Agenda Item 5.

East Northamptonshire Council

Finance and Performance Sub-Committee – 29 October 2018

Treasury Management Strategy Update

Purpose of report

The purpose of this report is to provide an update on the Treasury Management Strategy 2018/19, in order to reflect changes to the capital programme and any potential need to borrow in future years .

Attachment(s)

Appendix 1: Revised Prudential Indicators

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1. Introduction

1.1. The Treasury Management Strategy for 2018/19 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2018. It was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017.

1.2. The Treasury Management Strategy provides:

- A summary of the economic conditions affecting the council's investment strategy
- Details of investments made during the year
- A summary of the council's current investment portfolio

1.3 The Treasury Management Strategy outlines council's investment priorities are:

- Security of capital invested
- Liquidity of capital invested
- Return on investment

2. Treasury Management Strategy

2.1. The Treasury Management Strategy outlines for the forthcoming year the council's policy and strategy in terms of managing its investments both in terms of cash investments and capital investments.

2.2. As a part of this, the Treasury Management Strategy sets out the Prudential Indicators (PIs) and Capital Financing Requirements (CFR) for the medium term and provides assurances to the affordability and sustainability of capital investments over the medium term and in particular the impact of these capital investment decisions on council tax.

2.3. Within the 2018/19 Treasury Management Strategy, the PI's and CFR were shown based on information available at the time of writing the strategy. During 2018/19 the capital programme has change significantly for future years and needs to incorporate the inclusion of the East Northants Enterprise Centre based on current estimates.

3. Revised Prudential Indicators and Capital Financing Requirements

3.1. The impact of these changes can be seen in Appendix 1, which identifies the relevant parts of the Treasury Management Strategy which have been revised to incorporate the East Northants Enterprise Centre within the capital programme, reflecting an overall need to borrowing in 2019/20.

3.2. This is based on the current forecasted costs of the project and excludes any pending grant bids which, if successful, will reduce the amount required to borrow by £1.5m.

3.3. This does not recommend how the borrowing should be undertaken, but illustrates the impact the project will have on the council's reserves, CFR and its PI's in the near future if the project is approved to go ahead by council, (a decision expected in February 2019).

4. Equality and Diversity Implications

This report is for information. There are no equality and diversity implications arising from the content.

5. Privacy Implications

This report is for information. There are no privacy implications arising from the content.

6. Legal Implications

This report is for information. There are no legal implications arising from the content.

7. Risk Management

The risks arising from Treasury Management activity are recorded in the Risk Register. The risks are subject to regular review and update.

8. Resource and Financial Implications

This report is for information. There are no financial implications arising from this report. Any decision required where there may be a financial implication will be brought back to the appropriate committee.

9. Constitutional Implications

This report does not require any amendment to the council's constitution.

10. Implications for our Customers

There are no implications for our customers arising directly from this report.

11. Corporate Outcomes

- ***Good Value for Money*** *- This report demonstrates that the council is ensuring it effectively manages its surplus cash to achieve good value for money for the council.*
- ***Effective Management*** *- Treasury Management allows the council to manage its surplus cash balances to ensure the main principles (Security, Liquidity, and Yield) are maintained, contributing to effective management of the council.*

12. Recommendations

The Sub-Committee is recommended to:

1. Note the revised Prudential Indicators and Capital Finance Requirement for 2018/19 as at Appendix 1 and;

2. Resolve to recommend to council to incorporate this as an addendum to the Treasury Management Strategy 2018/19, as ‘Appendix F’.

(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power: Local Government Finance Act 2002</td></tr>
<tr><td colspan="5">Other considerations: Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management 2009.</td></tr>
<tr><td colspan="6">Background Papers: Council - 26th February 2018, item 7a – appendix 5 Treasury Management Strategy 2018/19</td></tr>
<tr><td colspan="6">Person Originating Report: Amy Eyles, Finance Manager
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<tr><td colspan="6">Date: 16/10/2018</td></tr>
<tr><td>CFO</td><td></td><td>MO

18/10/18</td><td>S Matthews</td><td>CX</td><td></td></tr>
</table>

Addendum to the Treasury Management Strategy 2018/19

Appendix F

For Illustration purposes only

The below illustrates the impact that borrowing funds to support the delivery of the East Northants Enterprise Centre may have on the council's Treasury Management Strategy Prudential Indicators from 2019/20. As borrowing will not be required until 2019/20, the 2018/19 TMS does not need to be formally changed. However, this addition highlights what the prudential indicators may look like going forward if the East Northants Enterprise Centre is approved by Council. All changes have been highlighted in yellow.

1. **Borrowing Requirement and Strategy**

1.1. The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix B, section 5. The CFR represents the cumulative capital expenditure of the local authority that has not been financed (the underlying need to borrow). To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision (MRP) from the Revenue budget each year.

1.2. Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR and subject to the nature of the borrowing, will in turn produce an increased requirement to charge MRP in the Revenue Account.

1.3. Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

1.4. ***Balance Sheet Summary***

1.4.1. As indicated in Table 1, the Authority is currently debt free (excluding the finance lease) and its capital expenditure plans do not currently imply any external borrowing requirement in 2018/19. The Council currently has sufficient balances and reserves to avoid the need for borrowing and is able to minimize borrowing costs and overall treasury risk. However, for the medium term, the Council has recently agreed the Corporate Plan 2018-2021 and will need to consider the type and level of investment required to deliver it and any potential borrowing requirements as indicated below. It assumes in this table that the CFR is funding from external resources.

Table 1	**2017/18 Actual £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**
General Fund CFR	52	0	2,412	2,412
Total CFR	**52**	**0**	**2,412**	**2,412**
Less: External Borrowing	-	-	(2,412)	(2,412)
Less: Other Long Term Liabilities	(52)	0	0	0
Gross Borrowing Requirement	**0**	**0**	**0**	**0**
Usable Balances	(18,460)	(12,073)	(13,575)	(13,575)
Net Borrowing Requirement/(Investments)	**(18,460)**	**(12,073)**	**(13,575)**	**(13,575)**

1.5. *Sources of Borrowing and Portfolio Implications*

1.5.1. In conjunction with advice from its treasury advisor, Link Asset Services, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Internal borrowing from cash resources

1.5.2. The cost of carry (which is the financial cost of borrowing, including interest costs, brokers fees and minimum revenue provision) has resulted in an increase in the availability of shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns.

1.5.3. The Authority's requirement of shorter dated borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs.

2. **Annual MRP Statement**

2.1. East Northamptonshire Council will in accordance with the main recommendations contained within the guidance issued by the Secretary of State, under section 21(1A) of the Local Government Act 2003, assess their MRP for 2018/19.

2.2. Expenditure reflected within the debt liability at 31 March 2019 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of the expenditure, using the equal annual instalment method. For example, capital expenditure on a new building or on the refurbishment or enhancement of a building will be related to the estimated life of that building. Under this option no MRP charge is required until the financial year after that in which an item of capital expenditure is fully incurred or in case of a new asset comes into service.

2.3. MRP in respect of leases and Private Initiative Schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principle repayment for the associated deferred liability.

2.4. Estimated life periods will be determined under delegate powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt this period. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

2.5. The Council's CFR at 31 March 2018 is estimated to be nil and therefore, there is no requirement to charge MRP in 2018/19. However, based on the current medium term capital plan, it would indicate that the council will have a CFR going forward and will be required to make a charge for MRP within the councils revenue budget.

APPENDIX B

CAPITAL PRUDENTIAL INDICATORS AND BORROWING

1. Background:

1.1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans included within the MTFS and Capital Strategy.

2. Net Borrowing and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for capital purposes, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2017/18 Approved £'000	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
General Fund	1,804	5,948	8,127	5,314	1,325
Total	**1,804**	**5,948**	**8,127**	**5,314**	**1,325**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing				
	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Reserves	975	1,464	512	825
Government Grants / Contributions	481	662	500	500
Revenue Contributions	89	0	0	0
Earmarked Reserves Contribution	4,403	6,001	1,890	0
Total Funding	**5,948**	**8,127**	**2,902**	**1,325**
Supported Borrowing	-	-	-	-
Unsupported Borrowing	-	-	2,412	-
Estimated Borrowing	**-**	**-**	**2,412**	**-**
Total Financing	**5,948**	**8,127**	**5,314**	**1,325**

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Approved %	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	0.00	0.00	0.56	0.64	0.65
Total	**0.00**	**0.00**	**0.56**	**0.64**	**0.65**

5. Capital Financing Requirements:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and capital financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure[1].

Capital Financing Requirement	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
General Fund	389	52	0	2,412	2,412
Total CFR	**389**	**52**	**0**	**2,412**	**2,412**

5.2 The Council's Chief Finance Officer confirms that this Council had no difficulty meeting this requirement in 2017/18 nor are difficulties envisaged for the current or future financial years.

6 Borrowing

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/3/2018	£'000
Borrowing	-
Other Long-term Liabilities	52
Total	**52**

7 Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2017-18 Approved £	2017-18 Revised £	2018-19 Estimate £	2019-20 Estimate £	2020-21 Estimate £
Increase in Band D Council Tax	0.00074	0.001	0.002	0.008	0.01

[1] *In line with CIPFA's guidance, any investments or other item of not falling within the classification fixed or intangible assets, but financed from capital resources must be included within the CFR for the purposes of this calculation.*

8 Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated Treasury Management Strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external-borrowing items on the Balance Sheet (i.e. long and short-term borrowing, overdrawn bank balances and long-term liabilities. This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2017/18 Approved £'000	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	2,000	2,000	2,000	5,000	5,000
Other Long-term Liabilities	100	100	0	0	0
Total	**2,100**	**2,100**	**2,000**	**5,000**	**5,000**

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario.

Operational Boundary for External Debt	2017/18 Approved £'000	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	0	0	0	2,450	2,450
Other Long-term Liabilities	60	60	0	0	0
Total	**60**	**60**	**0**	**2,450**	**2,450**