9. 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 19th February 2014 – and which Members are asked to adopt.

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 Department of Communities and Local Government (DCLG) Guidance on Local Government Investments and Minimum Revenue Provision

Proposals

5. <u>Borrowing</u>

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 is very small, 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 possible if the debt repayments can be achieved safely from income arising from the capital investments themselves.

In very broad terms the sums available for capital investment over this period, available from within the Authority's resources, are estimated to be in the region of £2m, of which £800,000 may be available from the Capital Fund (as reported in the February budget report), with the remainder possible, if business cases are satisfactory, from borrowing.

Borrowing therefore remains an important tool to allow the Authority to consider vital expenditure investments which could otherwise not be afforded, and the Prudential Code indicators have been set at levels which are mindful of the need to accommodate this £1.2m potential expenditure.

One additional factor which may need to be taken into account in the above is the extent to which any re-structuring proposals might need to use capital resources. If the Spending Review proposals for National Park Grant are aligned to those expected to be received by "non-protected" departments then as indicated previously, the Authority will need to respond with operations which are significantly different than at present. The cost of re-structuring to meet much lower baseline expenditure will be significant and will need reserve levels allocated to meet this one-off cost – current estimates being a minimum of an additional £500,000 in addition to the reserve levels already in the Restructuring Reserve. The need for this resource will depend on Mgt Team's and Members' deliberations later in the year, together with Spending Review announcements. There may be the possibility at outturn stage of considering whether the Reserve can be added to from revenue resources.

The other consideration might be the use of the Capital Fund to repay outstanding debt. This might be an option if the alternative capital expenditure proposals are not considered to produce a reasonable rate of return on capital. The repayment cost as at 31st March 2014 of the outstanding debt of £752,269 was £857,687. This would save £48,000 p.a. in scheduled debt repayments up to 2031; although this saving would not retain, within the Aldern House budget on completion of the original loan, the ability to afford further replacement / enhancement expenditure in that year; one of the important principles established in the approved Capital Strategy for achieving sustainable budgets - as such it is not currently being pursued as a preferred option.

Capital resources can only be used for the above purpose if agreed by the Secretary of State (for Communities and Local Governrnent - DCLG) by way of a Capitalisation Direction, which must be bid for if it is to be an allowable option. The alternative is to consider at the outturn stage, whether resources earmarked within the revenue budget for capital expenditure should be "substituted" with Capital Fund resources, allowing the original revenue contribution to be allocated to the Re-structuring reserve. This method has the advantage that it is not at the mercy of a bid to DCLG, which cannot be relied upon for such critical financing support. DCLG have indicated in a recent consultation that they intend to allow Local Authorities this flexibility based on their approval of proposals between 1st April and 31st March 2017, but they have also indicated that it will be a bidding process and not a devolved decision. The last time the Authority requested a Capitalisation direction (for minerals purposes) the case made was very strong, but was refused because it did not meet pre-determined criteria.

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. Members in last year's workshop were introduced to some of the decision making methods which could be used to help support these decisions, specifically net present value, profitability index and Interest cover ratios.

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 2015/16 budget has assumed that a rate of return of approximately 0.6% p.a. will be achieved, based on an assumption that base rates will remain at 0.5% for the majority, if not all, of the next financial year (i.e interest receipts of £30,000 p.a.). NYCC forecasts suggest that rates may improve slowly:- 0.6% in 2015/16, 1.25% in 2016/17 and 1.8% in 2017/18. These rates are based on information from their professional advisers and will be used in the Authority's forward forecasts.

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

North Yorkshire County Council Treasury Management Report (full report 3/02/15)

Report Author, Job Title

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