

## REPORT 5

### HARBOROUGH DISTRICT COUNCIL

### REPORT TO THE CABINET MEETING OF 8 FEBRUARY 2021

**PUBLIC REPORT:** Yes

**EXEMPT REPORT:** No

<b>Report Title</b>	<b>Prudential Indicators and Treasury Management Strategy 2021/22</b>
<b>Report Author</b>	Clive Mason, Director, Finance and Assets (S151 Officer)
<b>Purpose of Report</b>	<p>This report details the Council's proposed prudential indicators for the period 2021/22 to 2023/24 and sets out the forecast treasury activities over the same period.</p> <p>It also fulfils four key requirements of local government legislation as follows:</p> <ul style="list-style-type: none"><li>• The reporting of the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities;</li><li>• The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year;</li><li>• The Treasury Management Strategy, in accordance with the CIPFA Code of Practice on Treasury Management in the public services; and</li><li>• The Annual Investment Strategy in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance.</li></ul>
<b>Reason for Decision</b>	<ul style="list-style-type: none"><li>• The Local Government Act 2003, as amended, and supporting regulations requires the Council to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.</li><li>• The Council is also required by the Local Government Act 2003 to undertake an annual review of its policy for</li></ul>

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	<p>calculating the minimum revenue provision (MRP) for repayment of external debt.</p> <ul style="list-style-type: none"> <li>The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.</li> </ul>				
<b>Portfolio (holder)</b>	Councillor James Hallam, Finance				
<b>Corporate Priorities</b>	<table border="1" style="width: 100%;"> <tr> <td colspan="2" style="background-color: #f4a460;">YOUR COUNCIL: innovative, proactive and efficient</td> </tr> <tr> <td style="background-color: #f4a460;">CO 10</td> <td style="background-color: #f4a460;">Deliver Financial Sustainability for the future</td> </tr> </table>	YOUR COUNCIL: innovative, proactive and efficient		CO 10	Deliver Financial Sustainability for the future
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<b>Financial Implications</b>	<ul style="list-style-type: none"> <li>These are covered in detail in this report. The current investments at 31 December 2020 are attached at <b>Appendix G</b>.</li> </ul>				
<b>Risk Management Implications</b>	<ul style="list-style-type: none"> <li>Management of the Council's financial resources is key to achieving targets set out in the budget. Security of the Council's money in the current banking market is paramount.</li> </ul>				
<b>Environmental Implications</b>	<ul style="list-style-type: none"> <li>None</li> </ul>				
<b>Legal Implications</b>	<ul style="list-style-type: none"> <li>This report covers the requirement for capital financing and treasury management as set out in the Local Government Act 2003 and subsequent Regulations.</li> </ul>				
<b>Equality Implications</b>	<ul style="list-style-type: none"> <li>None</li> </ul>				
<b>Data Protection Implications</b>	<ul style="list-style-type: none"> <li>None</li> </ul>				
<b>Consultation</b>	<ul style="list-style-type: none"> <li>The Prudential Indicators contained within this report have been compiled to take account of the borrowing requirements and available resources determined as part of the Council's capital programme and overall budget setting process. Members and officers have been involved in the budget process from the outset.</li> </ul>				
<b>Options</b>	<ul style="list-style-type: none"> <li>None</li> </ul>				
<b>Background Papers</b>	<ul style="list-style-type: none"> <li>Treasury Management, Prudential Code, and Budget working papers held in Finance.</li> </ul>				
<b>Appendices</b>	<p>A Treasury Management Strategy and Prudential Indicators for 2021/22</p> <p>B Detailed Criteria for Investment of Surplus Funds</p> <p>C Interest Rate Forecasts 2021 - 2024</p> <p>D Economic Background</p> <p>E External Debt Analysis</p>				

	<p>F Counterparty List  G Investments at 31 December 2020  H Prudential Code Definitions</p>
<p><b>Recommendation</b></p>	<ul style="list-style-type: none"> <li>• <b>To approve the capital prudential indicators and limits for 2021/22 to 2023/24 contained within Appendix A</b></li> <li>• <b>To approve the Minimum Revenue Provision (MRP) Statement, contained within Appendix A</b></li> <li>• <b>To approve the Treasury Management Strategy 2021/22 and the treasury prudential indicators contained in Appendix A, including the Authorised Borrowing Limit for the Council</b></li> <li>• <b>To approve the 2021/22 Annual Investment Strategy for treasury investments contained in Appendix A and the detailed criteria included in Appendix B.</b></li> <li>• <b>To approve the inclusion of Market Harborough Building Society on the list of approved counterparties.</b></li> </ul>

**Key Facts**

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using underlying cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day

revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury or non-financial activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.5 CIPFA defines treasury management 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.”*

1.6 Members in the past have shown their desire to support local business and therefore to include Market Harborough Building Society on the list of Counterparties for the Council in support of the Corporate Priority “an enterprising and vibrant place”. As a small Building Society, it does not meet the minimum requirements of the proposed Annual Investment Strategy and as such would normally be excluded. This report asks Members to consider whether they wish to add Market Harborough Building Society onto the counterparty lists for which the Council can make investments for the financial year 2021/22 subject to a monetary limit of £2 million.

### **Reporting Requirements**

1.7 **Capital Strategy:** The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

- (a) a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- (b) an overview of how the associated risk is managed
- (c) the implications for future financial sustainability

1.8 The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.9 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;

- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

### 1.10 **Treasury Management Reporting:**

The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

### 1.11 **Prudential and treasury indicators and treasury strategy** (Appendix A) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed)

### 1.12 **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

### 1.13 **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.