

REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

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TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

PURPOSE OF REPORT

1. The purpose of the report is to present for approval the Annual Treasury Management Strategy Statement for 2019/20.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to submit the following to Council for approval:
 - a) The Treasury Management Strategy Statement (TMSS) incorporating the Minimum Revenue Provision (MRP) Policy Statement and the Annual Investment Strategy (AIS) for 2019/20 at **Appendix A** and in particular:-
 - i) The prudential Indicators and limits referred to in Sections 2 and 3 of the Strategy document;
 - ii) The statement by the Chief Financial Officer, shown below at paragraph 10 of this report indicating compliance with the requirement to keep borrowing below the Council's Capital Financing requirement over the medium-term;
 - iii) The policy on the Minimum Revenue Provision for 2019/20 (Section 5.2 page 21 of the Strategy) including the circumstances in which MRP may not be required.

REASONS FOR RECOMMENDATION

3. To comply with the CIPFA Treasury Management Code of Practice (recently updated), the Council's Treasury Management Policy and good practice generally.

ISSUE

4. Attached at **Appendix A** is the Council's draft Treasury Strategy Statement for 2019/20. The Strategy document sets out how the investment and borrowing operations of the Council are to be managed within the framework established by the Treasury Management Policy Statement. The Treasury Strategy Statement should be read in conjunction with the Council's Capital Strategy which was approved by the Council on 26th February 2019.
5. The Treasury Strategy Statement also reflects the requirements of the Local Government Act 2003 which places a duty on Local Authorities to:-
 - a) determine affordable borrowing limits which are calculated in accordance with the Prudential Code for Capital Finance in Local Authorities. Section 2 and 3 of the Strategy provides more detail of the Prudential Code and the relevant limits proposed for the Council, for 2019/20 and over the medium term period to 2021/22.
 - b) comply with Section 15 of the Act which requires local authorities to have regard to such guidance as may be issued by the Secretary of State for Housing, Communities and Local Government.

Annual Minimum Revenue Provision Policy Statement

6. The Strategy document also includes, in section 5.2 on page 21 of **Appendix A**, a statement on the Minimum Revenue Provision which is a requirement arising out of the Local Authorities (Capital Finance and Accounting) (England) Regulations.
7. The Minimum Revenue Provision (MRP) is the annual charge to the Council's revenue accounts for the repayment of debt. Prior to the new regulations, the annual MRP was the result of complex calculation based on notional amounts of debt. The regulations simplified and introduced a degree of flexibility to the calculations and also attempted, in the case of unsupported borrowing, to link the MRP charge to the estimated life of the borrowing for specific assets.
8. Since 2008, the calculation of the annual MRP charge has consisted of 2 elements as follows:-
 - Pre-2008 legacy debt – calculated at 2.5% on a straight line basis so that this debt is repaid over a period of 40 years;
 - Post-2008 debt – calculated on an annuity basis such that the debt is repaid over the life of the capital expenditure financed by borrowing.
9. For 2019/20, there are no changes to the MRP Policy Statement. However, the Policy will remain under review as guidance on the calculation of MRP emerges with the aim that the Council's MRP remains prudent and compliant with legislation but affordable to the Council in the context of the ongoing financial challenges.

Statement of Prudential Limits

10. Councillors should note that the Chief Financial Officer, as the Council's s151 Officer, is required to provide a statement indicating the Council's external borrowing will not exceed the Capital Financing Requirement over the medium term. The Strategy statement provides details that show this limit should not be breached (refer to Table in Section 3.1 on page 8 of the Strategy document for details) and as a result the Chief Financial Officer provides the following statement for approval by the Council:-

'The Chief Financial Officer reports that in 2017/18 the Council complied with the requirement to ensure that gross external debt did not exceed the total of the CFR as projected over the medium and this position, on the basis of current plans, is expected to be maintained over the medium term to 2021/22. This view takes into account current commitments, existing plans, and the schemes proposed as part of the Council's capital programme as approved by the Council on 26th February 2019'

11. Should this position change, this matter will be reported to Councillors accordingly.

Investment in Non-Financial Investments

12. Councillors will be aware of the surge in the number of Councils that have invested in various non-financial investments (particularly property-related investments such as Shopping Centres, Retail Parks etc) as part of their strategies to generate more income to counter reductions in funding from Government.
13. In recognition of this, the Government, the Local Government Association and the various professional bodies (eg CIPFA) have developed and updated existing legislation, policy and guidance that governs capital investment and related treasury matters to reflect this increased activity and the risks/rewards associated with it.
14. Pendle has not, to date, embarked on such an investment strategy but will review the feasibility of such a strategy during 2019/20. As a consequence, the Council's Capital Strategy or Treasury Management Strategy for 2019/20 may need to be updated once a decision has been taken to embark on a strategy on investment in non-financial investments.

IMPLICATIONS

Policy

15. The Annual Treasury Management Strategy has been produced in compliance with the requirements of the Councils' Treasury Management Policy which the Council has previously approved and formally adopted specific clauses as per recommendations in the CIPFA Code of Practice on Treasury Management.

Financial

16. The financial implications associated with the Annual Treasury Strategy are incorporated in the Council's General Fund Revenue Budget for 2019/20 as approved by Council on 26th February 2019.
17. The financial implications for 2019/20 primarily reflect the external interest cost of £812k (including premia/discounts) associated with the Council's outstanding long-term debt and the Minimum Revenue Provision (a mechanism to provide for the repayment of loan principal) of £537k. Investment income for the year has been budgeted at £65k.

Legal

18. In accordance with the Local Government Act 2003, Councillors are required to approve the Annual Treasury Management Strategy incorporating the Annual Investment Strategy, the prudential indicators, and the authorised limit for external debt, which are provided in the Annual Treasury Strategy attached at **Appendix A**.

Risk Management

19. There are no direct risk management implications arising from the contents of this report. Treasury activities are undertaken within the Council's Treasury Management Policy and risk is managed through the application of the requirements of Treasury Management Practice notes (an update of the Council's TMPs was last reported to the Accounts and Audit Committee at its March 2018 meeting).
20. The Strategy includes details of some of the risks associated with the Council's treasury management operations and how these will be managed.

Health and Safety

21. There are no health and safety implications arising directly from the contents of this report.

Sustainability Implications

22. There are no sustainability implications arising directly from this report.

Community Safety:

23. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity:

24. There are no equality and diversity implications arising from the contents of this report.

APPENDICES

Appendix A – Treasury Management Strategy Statement including MRP Policy and Annual Investment Strategy 2019/20.

LIST OF BACKGROUND PAPERS

None