7. TREASURY MANAGEMENT POLICY STATEMENT AND ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY (A1327/PN)

Purpose of the report

1. The purpose of this report is to meet the necessary statutory requirements governing Treasury Management functions by asking Members to approve:-

   1) An over-arching Treasury Management Policy Statement. (Appendix 1)
   2) An Annual Treasury Management and Investment Strategy.(Appendix 2)

   Incorporated into 2) above is the requirement to set appropriate Prudential Code indicators and limits, and approve a Minimum Revenue Provision policy.

Key Issues

2. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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".

   Because we are able to draw down National Park Grant in advance to meet our expenditure obligations when they arise, in practice this Authority has relatively uncomplicated requirements. They are predominantly the need to invest securely temporary cash balances until they are required, in exchange for a reasonable rate of return, and also to arrange appropriate loans for our limited borrowing exposure.

   This document therefore asks Members to approve the framework, and limits, within which these arrangements are carried out by the Chief Finance Officer.

   Our temporary cash balances are invested on our behalf by North Yorkshire County Council, which relies upon the Annual Investment Strategy of North Yorkshire County Council (Appendix 3) which was approved by their full Authority Meeting on 21st February 2018 – and which Members are asked to adopt.

   The 3 year Service Level Agreement with North Yorkshire County Council ends on 6th April 2020 and the Authority is fortunate to have access to this arrangement and is grateful for NYCC's continued partnership approach, with the contract being renewed in April 2017. The Chief Finance Officer is happy that this arrangement is the best option for the Authority to safeguard its surplus funds with the required security and in compliance with current legislation and guidance for Local Authorities.

   In December 2017, CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. The revised Codes require all local authorities to produce a Capital Strategy. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and takes account of stewardship, value for money, prudence, sustainability and affordability. The Authority approved a revised Capital Strategy covering the period up to 31st March 2020 on 4th December 2015 (Authority Minute 124/15) and this remains the reference document complying with this requirement. A new Capital Strategy for the next 5 year period aligned to the new Corporate priorities from 1st April 2020 to 31st March 2025 will be approved by a future Authority meeting to meet this requirement in the future.

Recommendations

3. **1. That the Authority approves the Treasury Management Policy Statement in Appendix 1.**

2. That the Authority approves the Annual Treasury Management and Investment Strategy in Appendix 2, with specific approval of the Prudential Indicators and borrowing limits (paragraphs 5-13), and the policy on Minimum Revenue Provision (paragraphs 14-15), and adopts the Investment Strategy of North Yorkshire County Council (Appendix 3).

How does this contribute to our policies and legal obligations?

4. This report is produced in order to comply with the requirements of:-

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services
- The CIPFA Prudential Code for Capital Finance in Local Authorities
- The Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments and Minimum Revenue Provision

Proposals

5. Borrowing

The Authority finances its overall capital expenditure from a combination of use of capital receipts, capital grants from external bodies, direct revenue contributions, and borrowing. The ability to finance capital expenditure directly from revenue contributions tends to be limited, so in the medium term the Authority is looking to maximise capital grant opportunities if they are available, and use a combination of capital receipts (from asset disposals) and borrowing to meet some of the capital investment challenges. Borrowing is only practical if the debt repayments can be achieved safely from income arising from the capital investments themselves, as increasing reliance on National Park Grant to finance debt repayments is not considered to be sustainable.

The Authority approved a new Capital Programme and Capital Strategy in December 2015, with estimates of possible capital expenditure in the next Spending Review period of up to £3.6m, of which approximately £2.5m was estimated to be from borrowing, subject to individual business cases.

Borrowing therefore remains an important tool to allow the Authority to consider vital expenditure investments, in particular those invest-to-save or invest-to-income proposals which could comfortably repay debt charges, and the Prudential Code indicators have been set at levels which are mindful of the need to accommodate this higher level of potential expenditure.

A decision to borrow leads to what is called a “Capital Financing Requirement (C.F.R)” which is the underlying need for the Authority to borrow to support the capital expenditure, assuming it is not financed by other means. The actual borrowing may or may not be taken out at the same time – currently it is more cost effective to use temporary cash funds because investment returns are so low, compared to the interest payment on an external loan. At March 31st 2017 the Authority’s C.F.R was £967,171 (£770,299 at March 31st 2016) of which £497,306 was a Public Works Loan and the remainder, £469,865, is financed temporarily from internal cash funds.

One consideration in the use of Capital and Revenue funds might be a decision to reduce debt by repaying outstanding loan principals. This might be an option if the alternative capital expenditure proposals are not considered to produce a reasonable rate of return on capital. There is however a penalty in early repayment of Public Works Loan board debt, over and above the principal outstanding, as the repayment amount is calculated on current market rates. There is no such penalty where internal cash funds are used and this might be an option to consider.

Capital resources can be used for revenue purposes only if agreed by the Secretary of State (for Housing Communities and Local Government - MHCLG) by way of a Capitalisation Direction, which must be bid for.

6. For any extension of borrowing the Prudential Code requires that explicit regard must be taken of option appraisal, asset management planning, and strategic planning. Capital expenditure and associated borrowing has a long term impact and therefore it is important to ensure that strategic plans have a longevity matching these underlying financial commitments. Some of the decision making methods which are used to help support these decisions are common accounting decision making tools such as net present value, profitability indices and Interest cover ratios. Another test is the “exit” value of any investment proposal; these tests are intended to reduce the risk of the debt being a future burden on the Authority’s revenue budget.

7. Investing

Assuming the Investment Strategy is approved (Appendix 2 & 3) in this report, the Authority will invest its surplus cash resources with North Yorkshire County Council on a shared risk, and shared return basis. The 2018/19 budget has assumed that a rate of return of approximately 0.6% p.a. will be achieved, based on the assumption that base rates will remain at least at 0.5% for the majority, if not all, of the next financial year, plus the continuation of higher cash balances in the short term – the estimated interest receipts being £50,000 p.a.

Are there any corporate implications members should be concerned about?

8. **Financial:** Financial issues are covered by virtue of the nature of the report

9. **Risk Management:** The Prudential Code indicators help to manage risks inherent in borrowing for capital expenditure. The Treasury Management and Investment Strategy manages and minimises the risks inherent in the Authority’s investing activities.

10. **Sustainability:** The indicators include consideration of the sustainability of capital borrowing.

Background papers

Appendices

1) An over-arching Treasury Management Policy Statement. (Appendix 1)
2) An Annual Treasury Management and Investment Strategy.(Appendix 2)
3) North Yorkshire County Council Treasury Management Report (relevant extracts of full report 21/02/18) (Appendix 3)

Report Author, Job Title and Publication Date

Philip Naylor, Chief Finance Officer, 8 March 2018