AUDIT COMMITTEE – 27 APRIL 2018

Title of paper:	**TREASURY MANAGEMENT 2018/19 STRATEGY AND REVISION TO 2017/18 DEBT REPAYMENT STRATEGY**	
Director(s)/ Corporate Director(s):	Laura Pattman, Strategic Director of Finance	**Wards affected:** All
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Other colleagues who have provided input:	Members of Treasury Management Panel: Laura Pattman, Strategic Director of Finance Theresa Channell, Head of Corporate Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader	

Recommendation(s):	
1	To consider and comment on the Treasury Management Strategy for 2018/19, attached as **Appendix 1**, and, in particular: **a.** the Strategy for Debt Repayment (Minimum Revenue Provision) in 2018/19 (**Appendix 4**); **b.** the Investment and Borrowing Strategies for 2018/19 (within **Appendix 1**); **c.** the Prudential Indicators and limits for 2016/17 to 2020/21 (**Appendix 3**); **d.** adopt the current Treasury Management Policy Statement (**Appendix 5**).
2	To consider and comment on the amendment to the Strategy for Debt Repayment (Minimum Revenue Provision) for 2017/18, attached as **Appendix 10.**

1 REASONS FOR RECOMMENDATIONS

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code are both adopted by the Council. There is a requirement for authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council's Audit Committee is the most appropriate body for this function.

1.2 In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices.

1.3 The Code requires any in year revisions to the current Treasury Management Strategy, including the MRP policy to receive effective scrutiny.

1.4 The approval of the Treasury Management Strategy for 2018/19 and the revision to the 2017/18 Strategy for Debt Repayment was given at the meeting of City Council on 5 March 2018.

2 BACKGROUND

2.1 Treasury management is the management of an organisation's borrowings and investments, the effective management of the associated risks and the pursuit of optimum performance or return consistent with those risks.

2.1.1 The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice.

2.1.2 The City Council retains external advisors to provide additional input on treasury management matters. The service provided includes economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy, creditworthiness, credit ratings and other counterparty criteria and technical assistance on other related matters, as required.

2.2 In 2017/18 officers undertook to review the Council's existing policy for Debt Repayment otherwise known as Minimum Revenue Provision (MRP) and as part of this report there is a revision to the current MRP policy.

2.2.1 Since 1 April 2007, MRP requirements have been relaxed significantly and the set aside is no longer a prescribed amount. There is freedom for authorities to consider an annual profiling of MRP which best fits the prudent management of their own financial circumstances, providing they meet the basic test of "prudence" which is to repay debt over the life of the benefit or the period implied by the associated grant.

3 PROPOSED TREASURY MANAGEMENT STRATEGY 2018/19 (APPENDIX 1)

3.1 This document sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place in the forthcoming year. Within this context, the objectives of the strategy are:

- To achieve the lowest net interest rate costs on the City Council's external debt, whilst recognising the risk management implications
- To protect the Medium Term Financial Strategy (MTFS) from fluctuations in interest rates and to prevent the need for excessive borrowing in future years, when rates may be unfavourable
- To maintain the security and liquidity of external investments, and within those parameters, to seek to maximise the return on such investments.

3.1.1 The main elements of the proposed strategy for 2018/19 are:

- Borrowing strategy (**Appendix 1, page 4**)
- Debt rescheduling (**Appendix 1, page 7**)
- Debt repayment (Minimum Revenue Provision statement) (**Appendix 4**)
- Housing Revenue Account strategy (**Appendix 1**)
- Investment strategy (**Appendix 1, page 8**)
- Prudential indicators (**Appendix 3**)
- Risk Management Action Plan (**Appendix 9**)

3.2 Summary of the main issues

3.2.1 The Treasury Management budget for 2018/19 is £50.171m and is based on the financial implications of the various proposed strategies, as detailed in Appendix 1, and has been included within the Medium Term Financial Plan (MTFP).

3.2.2 The Treasury Management Strategy reflects the implications of 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. Further detail can be found within the Capital Strategy Report being considered by Executive Board on 20 February 2018.

3.2.3 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.

3.2.4 The 2018/19 strategy continues to be to fund some of the borrowing requirement from short term interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities that would fix the interest rate and so reduce the overall level of interest rate exposure. The relatively low interest rate funding environment is expected to continue for the next couple of years, but the economic forecasts will be monitored with caution and a pragmatic approach will be adopted to changing circumstances for 2018/19 treasury operations.

3.2.5 The Council is currently maintaining an under borrowed position of around c.£265m. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. In addition as at 31 December 2017 the Council holds £122m of variable interest rate/short term loans which represent an overall level of exposure to changes in long term interest rates that is significant but 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.

3.2.5 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.

3.2.6 The strategy balances the risk that future interest rates will rise, reducing the benefit accrued from this policy. For example the initial costs are up to £0.190m lower per £10m borrowed short term at 0.50% (Bank Rate) vs 50 year PWLB debt at 2.40%; this balanced against the financial impact of for each 0.25% rise there is an extra £0.025m per annum in interest cost.

3.2.7 This strategy will be kept under regular review and will use the support of our external treasury advisors, the latest economic and interest rate forecasts and funds will be maintained within the Treasury Management Reserve to protect the MTFP from unanticipated interest cost increases. Appendix 2 shows Link Asset Services' Interest Rate Forecast.

4 PROPOSED REVISION TO THE 2017/18 STRATEGY FOR DEBT REPAYMENT (MRP) – (APPENDIX 10)

4.1 The current Minimum Revenue Provision (MRP) policy was first approved as part of the Treasury Strategy for 2016/17 which included making a 2% MRP charge on the outstanding Supported Borrowing as at 01 April 2017 so that the debt would be fully repaid in 50 years. Supported Borrowing is the capital expenditure incurred prior to 2007/08 which was funded by borrowing.

4.1.1 The relevant regulations state that Local Authorities are required to have regard to the MRP guidance when setting MRP Policy. The guidance gives flexibility in how it calculates MRP, providing the calculation is deemed prudent.

4.2 Work has been undertaken to calculate a notional overpayment of MRP since 2007 by the retrospective re-profiling of MRP on the supported borrowing using the current 2% MRP Policy. This proposal seeks to provide a prudent provision for debt repayment that is also a fair approach for current and future Council Tax payers whilst giving due regard to the MRP guidance.

4.2.1 This overpayment was calculated as £28m and is to be used towards service transformation over a 7 year period by offsetting the MRP overpayment adjustment of £4m a year until 2023/24. During this period the council will continue to calculate MRP based on the current MRP policy of 2% on supported borrowing based on the 01 April 2017 balance (£4.1m) but with include an adjustment of 1/7th of the MRP overpayment. No year shall have a nil or negative MRP on Supported Borrowing.

4.2.2 The MRP revenue charge will be reduced in years 1-7, which results in the Council's underlying need to borrow (Capital Financing Requirement) being £28m higher by 2023/24 and at which point the MRP revenue charge increases to £4.7m pa so the supported borrowing continues to be fully repaid in year 50, 2066/67 inline with the current policy (the profiling is shown in Appendix 10).

5 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

5.1 PWLB records, economic and interest rate forecasts and working papers

6 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

6.1 Department for Communities and Local Government – Capital Finance Guidance on Minimum Revenue Provision, the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code.