CORPORATE COMMITTEE

30 JANUARY 2019

REPORT OF DIRECTOR FOR CORPORATE SERVICES

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY 2019/20

1.0 PURPOSE OF REPORT

1.1 This report outlines the Council's prudential indicators for 2019/20 – 2021/22 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 2017 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 Corporate Committee 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 Note the linkages to the Capital Strategy due to the integral nature of how the Councils manages its treasury finances to support capital development.

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 Corporate Committee is the responsible body for scrutinising the Treasury Management Strategy as set out in the constitution. The Corporate committee scrutinised the strategy on 30th January 2019 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 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.

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, 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.

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	2018/19 Revised £000's	2019/20 Estimated £000's	2020/21 Estimated £000's	2021/22 Estimated £000's
Corporate	95	314	76	34
People	418	317	237	237
Place	499	78	0	0
Total Non HRA	**1,012**	**709**	**313**	**271**
HRA	7,354	11,172	1,212	902
Total	**8,366**	**11,881**	**1,525**	**1,173**

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 2019 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 2018-19.

Capital Financing Requirement - The following table sets out the predicted CFR for the period 2018-2022 analysed by fund, taking into account the method of calculating MRP as recommended above.

Capital Financing Requirement	2018/19 Revised £000's	2019/20 Estimated £000's	2020/21 Estimated £000's	2021/22 Estimated £000's
General Expenses	101	89	77	66
Total Non HRA	**101**	**89**	**77**	**66**
HRA	31,484	33,484	33,484	33,484
Total	**31,585**	**33,573**	**33,561**	**33,550**

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 2019/20 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 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 paragraph 3.2.1.

Net Borrowing	**2018/19 Revised £000's**	**2019/20 Estimated £000's**	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**
Gross Borrowing	31,413	33,413	33,413	33,413
Investments	16,094	13,019	13,903	14,676
Net Borrowing	**15,319**	**20,394**	**19,510**	**18,737**
CFR	**31,585**	**31,573**	**31,561**	**31,550**

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	**2018/19 Revised £000's**	**2019/20 Estimated £000's**	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**
Authorised limit	46,000	46,000	46,000	46,000
Operational boundary	36,514	36,502	36,490	36,479

3.3 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. 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 Council Plan 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.

3.4 Commercial Investment Strategy

The council has in place a commercial strategy which includes linkages to commercial investment specifically. There is a desire to invest in commercial property but that these plans are more aspirational not firmed up enough to put in to the Treasury Management strategy at this stage. The Corporate Delivery Plan outlines the priority projects that the council wants to delivery which would require a business case to justify any investment. As part of the decisions around any future commercial property investments decisions officers will be taking a review on the long term cashflow forecasts for future balances taking into consideration the impact of BREXIT and IFRS 9 implications to ascertain any further investment opportunities in increase our Property Fund holdings.

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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:

LIKELIHOOD

A	**Very High**				
B	**High**				
C	**Significant**				
D	**Low**				
E	**Very Low**			1,2	
F	**Almost Impossible**				
		Negligible 1	**Marginal 2**	**Critical 3**	**Catastrophic 4**

IMPACT

Risk No	Risk 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. The Council is not expecting any additional borrowing in the near future, so the upper limits for both fixed and variable interest rate exposure and limits for the Maturity Structure of Borrowing (see para 5.1.2 in Appendix A) will be presented in a revised report if the borrowing position changes. 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:	14 January 2019
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/2018-19/30-01-19/DG- Prudential Indicators and Treasury Management Strategy 2019/20