Melton Borough Council

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Cabinet

9 February 2021

Report of: Councillor Ronnie de Burle - Portfolio Holder for Corporate Finance and Resources

Treasury Management Strategy and Prudential Indicators 2021-22

Corporate Priority:	Ensuring the right conditions to support delivery (inward)
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 This report outlines the Council's prudential indicators for 2021/22 – 2023/24 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements.

- The reporting of the prudential indicators setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice and Guidance Notes 2017 as revised.
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
- The Treasury Management Strategy Statement which sets out how the Council's treasury management service will support the capital decisions taken, the day to day treasury management activity and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government

Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code;

- The Investment Strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance.

1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

2 Recommendations

That Cabinet:

2.1 **Recommend to Council the prudential indicators and limits are adopted and approved as outlined in Appendix A section 2.**

2.2 **Recommend to Council the Treasury Management Strategy as outlined in Appendix A.**

2.3 **Recommend to Council the Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP is approved as outlined in para 5.4.**

2.4 **That Cabinet note the linkages to the Capital Strategy due to the integral nature of how the Council manages its treasury finances to support capital development.**

3 Reason for Recommendations

3.1 The Treasury Management Code requires the Council to approve annually a Treasury Management Strategy and to provide a mid-year update on Treasury Management activities to the Council. It is a requirement that Treasury Management is scrutinised during the year which falls within Cabinet's remit.

3.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree a minimum number of prudential indicators.

4 Background

4.1 The MHCLG guidance outlines there needs to be sufficient member scrutiny of the treasury management policies. Cabinet is the responsible body for scrutinising the Treasury Management Strategy as set out in the constitution.

4.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators and for housing authorities these are separated for the HRA and General Fund capital investment. The indicators are mandatory, but can be supplemented with local indicators if this aids interpretation and may cover three years ahead.

4.3 The indicators cover affordability, prudence, capital expenditure, external debt and treasury management. For the General Fund the indicators have also been split into General and Special Expenses (Melton Mowbray).

4.4 The indicators are purely for internal use by the Council and are not to be used as comparators between Councils, as any comparisons will be meaningless. In addition, the indicators should not be considered individually in that the benefit from monitoring will arise from the movement in the Council's indicators over time and the year on year changes

4.5 The prudential indicators have been based on the position set out in the capital programme and revenue budget reports set out elsewhere on this agenda and the draft Medium Term Financial Strategy (MTFS). Along with each indicator is an explanation of what it demonstrates.

4.6 The Treasury Management Strategy is attached as Appendix A including the prudential indicators that relate to the treasury management function. This strategy covers the operation of the treasury function and its activities for the forthcoming year and reflects the Council's capital and commercial investment strategies. The strategy has been informed by advice received from the Council's treasury management consultants.

4.7 The Council's treasury management consultants advise clients to adopt a creditworthiness service. This system uses a wide array of information, not just primary ratings, and by using a risk weighted scoring system, does not give undue reliance on just one agency's ratings. The weekly counterparty list is produced on this basis. Counterparties allocated a colour coding based on this criteria can be used, with the exception that any institution with a colour coding from 100 days to 1 year can be used for investments of up to 1 year.

5 Main Considerations

5.1 The key issues set out in the attached appendix are as follows:

5.2 **Capital Expenditure** – The projected capital expenditure based on the available funding set out in the draft Medium Term Financial Strategy is estimated as set out in the following table:

Capital Expenditure	2020/21 Estimated £000's	2021/22 Estimated £000's	2022/23 Estimated £000's	2023/24 Estimated £000's
Great Council	126	251	133	0
People	292	304	304	304
Place	505	200	0	0
Total General Fund	**923**	**755**	**437**	**304**
HRA	5,482	4,146	4,569	2,964
Total	**6,405**	**4,901**	**5,006**	**3,268**

5.3 **Debt Requirement and Repayment** – Part of the capital expenditure programme will be financed directly (through Government grants, capital receipts etc.), leaving a residue should there be one which would increase the Council's external borrowing requirement (its Capital Financing Requirement – CFR). The General Fund CFR is reduced each year by a statutory revenue charge for the repayment of debt known as the Minimum Revenue

Provision or MRP (there is no requirement for an HRA charge). However, where unsupported borrowing is undertaken for the HRA it is considered prudent to do so. With regard to the self-financing the Government stated that the repayment of borrowing is not required but the Council can opt to repay the debt rather than build up cash reserves where it considers this to be in the best interests of the Council and the Housing Service.

5.4 **Minimum Revenue Policy** – As illustrated earlier the Capital Finance and Accounting Regulations affecting MRP require the Council to formally approve a method for calculating MRP annually. From 1 April 2021 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Asset Life method. This method will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life. It is therefore recommended that the asset life method is used for unsupported borrowing as is the case for 2020-21.

5.5 **Capital Financing Requirement** - The following table sets out the predicted CFR for the period 2020-2024 analysed by fund, taking into account the method of calculating MRP as recommended above.

Capital Financing Requirement	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**	**2022/23 Estimated £000's**	**2023/24 Estimated £000's**
General Expenses	77	65	54	43
HRA	31,484	31,484	31,484	31,484
Total	**31,561**	**31,549**	**31,538**	**31,527**

5.6 **Borrowing** – The Council's anticipated net borrowing requirement (net of investments) is shown below with a comparison against the CFR. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

Net Borrowing	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**	**2022/23 Estimated £000's**	**2023/24 Estimated £000's**
Gross Borrowing	31,413	31,413	31,413	31,413
Investments	18,632	15,677	13,766	13,225
Net Borrowing	12,781	15,736	17,647	18,188
CFR	**31,561**	**31,549**	**31,538**	**31,527**

5.7 Against this borrowing need (the CFR), the Council's expected maximum external debt position for each year (the Operational Boundary), and the maximum amount it could borrow (the Authorised Limit) are set out as follows:

Authorised Limit & Operational Boundary	2020/21 Estimated £000's	2021/22 Estimated £000's	2022/23 Estimated £000's	2023/24 Estimated £000's
Authorised limit	46,000	46,000	46,000	46,000
Operational boundary	36,490	36,479	36,467	36,456

5.8 **Capital Strategy**

The Prudential Code for Capital Finance in Local Authorities includes a requirement to produce a Capital Strategy which links into the Treasury Management Strategy. This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The Strategy focuses on core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Melton. The Capital Strategy aligns with the priorities set out in the Councils Corporate Strategy and other key Council strategies. The Strategy is integrated with the Medium Term Financial Strategy and Treasury Management Strategy. This Strategy aims to drive the authority's capital investment ambition whilst ensuring capital expenditure, capital financing and treasury management are appropriately aligned and managed to support sustainable, long term delivery of services. The updated Capital Strategy is being presented to members of this committee under a separate agenda item.

6 Options Considered

6.1 No other options have been considered as it is a statutory requirement to have in place agreed prudential indicators. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

7 Consultation

7.1 Consultation has been undertaken with the Portfolio Holder for Finance and Resources regarding the Treasury Strategy for the 2020-21 financial year.

8 Next Steps – Implementation and Communication

8.1 This report will be submitted to the Council meeting on 24th February 2021

9 Financial Implications

9.1 All key financial implications are outlined in the report.

9.2 The Director for Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the assumptions set out in the budget and MTFS for 2021-22.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

There are no significant legal implications as a result of the recommendations in this report which are not covered in the body of the report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities issued under the Local Government Act 2003 provides assurance that the council's investments are, and will continue to be, within its legal powers.

Legal Implications reviewed by: Monitoring Officer

11 Equality and Safeguarding Implications

11.1 There are no direct equality or safeguarding issues arising from this report.

12 Community Safety Implications

12.1 There are no direct links to community safety arising from this report.

13 Environmental and Climate Change Implications

13.1 The Council recognises the importance of supporting sustainability and ethical investments and will ask the financial organisations to provide their ethical statements where we look to place investments with them and will consider Environmental, Social or Governance (ESG) specific products if they meet our risk criteria.

14 Other Implications (where significant)

14.1 There are no other implications arising from this report

15 Risk & Mitigation

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of Investment	Very Low	Critical	Medium Risk
2	Failure of Counterparties	Very Low	Critical	Medium Risk
3	Reduced Investment income	Significant	Marginal	Medium Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant		3		
	3 Low				
	2 Very Low			1,2	
	1 Almost impossible				

Risk No	Mitigation
1 and 2	The use of a sophisticated modelling approach in selecting both counterparties and time periods utilising ratings from all three main rating agencies and supplemented with credit watches, credit outlooks, Credit Default Swaps (CDS) spreads and sovereign ratings will ensure only the most creditworthy institutions/countries are used. The investment strategy (see Appendix A Section 4) contains limits covering maximum sums invested over 365 days, as well as benchmarks relating to the maximum security risk.
3	Officers will review all investment options to maximise returns whilst balancing risk. Forecasts returns will be included budget monitoring reports to ensure any impact is fed into the Councils overall position to aide effective budget management.

16 Background Papers

16.1 None

17 Appendices

17.1 Appendix A - Treasury Management Strategy Statement 2021-22

17.2 Appendix Ai – Performance Indicators & Treasury Strategy 2021-22

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