EXECUTIVE BOARD - 20 FEBRUARY 2018

Subject:	**TREASURY MANAGEMENT 2018/19 STRATEGY AND REVISION TO 2017/18 DEBT REPAYMENT STRATEGY**
Corporate Director(s)/Director(s):	Laura Pattman, Strategic Director for Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
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Subject to call-in: ☐ Yes ☒ No

Key Decision: ☐ Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City ☐ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder(s): Throughout the budget process

Relevant Council Plan Key Theme:

Strategic Regeneration and Development	☒
Schools	☒
Planning and Housing	☒
Community Services	☒
Energy, Sustainability and Customer	☒
Jobs, Growth and Transport	☒
Adults, Health and Community Sector	☒
Children, Early Intervention and Early Years	☒
Leisure and Culture	☒
Resources and Neighbourhood Regeneration	☒

Summary of issues (including benefits to citizens/service users):

This report sets out the Treasury Management and Investment strategies for 2018/19 including the debt repayment strategy and the associated Prudential Indicators shown within appendices to the strategy report.

The report also outlines work undertaken to review and amend the current profile for reducing the Council's underlying need to borrow (Capital Financing Requirement - CFR) through the annual Minimum Revenue Provision charge to revenue (MRP) in respect of capital expenditure incurred prior to 2007/08 which was funded by borrowing. The revised method of calculating a prudent MRP provision has identified short to medium term revenue benefits and seeks approval.

Exempt information: None

Recommendation(s):

1 To endorse and recommend for approval by the City Council at its meeting on 5 March 2018 the overall Treasury Management Strategy for 2018/19 **(Appendix 1)**, and, in particular:

- **a.** the strategy for debt repayment (Minimum Revenue Provision) in 2018/19 **(Appendix 4)**;
- **b.** the Investment Strategy for 2018/19 (within **Appendix 1)**;
- **c.** the prudential indicators and limits for 2017/18 to 2020/21 **(Appendix 3)**;
- **d.** adopt the current Treasury Management Policy Statement **(Appendix 5)**.

2	To endorse and recommend for approval by the City Council at its meeting on 5 March 2018 the revision to the 2017/18 strategy for Debt Repayment (Minimum Revenue Provision) **(Appendix 9)**

1 REASONS FOR RECOMMENDATIONS

1.1 Approval of a Treasury Management Strategy is a legal requirement, to comply with:

- Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year;
- guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April;
- guidance issued by the Secretary of State under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP) for the repayment of debt.

1.2 This legal requirement also applies to the approval of any in year revisions to the current Treasury Management Strategy, including the MRP policy.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.

2.2 The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the current requirements of these codes as part of its Treasury Management Policy Statement.

2.3 External advisors are retained 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.

2.4 The Treasury Management and Investment Strategies will be considered by Audit Committee, as part of the scrutiny process required by the CIPFA Code of Practice.

2.5 Treasury Management and Investment Strategy 2018/19

2.5.1 The Treasury Management Strategy sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the Strategy (i.e. treasury, investment and debt) are set out at Appendix 1.

The objectives of the strategy are:

- to achieve the lowest net interest rate costs on the Council's external debt, whilst recognising the risk management implications;

- to protect the Medium Term Financial Plan (MTFP) from the unbudgeted financial impact of 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;
  to manage the Council's cash flows such that sufficient cash is available to meet creditor and other requirements and to minimise the cash balance held in the Council's current bank account each day without incurring bank overdraft charges.

2.5.2 Department for Communities and Local Government (DCLG) guidance on local authority investments also requires an annual investment strategy to be in place before the financial year in which it applies. This is incorporated within the Treasury Management Strategy and sets out how investments will be managed to protect the Council's financial position and the value of funds invested, whilst ensuring that the returns obtained are appropriate, given the stated attitude to risk. The DCLG guidance reiterates security and liquidity as the primary objectives of a prudent investment policy. These are principles embraced by the Council.

2.6 Prudential Indicators (Appendix 3)

2.6.1 The Prudential Code, issued by CIPFA and adopted formally by the Council, requires a series of Prudential Indicators (PIs) to be set and approved for the forthcoming and following two financial years. These financial indicators are derived from proposed treasury management activity and provide insight into the financial impact of such activities.

2.6.2 Appendix 3 within the Treasury Management Strategy (Appendix 1) sets out the indicators for 2016/17 to 2020/21 that are expected to be generated by the proposed strategies. Explanatory notes for each indicator are also provided.

2.7 Debt Repayment Strategy for 2018/19 (Appendix 4)

2.7.1 Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.

2.8 Treasury Management Policy Statement (Appendix 5)

2.8.1 The Prudential Code, issued by CIPFA and adopted formally by the Council, requires the Treasury Management Policy Statement to be adopted annually alongside the Treasury Management Strategy. This details the policies that are used as the cornerstones for effective treasury management.

2.9 Revision to the Debt Repayment Strategy (MRP) for 2017/18 (Appendix 9)

2.9.1 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.

2.9.2 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.

2.9.3 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.

2.9.4 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.

2.9.5 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 9).

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 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.

4 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

4.1 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.

4.2 The Treasury Management forecast outturn for 2017/18 is reflected within the Corporate Budget report elsewhere on this agenda.

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

4.4 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.

4.5 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.

4.6 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.

There is a potential saving of £0.190m per £10m borrowed short term at 0.50% (Bank Rate) vs 50 year PWLB debt at 2.40%; balanced against the financial impact of each 0.25% rise is an extra £0.025m per annum in interest cost. 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.

4.7 The MRP overpayment adjustment is £28m split 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 overpayment 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, inline with the current MRP policy.

4.8 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.9 The key strategic risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The current rating for this risk is 5.0 (Likelihood = unlikely, Impact = moderate). Full details of the Risk Management Action Plan are maintained and reviewed at least quarterly by Treasury Panel. This document will be submitted to Audit Committee for scrutiny as part of the Treasury Management Strategy Report.

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

5.1 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. It is advisable that the report to full council should set out which option in the statutory guidance has been chosen and to explain how that option and the guidance permits a prudent provision decision on MRP to be changed retrospectively.

6 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

6.1 Not applicable

7 SOCIAL VALUE CONSIDERATIONS

7.1 Not applicable

8 REGARD TO THE NHS CONSTITUTION

8.1 Not applicable

9 EQUALITY IMPACT ASSESSMENT (EIA)

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

10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

10.1 PWLB records, working papers

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

11.1 None