Allerdale Borough Council

Audit Committee - 19 February 2018
Council – 7 March 2018

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2018/19

The Reason for the Decision

Provisions contained in the Local Government Act 2003, statutory guidance issued by the Ministry of Housing, Communities and Local Government (formerly the Department of Communities and Local Government (CLG) and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) require the Council to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of its investments
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Council's Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

Summary of options considered

N/A

Recommendations

It is recommended that Members approve:

a) the proposed Treasury Management Strategy Statement & Investment Strategy for 2018/19 (included in sections 2 and 3 of Appendix 1)

b) the MRP Policy Statement set out in section 4 (of Appendix 1).

c) the prudential and treasury indicators - including the Council's Authorised Borrowing Limit set out in Section 5 (of Appendix 1).

Financial/Resource Implications	None directly, however the Council provides for interest receivable and interest payable and MRP within its annual revenue budget.
Legal Implications	Noted above
Community Safety Implications	None directly
Health and Safety and Risk Management Implications	The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured.
Equality Duty considered/Impact Assessment completed	N/A
Wards Affected	None directly
The contribution this decision would make to the Council's Strategic Objectives	Effective treasury management and compliance with the Prudential Code will provide support towards the achievement of the Council's business and service objectives.
Is this a Key Decision	Yes
Portfolio Holder	Cllr Barbara Cannon
Lead Officer	Barry Lennox Financial Services Manager Ext: 2586 email: barry.lennox@allerdale.gov.uk

---

Report Implications (Please delete where applicable).

Community Safety	N	Employment (external to the Council)	N
Financial	Y	Employment (internal)	N
Legal	Y	Partnership	N
Social Inclusion	N	Asset Management	N
Equality Duty	N	Health and Safety	N

<u>Background papers</u>

Appendix 1: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Policy Statement - 2018/19

Appendix 2 Treasury Management Policy Statement

1.0 Introduction

1.1 Provisions contained in the Local Government Act 2003, statutory guidance and regulations issued by the Ministry of Housing, Communities and Local Government (formerly the Department of Communities and Local Government (CLG) and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), require the Council to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of its investments
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Council's Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

1.2 This report, prepared in accordance with the statutory framework and codes of practice issued by CIPFA in relation to treasury management and capital finance, presents for approval by the Full Council, the Council's proposed:

- Treasury Management Strategy Statement and Investment Strategy for 2018/19
- Minimum Revenue Provision Policy Statement for 2018/19
- Prudential and treasury indicators for 2018/19 to 2020/21.

1.3 The Council's proposed Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision (MRP) policy for 2018/19 are set out in Appendix 1 to this report.

1.4 The statutory framework for treasury management and capital finance within local authorities is laid out in a series of legislations, statutory guidance and codes of practice. During 2017/18 the codes of practice issued by CIPFA and the statutory guidance issued by MHCLG have been reviewed and updated. This has resulted in the publication of revised editions of:

- The CIPFA Prudential Code for Capital Finance in Local Authorities ('the Prudential Code') and
- The Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes - ('the Treasury Management Code') - issued by CIPFA
- Ministry of Housing, Communities and Local Government statutory guidance on:
  - Local Government Investments, and

- Minimum Revenue Provision.

1.5 The changes incorporated into the revised editions of these documents reflect the significant changes that have occurred in the economic and regulatory landscape for public service delivery since they were last updated. This follows the sustained period of reduced public spending and the developing commercial agenda underpinned by the introduction of the Localism Act 2011 and the general power of competence.

1.6 Key changes to the statutory framework include:

- the introduction of more contextual reporting through the requirement to produce a capital strategy setting out the long-term context in which capital expenditure and investment decisions are made and providing a high level overview of :
  - how capital expenditure, capital financing and treasury management activity contribute to the provision of services and the delivery of service objectives
  - how associated risk is managed, and
  - the implications for future financial sustainability
- removal of a number of previously mandated Prudential Indictors
- an extension of MHCLG investment guidance to cover investments (both financial and non-financial) not held for treasury management purposes
- new or clarified guidance on the impact of changing methods of calculating MRP, asset lives, the meaning of ‘charge to a revenue account’ and the treatment of investment properties and overpayments of MRP.

1.7 The revised editions of the Prudential and Treasury Management Codes and statutory guidance on Local Government Investments, are effective for 2018/19 and subsequent years. Full implementation in 2018/19 is however subject to the transitional arrangements set out in the statutory guidance and the recommendations issued by CIPFA’s Treasury and Capital Management Panel (in relation to the requirement to produce a capital strategy and changes to a number of treasury management indicators).

1.8 The updated MRP guidance is applicable from 1 April 2019, although early adoption is encouraged. This is with the exception of those changes relating to guidance on changing methods for calculating MRP, which apply from 1 April 2018.

1.9 For public sector organisations, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as “the management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

1.10 Consistent with this definition, the Treasury Management and Investment strategies set out in Appendix 1 are focused on borrowing and investments in financial instruments forming part of the Council's treasury management activity. Investments in financial and non-financial assets (for example investment property, loans supporting service outcomes and investments in subsidiaries and joint ventures) made for policy reasons, rather for treasury management purposes, are dealt with in the Council's Capital Strategy.

1.11 The revisions made to statutory framework for treasury management outlined above have been reflected in the content of the proposed TMSS, Investment Strategy and MRP policy for 2018/19. These revisions have not however required the Council to make any significant changes to the policies and strategies adopted in the previous financial year.

1.12 To enable the Audit Committee to fulfil its responsibilities for ensuring effective scrutiny of the treasury management strategy and policies, the Council's Treasury Management Practices (TMPs) require treasury management reports - including the report covering those matters listed in paragraph 1.2 above - to be submitted to the Audit Committee prior to their consideration by Full Council.

1.13 The following sections provide an overview and summary of the contents of the proposed TMSS, Investment Strategy and MRP policy statement included in Appendix 1 to this report.

2.0 Treasury Management Strategy Statement

2.1 The Treasury Management Strategy Statement (TMSS) sets out the Council's proposed treasury management activities for the year - based on budget proposals, interest rate forecasts and economic outlook.

2.2 The issues covered in the Treasury Management Strategy Statement include:

- the current treasury position
- treasury indicators required by CIPFAs Prudential Code for Capital Finance in Local Authorities and Treasury Management in the Public Services: Code of Practice and accompanying sector guidance
- economic background and prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- policy on the use of derivatives
- the process adopted for reviewing and addressing the training needs of officers and members in relation to treasury management
- use of treasury management consultants including services provided and procedures employed for monitoring the quality of those services.

2.3 The Council's Treasury Management Policy Statement (Appendix 2) highlights the successful identification, monitoring and control of risk as being the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk management is therefore central to the Council's adopted treasury management and investment strategies. The Council's treasury activities expose it to a number of financial and operational risks including credit and counterparty risk, liquidity risk, and interest rate risk. The TMSS explains the principal means through which these risks will be managed.

3.0 Investment Strategy

3.1 The Annual Investment Strategy for 2018/19 - included in section 3 of Appendix 1- sets out the Council's policies for the prudent financial management of its investments and for giving priority first to the security of those investments (i.e. protect the capital sum invested from loss) and secondly, to their liquidity (i.e. ensuring funds invested can be accessed to meet expenditure when needed).

3.2 The contents of the Council's Investment Strategy follow the recommendations set out in the MHCLG Guidance on Local Government Investments (third edition) issued in February 2018 and the reporting principles set out in CIPFA's Treasury Management Code. It includes:

- procedures for determining the counterparties with whom investments may be placed, including the Council's approach on the use of credit ratings and other sources of information to assess credit and counterparty risk
- the types of investment instruments that may be used
- limits placed on the amount that may be invested with any single institution or group of institutions
- limits on the maximum period for which funds may be prudently committed
- reporting arrangements.

4.0 Minimum revenue provision (MRP) policy statement 2018/19

4.1 The MRP is an annual amount required to be set aside from the General Fund to meet the capital cost of expenditure funded by borrowing or through credit arrangements such as on balance sheet leasing arrangements (finance leases). The Council's proposed MRP policy, setting out how it will discharge the duty under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) to make prudent MRP in the financial year, is set out in section 4 of Appendix 1. It includes:

- a description of what MRP is intended to achieve
- commentary on the Council's underlying duty to make prudent provision and ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits, or - for borrowing supported by central government funding (Revenue Support Grant) - over the period implicit in the determination of that funding

- consideration of the ‘options’ for calculating MRP outlined in the statutory guidance on MRP and the restrictions on their use
- the policy proposed for the forthcoming year.

4.2 Having regard to the statutory guidance on MRP issued by CLG and the ‘options’ for calculating MRP set out in that guidance the Council will calculate MRP:

- for all capital expenditure funded from borrowing incurred before 1 April 2008 and for all supported capital expenditure funded from borrowing incurred on or after 1 April 2008 - based on 4% of Capital Financing Requirement at the end of the preceding financial year (Option 2- CFR method)
- for unsupported capital expenditure funded from borrowing incurred after 1 April 2008 - by applying Option 3 - Asset Life Method, using either the equal instalments or annuity method
- for credit arrangements such as on balance sheet leasing arrangements (finance leases) by charging an amount (MRP) equal to the element of the rent/charge that goes to write down the balance sheet liability.

5.0 Prudential & Treasury Indicators

5.1 The Prudential Code for Capital Finance in Local Authorities requires local authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits and by publishing actuals for a range of prudential indicators. It also requires them to ensure their treasury management practices are in accordance with good practice.

5.2 The prudential and treasury indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.

5.3 The Council’s prudential and treasury indicators for 2018/19 and following years are set out in section 5 of Appendix 1. They include:

- indicators required by the Prudential Code covering affordability, prudence, capital expenditure, external debt and treasury management. These include the statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (the Authorised Limit for External Debt)
- indicators required by the sector guidance accompanying the Treasury Management Code and designed to ensure the Council operates its treasury activities within defined limits.

6.0 Recommendations

6.1 It is recommended that Members approve:

a) the proposed Treasury Management Strategy Statement & Investment Strategy for 2018/19 (included in sections 2 and 3 of Appendix 1)

b) the MRP Policy Statement set out in section 4 (of Appendix 1).

c) the prudential and treasury indicators - including the Council's Authorised Borrowing Limit set out in Section 5 (of Appendix 1).