FULL COUNCIL

7 FEBRUARY 2018

REPORT OF THE DIRECTOR FOR CORPORATE SERVICES

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY

1.0 **PURPOSE OF REPORT**

1.1 This report outlines the Council's prudential indicators for 2018/19 – 2020/21 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

(a) 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 2011 as revised.

(b) 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);

(c) 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;

(d) 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.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

2.0 RECOMMENDATIONS

The Budget and Strategic Planning Working Group recommends to the Council that:

2.1 The prudential indicators and limits are adopted and approved;

2.2 The Treasury Management Strategy and treasury management prudential indicators are adopted and approved;

2.3 The Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP is approved, and

2.4 To note the Council is developing a new Capital Strategy to meet the updated prudential code requirements which will be presented to members during 2018-19.

3.0 KEY ISSUES

3.1 Background

3.1.1 One of the main changes in the MHCLG guidance is that there is greater member scrutiny of the treasury management policies. The Budget and Strategic Planning Working Group is the responsible body for scrutinising the Treasury Management Strategy as agreed by Full Council on 3 February 2011.The Budget & Strategic Planning Working Group scrutinised the strategy on 17th January 2018 and now recommends the report to Full Council for approval.

3.1.2 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 non-HRA capital investment. The indicators are mandatory, but can be supplemented with local indicators if this aids interpretation and may cover three years ahead.

3.1.3 The indicators cover affordability, prudence, capital expenditure, external debt and treasury management and form the basis of in year monitoring through the Members' Newsletter. For the General Fund the indicators have also been split into General and Special Expenses (Melton Mowbray).

3.1.4 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.

3.2 Treasury Management Strategy and Prudential Indicators

3.2.1 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.

3.2.2 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. The strategy has been informed by advice received from the Council's treasury management consultants.

3.2.3 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 Link Asset Services counterparty list is produced on this basis. Counterparties allocated a colour coding based on this criteria can be used. The durational limits suggested by Link Asset Services have now been superseded by the recommendation in the mid year review 2016-17 as presented to this committee on 14 December 2016, counterparties with any colour coding can now be used for up to 12 months.

3.2.4 To summarise, the key issues set out in the attached appendix are as follows:

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	2017/18 Revised £000's	2018/19 Estimated £000's	2019/20 Estimated £000's	2020/21 Estimated £000's
General Expenses -CSA	734	237	237	237
General Expenses- PFA	69	68	59	16
General Expenses-MEEA	1,037	81	51	0
Special Expenses-TAC	18	0	0	0
Total Non HRA	**1,858**	**386**	**347**	**253**
HRA	4,131	5,948	11,012	1,212
Total	**5,989**	**6,334**	**11,359**	**1,465**

Debt Requirement and Repayment – Part of the capital expenditure programme will be financed directly (through Government grants, capital receipts etc.), leaving a residue which will 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.

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 2017 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

Asset life method- MRP 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 2017-18.

Capital Financing Requirement - The following table sets out the predicted CFR for the period 2017-2021 analysed by fund, taking into account the method of calculating MRP as recommended above.

Capital Financing Requirement	2017/18 Revised £000's	2018/19 Estimated £000's	2019/20 Estimated £000's	2020/21 Estimated £000's
General Expenses	113	101	89	77
Total Non HRA	**113**	**101**	**89**	**77**
HRA	31,484	31,484	31,484	31,484
Total	**31,597**	**31,585**	**31,573**	**31,561**

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 2017/18 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

The Director for Corporate Services reports that the Council complied with this prudential indictor 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 paragraph 3.2.1.

Net Borrowing	2017/18 Revised £000's	2018/19 Estimated £000's	2019/20 Estimated £000's	2020/21 Estimated £000's
Gross Borrowing	31,413	31,413	31,413	31,413
Investments	15,361	12,233	9,865	10,668
Net Borrowing	**16,052**	**19,180**	**21,548**	**20,745**
CFR	**31,597**	**31,585**	**31,573**	**31,561**

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	2017/18 Revised £000's	2018/19 Estimated £000's	2019/20 Estimated £000's	2020/21 Estimated £000's
Authorised limit	46,000	46,000	46,000	46,000
Operational boundary	36,526	36,514	36,502	36,490

3.3 New Waste Management Contract

The new contract commences 1st October 2018, tenders are currently being evaluated, included in the tender was an optional variation requesting tenderers submit information showing the contract saving they can offer to the council, should the Council procure the waste vehicles for the life of the contract.

Prudential borrowing will be undertaken to finance the vehicles for the life of the contract, should it be decided this offers the best value for money for the Council. Any decisions with regard to this will be reported to the appropriate decision making body at the next available opportunity and as such no allowance has been made in this report as the outcome is not known at this stage.

3.4 Capital Strategy

The updated Prudential Code for Capital Finance in Local Authorities published in late December 2017 now includes a requirement to produce a Capital Strategy which links into the Treasury Management Strategy. However, it is unclear when these regulations will actually come into force give given the lateness of their publication in advance of the 2018/19 budget year and given the timelines of local authority reporting requirements and resource required to produce a compliant strategy.

CIPFA are due to produce further clarification around this but recognise that this element of the prudential code will need a longer lead in time. When this element of the code was first highlighted in the initial consultation officers begun work with our treasury advisors to help develop an updated capital strategy which continues to be developed but will require some work around prioritisation of key projects and future direction of the Councils resources. Therefore, officers intend to bring an updated Capital Strategy to members during 2018/19 to meet the new requirements of the code.

3.5 Commercial Investment Strategy

The Council is also in the process of developing a Commercial Investment Strategy with the aim of enabling the Council to invest capital to enable it to receive a revenue income from the rent received, whilst still retaining the freehold interest of the property, which it is anticipated will grow in value over time. The additional income generated will be used to support the Councils Medium Term Financial Plan and could feature as a key element of the Budget Management Strategy as a way of generating income to help address the budget deficit over the medium term

The Authority will need to consider what the primary aim is for the commercial property investment either as part of an economic strategy for local economic development and regeneration in the district, or for income generation for the provision of services or a mixture of both. The overall objectives for that programme will be set out the draft strategy for members to be review and approve which will brought forward in due course.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 There are no other major policy and corporate implications arising from this report.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 There are no other financial implications arising from this report.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no other legal implications arising from this report.

7.0 COMMUNITY SAFETY

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

8.0 EQUALITIES

8.1 There are no direct equality issues arising from this report.

9.0 RISKS

9.1 The relevant risks are considered in the table on the following page:

Probability

Very High A				
High B				
Significant C				
Low D				
Very Low E			1,2	
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

Impact

Risk No.	Description
1	Loss of Investment
2	Failure of counterparties

9.2 The relevant risks are considered to be of a very low probability, albeit of a critical nature and are mitigated by both investment and borrowing indicators/limits. In respect of borrowing there are upper limits for both fixed and variable interest rate exposure and limits for the Maturity Structure of Borrowing (see para 5.1.4 in Appendix A). These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing. 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.

9.3 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.

10.0 CLIMATE CHANGE

10.1 There are no climate change issues arising from this report.

11.0 CONSULTATION

11.1 The Council's treasury management consultants have been consulted on this report.

12.0 WARDS AFFECTED

12.1 All wards are affected.

Contact Officer:	Dawn Garton, Director for Corporate Services
Date:	8 January 2018
Appendices:	Appendix A - Treasury Management Strategy Statement Appendix Ai – P.Is & Treasury Strategy
Background Papers:	Prudential Indicators Working Papers MTFS Revenue Estimates Capital Programme
Reference:	X: C'tees, Council & Sub-C'tees/Full Council/2017-18/07-02-18/DG- Prudential Indicators and Treasury Management Strategy