Appendix B

Report No: 05/2020
PUBLIC REPORT

CABINET

21 January 2020

TREASURY MANAGEMENT STRATEGY AND CAPITAL INVESTMENT STRATEGY

Report of the Strategic Director for Resources

Strategic Aim:	Sound Financial and Workforce Planning	
Key Decision: Yes	Forward Plan Reference: FP/090819	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr G Brown, Deputy Leader and Portfolio Holder for Planning, Environment, Property and Finance.	
Contact Officer(s):	Saverio Della Rocca, Strategic Director for Resources	01572 758159 sdrocca@rutland.gov.uk
	Andrew Merry, Finance Manager	01572 758152 amerry@rutland.gov.uk
Ward Councillors	Not Applicable	

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.

1 PURPOSE OF THE REPORT

1.1 This report sets out the statutory reports expected in relation to treasury and capital investment operations for 2020/21, linked to the Council's Budget, Medium Term Financial Strategy and Capital Programme.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Statutory guidance

2.1.1 CIPFA and the Ministry for Housing, Communities and Local Government (MHCLG) updated guidance in relation to Financial and Non-Financial investments in 2018/19 and 2019/20 as a result of the number of commercial investments made by Councils.

2.1.2 Both the Treasury Management Strategy and the Capital Investment Strategy (CIS) have been prepared in line with the guidance, including:

- Prudential Code for Capital Finance in Local Authorities (2017) (Prudential Code)
- Treasury Management: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code)
- 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.
- CIPFA Prudential Property Investment – this is guidance recently issued covering non-financial investments (Commercial Property)

2.2 Coverage

2.2.1 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

Treasury Management Strategy (TMS)	Capital Investment Strategy (CIS)
Economic Outlook	Commercial Investment Policy (objectives, rules, assessment process, governance and reporting)
	Reporting Requirements
	Performance Indicators

2.3 **Treasury Management Strategy**

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

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

2.3.3 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.

2.3.4 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.

2.3.5 The credit criteria has been amended to reflect the changing economic climate, largely as a result of the uncertainty arising from Brexit. There has been no change to the minimum credit criteria, however should a situation arise where the counterparty ratings are only met from one of the credit ratings agencies (for example Fitch) the counterparty may still be used, based on other supporting evidence as to the stability of the counterparty. There must also be no significant disparity between the Fitch rating and the ratings from the other credit rating agencies. This is a key change from the existing Strategy

2.3.6 A counterparty with a credit rating on negative ratings watch will only be removed from the approved counterparty list if the counterparty is overseas, or following the stability of the UK economy the negative watch applies only to one or several UK counterparties. This will resolve the problem arising from the current financial climate where most of the UK counterparties are on negative watch but the financial stability of these counterparties has not been affected.

2.3.7 The following limits in the investment policy have been increased:

- Banks highest and middle limits from £5m to £7m
- Part nationalised banks from £5m to £7m
- Local Authorities from £5m to £7m

2.3.8 This change is considered necessary because:

- In 19/20 there were a limited number of counterparties (with the appropriate rating) to invest in. The Council reached the £5m limit in respect of 3 banks and 2 local authorities;

- With PWLB borrowing rates and therefore becoming less attractive, local authorities may be looking to borrow from other local authorities on a short term basis. Increasing the limit will allow us to take advantage of this;

- The Council held high cash balances in 19/20 (as no commercial investments were made) and increasing the limits is considered to be appropriate for the level of balances held and more in line with limits set by other Councils with no change to financial risk.

2.3.9 The Council's MRP policy is also included as part of the TMSS, there is a proposed change arising from the implementation of a new accounting standard for leases (IFRS16) from 1st April 2020. IFRS16 requires leases where the Council has the right to use leased assets to be recognised on the balance sheet. This will increase the Capital Financing Requirement which needs to be cleared through MRP charges as the lease payments are made. The MRP charges will be made over the life of the asset. The Council does not believe that these changes are likely to be significant in value.

2.4 **Capital Investment Strategy**

2.4.1 The CIS outlines the Council's approach to non-financial investment which has been updated as a result of CIPFA issuing the Prudential Property Investment guidance.

2.4.2 The key changes in this are:

- The need to report any borrowing in advance of need. The Prudential Code states that borrowing to invest should not be undertaken but if authorities do this, they should report it. As commented in para 5.4 of the Commercial Investment Policy (CIP) (Appendix 2, Annex A1), the Councils policy is currently not to invest outside of Rutland so it is unlikely that the Council will invest purely for financial gain. This will form part of the legal consideration before purchasing any investment property.

- The added importance on prudence and proportionality. This is covered off in the CIP by the introduction of a proportionality test. This test guards against the Council taking risks that could have a material impact on its financial position.

2.4.3 The key points to note on the Capital Investment Strategy 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 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. This is included in The Commercial Investment Policy (Appendix 2 – Annexe A1). The Council has not yet made any investments in line with this Policy.

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. This report will therefore be presented at the Budget Scrutiny panel in January which will then allow Council to consider any comments before it is presented for approval in February.

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 2020/21 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). PWLB loans will be monitored and if it is advantageous for the Council, 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 following approval by Council), the MTFP will be updated accordingly.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of 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.

6.2 The Council's treasury management activities are regulated by a variety of professional codes, 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 MHCLG 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 Investment Strategy form part of the Council's Policy Framework. It therefore requires the approval of Full Council.

7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessment (DPIA) has not been completed because there are no service, policy or organisational changes being proposed.

8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because there are no service, policy or organisational changes being proposed.

9 COMMUNITY SAFETY IMPLICATIONS (MANDATORY)

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

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

12 BACKGROUND PAPERS

12.1 None

13 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.