NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 4 FEBRUARY 2020

Title of Report	**TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21 AND PRUDENTIAL INDICATORS 2020/21 – 2022/23**	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	Corporate Scrutiny Committee Draft Minutes – 8 January 2020	**Public Report:** Yes **Key Decision:** Yes
Financial Implications	Interest earned on balances and interest paid on external debt, impact on the resources available to the authority. **Signed off by the Section 151 Officer**: Yes	
Legal Implications	As detailed in the report **Signed off by the Monitoring Officer**: Yes	
Staffing and Corporate Implications	As detailed in the report **Signed off by the Head of Paid Service:** Yes	
Purpose of Report	This report outlines the expected treasury operations for the forthcoming financial year and sets out the Authority's treasury management indicators for 2020/21 to 2022/23. It fulfils key requirements of the: • Local Government Act 2003; • The Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice for Treasury Management in Public Services; • The Treasury Management Investment Strategy in accordance with the MHCLG Investment Guidance; • The reporting of the prudential indicators as required by the CIPFA Prudential Code for Finance in Local Authorities; and • The requirement for a Policy for the Annual Minimum Revenue Provision.	
Reason for Decision	To meet the requirement of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services Code of Practice' 2017 Edition (the CIPFA Code).	
Recommendations	**THAT THE TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21, THE TREASURY MANAGEMENT PRUDENTIAL INDICATORS – REVISED 2019/20 AND 2020/21-2022/23 AND THE ANNUAL MINIMUM REVENUE PROVISION BE RECOMMENDED TO COUNCIL FOR APPROVAL.**	

1. INTRODUCTION

1.1 Local Authorities are required to approve a treasury management strategy (TMSS) and an investment strategy before the start of each financial year, in line with the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services Code of Practice' 2017 Edition (the CIPFA Code).

1.2 CIPFA have responsibility for the Treasury Management Code of Practice and Prudential Code. The Ministry for Housing, Communities and Local Government (MHCLG) is responsible for preparing the guidance on Local Authority Investments and the guidance on Minimum Revenue Provision.

1.3 Investments held for service purposes or for commercial profit are considered in the Investment Strategy Report which is a separate item on the agenda for Cabinet on 4 February 2020.

1.4 In accordance with MHCLG Guidance, Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this statement is based change significantly.

1.5 CIPFA has defined Treasury Management as: "the management of the organisation'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 This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and MHCLG Investment guidance. All treasury activity will comply with relevant statute, guidance and accounting standards.

1.7 The TMSS (Appendix 1) sets out:

a) Organisational roles and responsibilities (section 2).
b) The role of the Authority's treasury advisor (section 3).
c) Reporting and monitoring of treasury management activity (section 4).
d) Background information used to determine borrowing and investment requirements (sections 5 and 6).
e) Borrowing (Appendix A) and debt rescheduling (Appendix B) strategies. Total Authority's interest payments on existing debt are estimated at £2,689,371 in 2020/21.
f) Treasury Management Investment Strategy (Appendix C). Security of capital is the first and most important investment policy objective.
g) Apportionment of Interest Strategy (Appendix D). Total investment income is estimated at £300,700 in 2020/21 (General Fund - £190,800, HRA - £109,900).
h) Treasury Management and Prudential Indicators for 2020/21 to 2024/25 (Appendix E). These are designed to monitor borrowing limits, debt levels and investment returns.
i) Annual Minimum Revenue Provision Statement for 2020/21 (Appendix F). General Fund MRP is estimated at £748,762.

1.8 The Corporate Scrutiny Committee considered the draft TMSS on 8 January 2020. A link to the draft minutes have been included as a background paper on page one of this report. Members should note that the strategy is aligned to the Capital Programmes 2020/21-2024/25 and has been revised in line with changes to the capital programme since being presented to Corporate Scrutiny Committee. In particular, the assumptions regarding the value and timing of capital expenditure.

1.9 As previously mentioned the Council has consulted with their external consultants Arlingclose, to provide advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and the need for liquidity throughout the year. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims primarily to avoid credit risk by holding a minimum level of investments for cash flow liquidity purposes only. The majority of the Council's surplus cash is currently invested in highly liquid short-term unsecured bank deposits, short-term deposits with other local authorities and money market funds. Should investment balances increase and are forecast to be available for a sustained period the Council will aim to diversify further into secured asset classes and look to invest for longer periods. The value to be obtained from longer term investments will be carefully assessed (including the need for borrowing) and the Council estimates cash balances between £2.5m to £5m can be released for longer term investment. This strategy was put in place in 2019/2020 and the Council will now seek to take advantage of this alternative investment approach in 2020/21.

1.10 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. To this end the balance sheet forecast shows that the council does not expect to borrow in 2020/21. Borrowing may be required by 2021/22 should the council wish to maintain its MIFID (Markets in Financial Instruments Directive 2004/39/EC) status which requires an investment balance of £10m at any one time.

1.11 The Council will have a requirement for short-term borrowing in 2022/23, after the completion of the new build Leisure Centre. This requirement is dependent on the nature of the cash flow fluctuations, such as collection of Council Tax, business rates, grants, and capital receipts, payments to other precepting authorities or central government and interest on treasury activity. The benefits of short-term borrowing will be monitored regularly as part of the Treasury management activity.

1.12 In the future, the council may consider other service delivery models (for example shared services) and these will potentially affect the council's balance sheet and treasury position. Should alternative delivery models be agreed and implemented and the assumptions on which this statements is based alter significantly, a new TMSS will be presented to Members.

1.13 Finally, last year Council agreed to no longer automatically set aside its budgeted HRA surpluses for the repayment of maturity loans that fall due from 2037. We are proposing to put surpluses into the debt repayment reserve and draw upon them to fund projects, such as New Supply work or work to reduce our carbon emissions, when needed. This makes the default option to save surpluses to repay debt, but continues to give us the flexibility to use surpluses for other purposes. We will ensure that the debt repayment reserve retains the £13m previously set aside to repay two maturity loans that fall due in March 2022. The remaining maturity loans total £43.8m, with £10m due to be repaid 2037 and £33.8m in 2042.

Policies and other considerations, as appropriate	
Council Priorities:	- Supporting Coalville to be a more vibrant, family-friendly town - Support for businesses and helping people into local jobs - Developing a clean and green district - Local people live in high quality, affordable homes - Our communities are safe, healthy and connected
Policy Considerations:	None
Safeguarding:	Not applicable
Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment and Climate Change:	Not applicable
Consultation/Community Engagement:	Corporate Scrutiny Committee – 8 January 2020
Risks:	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, compliance with the CIPFA Code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to offer expert advice.
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