

**REPORT TO THE COUNCIL MEETING OF 25 FEBRUARY 2019**

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**Meeting:** Council  
**Date:** 25<sup>th</sup> February 2019  
**Subject:** Prudential Indicators and Treasury Management Strategy 2019/20  
**Report of:** Carolyn Bland, Financial Services Manager  
**Portfolio Holder:** Councillor J Hallam  
**Status:** For Approval  
**Relevant Ward(s):** All

1 Purpose Report

1.1 This report details the Council's proposed prudential indicators for the period 2019/20 to 2021/22 and sets out the forecast treasury activities over the same period.

1.2 It also fulfils four key requirements of local government legislation as follows:

- 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;
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year;
- The Treasury Management Strategy, in accordance with the CIPFA Code of Practice on Treasury Management in the public services; and
- The Annual Investment Strategy in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance.

2 Recommendations:

2.1 To approve the capital prudential indicators and limits for 2019/20 to 2021/22 contained within Appendix A

2.2 To approve the Minimum Revenue Provision (MRP) Statement, contained within Appendix A

- 2.3 To approve the Treasury Management Strategy 2019/20 and the treasury prudential indicators contained in Appendix A**
- 2.4 To approve the Annual Investment Strategy 2019/20 contained in Appendix A and the detailed criteria included in Appendix B.**
- 2.5 To approve the inclusion of Market Harborough Building Society on the list of approved counterparties.**

### 3 Summary of Reasons for the Recommendations

- 3.1 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.
- 3.2 The Council is also required by the Local Government Act 2003 to undertake an annual review of its policy for calculating the minimum revenue provision (MRP) for repayment of external debt.
- 3.3 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.

### 4 Impact on Communities

- 4.1 An appropriate Treasury Management Strategy is required to maximise the cash flow of the Council to enable investment income to be generated, which in turn will enable any impact to the community via Council Tax levels to be minimised.

### 5 Key Facts

- 5.1 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. These are reflected in our strategy.
- 5.2 Following the consultation undertaken by MHCLG on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from this financial year, 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

- 5.3 The Council is required to operate a balanced budget, which broadly means that there will be adequate funds in place, including the use of reserves, where appropriate, to meet the Council's annual expenditure plans. Part of the treasury management operation is to ensure that this cash flow is planned in such a way as to ensure the cash is available when it is needed. Surplus monies are invested in approved counterparties (financial institutions) or instruments, e.g. government bonds, commensurate with the Council's risk appetite, until such time as they are needed. The overarching requirement is to provide adequate liquidity ahead of investment returns.
- 5.4 The second main function of the treasury management service is the funding of the Council's capital expenditure plans. These capital plans provide a guide to the borrowing need of the Council. Cash flow planning is essential 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 as an alternative to borrowing. Debt re-structuring can also be undertaken from time to time to ensure the Council is minimising its debt servicing costs. Currently the Council is under-borrowed as it is using internal investments to temporarily fund capital expenditure to negate more expensive external borrowing.
- 5.5 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.
- 5.6 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 5.7 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."*
- 5.8 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. As a small Building Society its 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 2019/20.

## 5.9 Reporting Requirements

### Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, 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

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.

The capital strategy will be considered by Executive on 4 March 2019 for referral to Council on 18 March 2019 for adoption.

### Treasury Management Reporting

The Council is required to approve annually the Treasury Management Strategy and Prudential Indicators. The requirements of this report are summarised below and for 2019/20 are attached at **Appendix A**.

- 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).

Arising from the overall Treasury Management Strategy the Council is required to set down its investment criteria (**Appendix B**). This then generates a counterparty list with institutions we can invest in (**Appendix F**). The report provides the governance arrangements around Treasury Management and economic forecasts (**Appendix C & D**). Finally the current level of borrowing and investments are detailed in **Appendix E & G**.

Treasury Management Activity is then reported back to Council following the financial year end in the Annual Treasury Report. This updates Members with the progress of the capital position, amending prudential indicators as necessary, and identifying whether the treasury strategy is meeting its

objectives (mid year report) and provides details of a selection of actual prudential and treasury indicators and actual treasury operations as compared to the estimates set out in the strategy (annual treasury report).

- 5.10 This report fulfils the requirements of the code to annually approve the Annual Investment Strategy and Prudential Indicators

## 6 Legal Issues

- 6.1 This report covers the requirement for capital financing and treasury management as set out in the Local Government Act 2003 and subsequent Regulations.

## 7 Resource Issues

- 7.1 These are covered in detail in this report. The current investments at 27 January 2019 are attached at **Appendix G**.

- 7.2 Any Property Fund invested in by the Authority could impact the General Fund Balance in any financial year. This is due to requirements under International Financial Reporting Standard 9 (IFRS9) a property fund has to be valued at the end of each financial year. Any increase is not cash backed (real) until withdrawal from the Property Fund occurs. There could be significant, material movements every year due to movements in the valuation this however can be mitigated by the use of reserves. An investment of £1.5m was made with the CCLA Local Authorities' Property Fund on 31 January 2019.

## 8 Equality Implications

- 8.1 There are no equality and diversity issues relating to this strategy.

## 9 Impact on the Organisation

- 9.1 The Prudential Code has had wide reaching implications for local authorities, providing greater flexibility for capital investment where spending plans can be demonstrated to be affordable, prudent and sustainable.

- 9.2 The Treasury Management function is an important element of the Council's overall financial affairs. It is inextricably linked to any financial decision, which the Council may take, both in revenue and capital terms, and has taken on an even greater importance with the introduction of the Prudential Code.

## 10 Community Safety Implications

- 10.1 There are no community safety implications arising from this report.

## 11. Carbon Management Implications

- 11.1 There are no carbon management implications arising directly from this report.

## 12. Risk Management Implications

12.1 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.

12.2 If the Authority is to use property funds they will need to be classified as "Fair Value through the Profit and Loss" (FVPL), any increase or decrease in value is not cash backed until withdrawal from the property fund. It is suggested that any "profits" are taken into an earmarked reserve to enable mitigation and smoothing of any future "losses".

## 13 Consultation

13.1 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.

## 14 Options Considered

14.1 None.

## 15 Background Papers

15.1 Treasury Management, Prudential Code, and Budget working papers held in Finance.

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### **Previous report(s):**

**Information Issued Under Sensitive Issue Procedure: No**

**Ward Members Notified: Not Applicable**

### **Appendices:**

- A Treasury Management Strategy and Prudential Indicators for 2019/20
- B Detailed Criteria for Investment of Surplus Funds
- C Interest Rate Forecasts 2019 - 2022
- D Economic Background
- E External Debt Analysis
- F Counterparty List
- G Investments at 27 January 2019
- H Prudential Code Definitions