Melton Borough Council

Cabinet

12 February 2020

Report of:	**Portfolio Holder Corporate Finance and Resources**

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY 2020/21

1.0	**Corporate Priority:**	**Decision Type:**
1.1	OG3 Becoming a more agile and commercial Council; securing our financial future	Non Key Decision

2.0	**Summary:**
2.1	This report outlines the Council's prudential indicators for 2020/21 – 2022/23 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.

2.2 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.

3.0 Recommendations

[redacted]

4.0 Reason for Recommendation:

4.1 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.

4.2 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.

5.0 Alternate Options Considered

5.1 No alternatives were considered for this report as a decision is not required.

6.0 Report Detail

6.1 One of the main changes in the MHCLG guidance is that there is greater member scrutiny of the treasury management policies. Cabinet is the responsible body for scrutinising the Treasury Management Strategy as set out in the constitution.

6.2 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.

6.3 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).

6.4 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.

Treasury Management Strategy and Prudential Indicators

6.5 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.

6.6 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.

6.7 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 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.

6.8 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	2019/20 Revised £000's	2020/21 Estimated £000's	2021/22 Estimated £000's	2022/23 Estimated £000's
Corporate	108	17	93	13
People	497	237	237	237
Place	122	175	0	0
Total Non HRA	**727**	**429**	**330**	**250**
HRA	2,956	4,802	4,026	3,988
Total	**3,683**	**5,231**	**4,356**	**4,238**

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 2020 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 2019-20.

Capital Financing Requirement - The following table sets out the predicted CFR for the period 2019-2023 analysed by fund, taking into account the method of calculating MRP as recommended above.

Capital Financing Requirement	**2019/20 Revised £000's**	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**	**2022/23 Estimated £000's**
General Expenses	89	77	65	54
HRA	31,484	31,484	31,484	31,484
Total	**31,573**	**31,561**	**31,549**	**31,538**

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 2020/21 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 6.5.

Net Borrowing	**2019/20 Revised £000's**	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**	**2022/23 Estimated £000's**
Gross Borrowing	31,413	31,413	31,413	31,413
Investments	20,090	17,016	15,609	14,621
Net Borrowing	**11,323**	**14,397**	**15,804**	**16,792**
CFR	**31,573**	**31,561**	**31,549**	**31,538**

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	**2019/20 Revised £000's**	**2020/21 Estimated £000's**	**2021/22 Estimated £000's**	**2022/23 Estimated £000's**
Authorised limit	46,000	46,000	46,000	46,000
Operational boundary	36,502	36,490	36,478	36,467

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. The updated Capital Strategy is being presented to members of this committee under a separate agenda item.

6.10 **Other Changes**

The following two area have been added into the investment strategy for 2020-21

Sustainable and Ethical Investments

The Council recognises the importance of supporting sustainability and ethical investments and will ask the financial organisations to provide their ethical statements if they first meet their criteria for risk outlined in TMP1 and will consider Environmental, Social or Governance (ESG) specific products if they meet our risk criteria.

Multi Asset Funds

This investment option has been added in as another long term investment option which will provide a greater level of return which would sit between the normal banking deposit returns and that of the property fund. The minimum length of investment period would be around 3 years (less than the property fund at 5 years) in order to achieve a capital gain on the investment but still provided annual investment income. This provides some more flexibility for investments over the medium term.

7.0 Consultation and Feedback (including Scrutiny Committee)

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

8.0 Next Steps

8.1 This report will be submitted to the Council meeting on 26th February 2020.

9.0 Financial Implications

9.1 All key financial implications are outlined in the report.

10.0 Legal and Governance Implications:

10.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity.

11.0	**Equality and Safeguarding Implications:**
11.1	There are no direct equality or safeguarding issues arising from this report.

12.0	**Community Safety Implications:**
12.1	There are no direct links to community safety arising from this report.

13.0	**Other Implications (HR, Data Protection, Climate Change, etc)**
13.1	As outlined in section 6.10 the Council has included a statement committing to recognise the importance of supporting sustainability and ethical investments

14.0 **Risk &Mitigation:**

14.1

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

14.2 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.

14.3 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

Background Papers:

None

Appendices

Appendix A - Treasury Management Strategy Statement 2020-21
Appendix B – Performance Indicators & Treasury Strategy 2020-21

Report Timeline:

Equalities Check & Challenge	N/A
SLT Sign off	N/A
Previously Considered by Cabinet	N/A
Director Approval	28.01.20
Legal Approval	09.01.20
Chief Finance Officer Sign Off	28.01.20
Monitoring Officer Sign Off	10.01.20
Chief Executive Sign Off	03.02.20

Exempt Reports

N/A

Date of Review to make public

N/A

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