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PUBLIC REPORT

CABINET

16 January 2018

TREASURY MANAGEMENT STRATEGY AND CAPITAL INVESTMENT STRATEGY 2018/19

Report of the Director for Resources

Strategic Aim:	Sound Financial and Workforce Planning	
Key Decision: Yes	Forward Plan Reference: FP/180817	
Cabinet Member(s) Responsible:	Councillor Tony Mathias, Leader and Portfolio Holder for Corporate Finance	
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Ward Councillors	N/A	

DECISION RECOMMENDATIONS
That Cabinet RECOMMENDS TO COUNCIL to approve: a) the Treasury Management Strategy in Appendix 1 including the Investment Strategy, Borrowing strategy, Minimum Revenue Provision statement and Capital Expenditure Prudential indicators. b) the Capital Investment Strategy in Appendix 2. c) the establishment of a £10m fund for commercial investments to be used in accordance with Commercial Investment Policy in Appendix 2, Annexe B1 d) an increase in the Authorised Borrowing Limit to £33m (previously £28m) and the Operational Boundary to £28m (previously £23m). e) use of £50k as a start-up fund from the Invest to Save reserve (as required) to fund any pre acquisition costs associated with potential investments.

1 PURPOSE OF THE REPORT

1.1 This report sets out the expected treasury and capital investment operations for 2018/19, linked to the Council's Budget, Medium Term Financial Strategy and

Capital Programme. It delivers on key legislative requirements:

- The Treasury Management Strategy (TMS) sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (The Chartered Institute of Public Finance & Accountancy) Codes of Practice.

- The reporting of the prudential indicators for capital, external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice.

- The treasury 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 Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010.

- The Council's Capital Investment Strategy including policy on commercial investments as required by the revised Prudential Code.

- 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 Local Authorities (Capital Finance and Accounting) Regulations 2008.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Updated guidance

2.1.1 As local authorities have seen a significant drop in local government funding, there has been increased investments in assets – often outside the local authority area – in a bid to generate revenue and balance the books.

2.1.2 Some of the deals that local authorities have entered into, often funded by significant borrowing, have raised concerns with the property deals being much bigger than core Council business such that a crash in property markets could effectively render some Council's 'bankrupt'.

2.1.3 On the back of this activity, updated guidance has been produced:

- Prudential Code for Capital Finance in Local Authorities (2011) (Prudential Code) - this has been updated and introduces a formal requirement for a capital strategy to be approved by Council including "the authority's approach to investments and commercial activities including processes, due diligence and defining the authorities risk appetite in respect of these including proportionality in respect of overall resources".

- Treasury Management: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) - this has been updated and again requires more explicit reference to how non treasury investments are managed – "It is critical that due diligence processes and procedures reflect the additional risk an organisation is taking on. Due diligence procedures should ensure effective scrutiny of proposed investments, identification of risk to both capital and returns, any external underwriting of those risks, and the potential impact on the financial sustainability of the organisation if those risks come to pass".

- Minimum Revenue Provision - Guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. This prevents various practices such as spreading the MRP charge over a period longer than 50 years or making retrospective changes which give rise to a credit – "Changing the method used to calculate MRP can never give rise to an overpayment, and should not result in a LA making a charge of £nil for the accounting period in which the change is made".

- Guidance on Local Authority investments - Issued under section 15(1)(a) of the Local Government Act 2003. This guidance is consistent with the Codes described above.

2.2 Both Strategies have been prepared in accordance with the guidance above which is still in draft.

2.3 **Coverage**

2.3.1 The two key strategies cover a range of issues as set out below:

Treasury Management Strategy (TMS)	**Capital Investment Strategy (CIS)**
Treasury Management Requirements	Capital Investment Strategy objectives
Capital Prudential Indicators	Capitalisation policy
Borrowing	Objectives and priorities
Annual Investment Strategy	Resourcing strategy
MRP Statement	Indicative plans and available funding
Investment selection criteria	Appraisal process for Capital Investment
Economic outlook	Commercial Investment Policy (objectives, rules, assessment process, governance and reporting)
	Reporting requirements
	Performance Indicators

2.4 **Treasury Management Strategy**

2.4.1 The TMS outlines that the Council's approach to treasury investment is largely unchanged.

2.4.2 Our focus is on deposits for up to 12 month period given uncertainty in the markets.

2.4.3 The Council will continue to look at longer term options (Government bonds, Property Funds etc) but existing preference is to use available funds to focus on commercial investments as set out in the Commercial Investment Policy.

2.4.4 There are no changes proposed from last year's TMS in terms of the Council's approach to borrowing. The Council will look to repay borrowing if there is a financial business case. It will also only borrow where that borrowing is likely to deliver a positive revenue impact. In order to implement the new Commercial Investment Policy in Appendix A, the Council is asked to approve changes to the following Prudential Indicators:

- increase the Authorised Borrowing Limit from £28m to £33m
- increase the Operational Boundary from £23m to £28m

2.5 **MRP**

2.5.1 In November, Cabinet took a report (192/2017) proposing a change in the calculation of an element of MRP (that relating to historic debt) to make more prudent provision for the repayment of debt in the Revenue Account. The change means that debt will be charged to the Revenue Account on a straight line rather than reducing balance basis over a 50 year period.

2.5.2 MRP consultation is ongoing and the Council is still awaiting the final outcome of the consultation. The Council's proposed policy change is not believed to be effected by any proposed changes so Cabinet is asked to formally recommend that policy to Council as part of approving the TMS.

2.6 **Capital Investment Strategy**

2.6.1 This is required per the guidance set out in 2.1. Much of the content is not new but is presented in a way that brings together different elements of the Council's approach to Capital Investment in one document. The key points to note are:

- The Council incurs capital expenditure/makes capital investment to deliver on its aims and priorities including statutory objectives
- It has indicative plans which are approved as part of the budget and updated throughout the year
- It holds funds which are available to meet spending plans and can supplement these funds with borrowing if required
- Capital appraisal processes are set out in the Financial Procedure Rules
- Capital investment/expenditure has traditionally focused on what are called "service investments" – investment in assets held primarily for the delivery of operational services

- The Council has a priority to be more commercial and the Capital Strategy sets out a policy for “commercial investment” – those taken for mainly financial reasons.

2.7 Commercial Investment Policy

2.7.1 As indicated above, the Council has a priority to be more commercial as one way of meeting the gap in the Medium Term Financial Plan (MTFP). Alongside capital investment to meet statutory and service requirements, the Council therefore wishes to a) get a better return on its treasury investments and b) make commercial capital investments that yield revenue savings for the MTFP.

2.7.2 The TMS allows for treasury investment in property funds, corporate bonds alongside short term deposits. The Commercial Investment Policy allows for capital investments in property etc that yield a positive net return for the Revenue Account to help subsidise the provision of other Council services. The Policy is set out in Appendix 2, Annexe B2 but key elements are summarised below:

	Key principles
Objective	Increase revenue streams (general, council tax, business rates etc) to subsidise other Council services e.g. social care, transport
Governance	
Business Case	Yes, prepared by Strategic Director (Places)
Due diligence	Legal due diligence Valuation of Asset Condition Survey Market assessment
Decision Maker	Cabinet/Council in line with existing Financial Procedure Rules
Reporting performance	Quarterly Finance Reports and Treasury reports
Criteria	
Scope	Maximum £10m total fund
Source of funding	Prudential borrowing
Maximum Individual Purchase	£3m (unless Council approves otherwise)
Target investment	Not restricted but typically property or land for commercial use
Yield	Rental, Council tax, Business rates
Net minimum yield required	5% plus base rate of purchase price/total capital investment Payback period and speed of positive return (i.e. when the investment delivers a net positive impact) also considered
Risk assessment	Yes, Investment appraisal tool covering: i) security of income ii) asset condition iii) location/sector iv) capital appreciation

	Key principles
Location	Areas benefitting Rutland residents
Financial assumptions	
MRP	50 years land and 40 years building or life of asset
Interest costs	New borrowing rates
Stamp duty, other purchase costs and alterations	Part of purchase price

2.7.3 The above policy mirrors the approach adopted by many Council's but all elements can be varied to meet local requirements. The Policy will be subject to annual review so any learning from operating the Policy in Year 1 can feed into any future revisions.

3 CONSULTATION

3.1 No formal consultation is required. However, CIPFA guidance encourages Councils to use Scrutiny to review proposals prior to approval by Council.

4 ALTERNATIVE OPTIONS

4.1 Option 1. To approve the Capital Strategy and Treasury Management Strategy as presented. This is the recommended option.

4.2 Option 2. Not to accept the 2018/19 Treasury Management Strategy and Capital Strategy. This is not recommended as it means that the Council will be in breach of its statutory obligations.

4.3 Option 3. To approve the Strategies with any revisions.

5 FINANCIAL IMPLICATIONS

5.1 The Medium Term Financial Plan includes three amounts for interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). The only changes to the MTFP from any of the decisions arising from this strategy relates to MRP. PWLB loans will be monitored and if it is advantageous for the Council, then repayment or restructuring will be considered.

5.2 The implementation of the Commercial Investment Policy aims to deliver Revenue Income and a net return for the Revenue Account but this is not included in the MTFP at this time. The net target (after costs) from a £10m investment is c£500k per annum. When the Policy is implemented i.e. assets are purchased then the MTFP will be updated accordingly.

5.3 The Council will require an initial fund to be used to meet the costs of pursuing opportunities including undertaken relevant due diligence work. It is proposed that up to £50k is financed from the Invest to Save earmarked reserve.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on

Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. As indicated in 2.1 above, there have been various amendments.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

6.3 The Council's strategies explain how it complies with this legal framework.

6.4 As per Article 4 of the Council's Constitution the Treasury Management Strategy and Capital Strategy form part of the Council's Policy Framework. It therefore requires the approval of Full Council.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / to an existing policy or service that has an impact on any particular group.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE

RECOMMENDATIONS

10.1 The Council is required to approve a Treasury Management Strategy and Capital Strategy.

10.2 Investment interest rates are expected to remain low in the short term and in order to maximise the returns available, various changes have been recommended including approval of a Capital Investment Policy for Non Treasury investments.

10.3 The Council is not planning to repay existing borrowing but is asked to approve increases in borrowing to fund investments which will yield a positive impact on the MTFP.

11 BACKGROUND PAPERS

None

12 APPENDICES

Appendix 1	Treasury Management Strategy
Appendix 2	Capital Investment Strategy

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577