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Central Bedfordshire Council

EXECUTIVE

7th February 2017

Treasury Management Strategy and Treasury Policy

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This report relates to a non-Key Decision

The purpose of this report is to seek Member approval for a Treasury Management Policy, Treasury Management Strategy Statement, Minimum Revenue Provision policy and Prudential Indicators for 2017/18 to facilitate effective financial management and planning.

1. This report outlines the Treasury Policy and Treasury Management Strategy for 2017/18. Central Bedfordshire Council agrees its Treasury Management Strategy annually and, as a minimum every three years, the Treasury Management Policy. This is in line with the CIPFA *Treasury Management in the Public Services: Code of Practice (2011 Edition)* and the CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition).*

RECOMMENDATIONS

The Executive is asked to recommend to Council that:

the Treasury Management Policy, Treasury Management Strategy Statement and Prudential Indicators for 2017/18 be approved.

the adoption of the Minimum Revenue Provision policy as set out at Appendix D (Option 4) to replace the policy approved by Council on 25th February 2016 in order to allow the change in approach to MRP to be applied with effect from the financial year ending 31 March 2017.

the MRP policy as outlined in Appendix D (Option 4) be adopted in respect of the Council's financial year ending 31 March 2018.

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Overview and Scrutiny Comments/Recommendations

1. This report was considered by the Corporate Resources Overview & Scrutiny Committee on 24th January 2017 and this Committee will be advised at the meeting of the Overview and Scrutiny Committee's recommendations in respect of the proposed Treasury Management Policy, Strategy and Prudential Indicators. Any comments and recommendations made by the Corporate Resources Overview & Scrutiny Committee will be reported to this Committee.

Issues

2. The Council's Treasury Management Strategy Statement (TMSS) is underpinned by the adoption of CIPFA's Code of Practice, which includes the requirement for determining a treasury strategy covering the likely financing and investment activity for the forthcoming financial year.

3. The Council's Treasury Management Policy Statement is attached at Appendix A; this was revised in February 2015 and is subject to review every three years. No changes are proposed to the Treasury Management Policy Statement.

4. A revised Treasury Management Strategy Statement (TMSS) is attached at Appendix B with updated Prudential Indicators (PIs) at Appendix C.

5. A revised Minimum Revenue Provision (MRP) policy is proposed at Appendix D. The proposed revision sets out a prudent approach for calculating the annual MRP in respect of capital expenditure financed by debt prior to 1st April 2011. Currently this charge is based on a 4% reducing balance of the outstanding debt. No changes are proposed to the approach for calculating MRP in respect of capital expenditure that has been financed by debt from 1st April 2011.

6. The Code requires the TMSS for the year to be approved by Council, and it will be submitted for approval on 23rd February 2017. Local arrangements require the Corporate Resources Overview & Scrutiny Committee to scrutinise the proposed revised strategy on an annual basis. Both the Policies and the Strategy documents are presented to the Executive for recommendation to Council.

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Treasury Management Policy Statement

7. It is the Council's responsibility to approve a Treasury Management Policy Statement on a periodic basis. This Policy will be reviewed every three years or whenever legislative, regulatory or best practice changes materially impact the effectiveness of the current Policy. The current Treasury Management Policy Statement (see Appendix A) was adopted by Council in February 2015. In the absence of changes, the next scheduled date for review is February 2018.

8. The Treasury Management Policy Statement sets out the objectives and the regulatory requirements of the Council's treasury management function.

9. The principal objectives of this Policy Statement are to provide a framework within which:

   i) risks which might affect the Council's ability to fulfil its responsibilities or which might jeopardise its financial security, can be identified;

   ii) borrowing costs can be minimised whilst ensuring the long term security and stability of the Council's financial position; and

   iii) investment returns can be safely maximised and capital values maintained.

Treasury Management Strategy Statement

10. CIPFA's *Treasury Management in the Public Services: Code of Practice (2011 Edition)* and their *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* require local authorities to determine the TMSS on an annual basis.

11. The TMSS is included in Appendix B, and comprises three main components:

   i) the 'External Context', drafted by the Council's external treasury advisers, Arlingclose Ltd. This is important as the rate at which the Council can borrow and the return it will obtain on cash balances are linked to the performance of the wider UK and global economy.

   ii) a Borrowing Strategy, including the approved sources of long term and short term borrowing.

   iii) an Investment Strategy, including the type of institutions the Council is able to place its cash with and the limits with each type of institution.

12. The TMSS also includes other items that the Council is required by CIPFA and the Department for Communities and Local Government (CLG) to include as part of its strategy, including the Council's policy on the use of financial derivatives, interest charges between the HRA and the General Fund and borrowing in advance of need.

Prudential Indicators

13. The CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* requires performance against specified key indicators to be measured and reported. The purpose of these indicators is to demonstrate prudence, affordability and sustainability.

14. Explanations of the prudential indicators is included in Appendix C. Key objectives of the indicators are to:
    - ensure borrowing is less than the Council's Capital Financing Requirement (CFR), demonstrating that all long term borrowing has been undertaken for capital purposes in line with the Prudential Code;
    - set the Council's authorised and operational limits for borrowing;
    - show the percentage of the revenue budget required to be spent on financing borrowing; and
    - show the incremental impact of new capital investment decisions on Council Tax and housing rent levels.

15. In line with the best practice requirements outlined in the CIPFA Treasury Management Code of Practice, all PIs are monitored throughout the year and reported to Council at mid-year and at the end of the financial year.

Minimum Revenue Provision Statement

16. Appendix D includes a statement of the Council's Minimum Revenue Provision (MRP) policy which is how the Council calculates the annual amount set aside towards repaying any borrowing used in the past to finance capital expenditure. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance), most recently issued in 2012.

17. The CLG Guidance in respect of MRP requires the Council to approve an annual MRP statement each year, and recommends a number of options for calculating a prudent amount of MRP. The Council, however, is entitled to depart from the Guidance if it has good reason to do so. The approaches identified in Appendix D are considered by the Chief Finance Officer as being consistent with the Guidance. The MRP policy and annual calculation are subject to the annual external audit opinion.

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Reason for decisions

18. The reason for the decisions is to retain an effective treasury management framework for the Council and revise, to a more prudent alternative, the MRP approach with effect from 2016/17 in respect of debt financed capital expenditure which pre-dates 1st April 2011.

Council Priorities

19. The effective management of the combined activities of debt and investments and the associated risks contribute to the Council's financial resources and is a cornerstone to the delivery of the Council's priorities.

Corporate Implications

20. The approved strategy aims to manage the risks to the Council's finances from instability in financial markets.

Legal Implications

21. The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits. Under the Act, Communities and Local Government has issued Guidance on Local Government Investments (revised March 2010) to structure and regulate the Council's investment activities. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition)*. The SI also requires the Council to operate the overall treasury function with regard to the CIPFA *Treasury Management in the Public Services: Code of Practice (2011 Edition)* (the Code of Practice).

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Financial Implications

22. The Council's Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) are derived from the Medium Term Financial Plan (MTFP). The TMSS and PIs are explained within the body of this report.

23. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2011 Edition)* as: 'The management of the local authority's 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.'

24. If the proposed revision to MRP as outlined in Appendix D is adopted by the Council there are, subject to external audit of the 2016/17 Statement of Accounts, ongoing financial implications in respect of the current financial year's contribution and an adjustment to an element of previous years' contributions as set out in Appendix E. The recommended revised approach (Appendix D Option 4) is considered to be prudent as it ensures all the pre 2011 debt is provided for by 2060 and the degree of historic overprovision is rescheduled over an appropriate period. It is proposed to reschedule the majority of the £28M past over provision to offset future MRP in respect of the PFI liability (£18M) over the period to 2036 and PWLB Debt modification charges (£2M) over the period to 2029. It is proposed the remaining balance of £8M of past provision should be adjusted over seven years on a straight line basis from 2016/17.

Risk Management

25. The proposed strategy aims to manage the risks to the Council's finances from instability in financial markets. The effective identification and management of risk are integral to the Council's treasury management activities, as detailed throughout this report.

Equalities Implications

26. There are no equalities implications to this report.

Implications for Work Programming

27. There are no work programming implications to this report.

Conclusion and next steps

28. Overall responsibility for treasury management remains with the Council.

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29. The purpose of the proposed TMSS is to ensure that an effective treasury management framework is in place for 2017/18. The strategy proposed is prudent in relation to the Council's borrowing activities, based on market interest rate forecasts, and its investment activities. Investment and cash balances will be managed with priority being given to security and liquidity before yield. The borrowing strategy for the Council's debt portfolio will see increasing use of temporary (short term) debt which currently offers low financing costs with the risk that unexpected increases in interest rates would create financial pressures. The recommended Draft Capital Programme that was considered by Executive on 10th January 2017 sets out more information on the revenue implications of interest rates should they be in excess of current assumptions.

30. A revised policy in respect of the MRP has been recommended to achieve, in line with the Central Government guidance, a more prudent approach. The various MRP policy options considered, all of which in the view of the Chief Finance Officer reflect a prudent approach, are set out in Appendices D and E. The recommended Option 4 would create amount of £28M historic provision to reschedule over current and future years. The statutory guidance requires a prudent approach to these matters and rescheduling proposed is specifically designed to meet that requirement. To allow the rescheduling to commence in the current financial year, it is recommended that the Council replaces the current MRP policy with effect from 2016/17.

31. The Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for 2017/18 as outlined in this report will be reported to Council for approval in line with statutory requirements.

Appendices

Appendix A – Treasury Management Policy
Appendix B – Treasury Management Strategy Statement
Appendix C – Prudential Indicators
Appendix D – Minimum Revenue Provision Statement
Appendix E – Financial impact of MRP options for pre 1st April 2011 Debt Funded Capital Expenditure

Background papers

None.