY IMPACT ASSESSMENT (EIA)**

8.1 An EIA is not needed as the report does not contain proposals for new or changing policies, services, or functions.

**9      LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE  
DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION**

9.1      PWLB records, working papers

**10      PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

10.1      Executive Board report 20 February 2018 – Treasury Management 2018-19 Strategy.

**COUNCILLOR GRAHAM CHAPMAN  
DEPUTY LEADER**