

AUDIT COMMITTEE:

21 January 2020

DRAFT TREASURY MANAGEMENT STRATEGY 2020/21 AND

**REVISED ANNUAL MINIMUM REVENUE PROVISION (MRP)
POLICY FOR REPAYMENT OF CAPITAL EXPENDITURE**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 9.2

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. A Treasury Management Strategy for 2020/21 is required to be approved as part of the Budget Report to Council in February 2020. This report has been prepared to provide Audit Committee Members with the draft Treasury Management Strategy for 2020/21.
3. This report also includes an update to the previous MRP policy following a review which is prudent and allows a strengthening of financial resilience.

The Draft Treasury Management Strategy

4. The strategy is included at Appendix 1 and covers the following areas:-
 - The current treasury position
 - Economic background and prospects for interest rates
 - Capital Programme Plan and Capital Financing Requirement (CFR)
 - Borrowing, including:-
 - Policy
 - Annual Minimum Revenue Provision (MRP) Policy Statement
 - Council borrowing requirement
 - Borrowing Strategy and choice between internal and external borrowing
 - Treasury management indicators and limits for 2020/21 to 2024/25
 - Treasury investment policy and strategy, including security and investments approved for use
 - Highlighting changes in the Treasury Management Code in respect of Non Treasury investments
 - Training.

5. It should be noted by the Committee that many of the indicators are dependent on the final Capital Programme which will only be determined at Council in February 2020. The figures included in this draft will be subject to change for the updated capital monitoring position at Month 9 and currently assumes no additional capital expenditure is approved to be paid for by borrowing as part of the updated capital programme. However, were additional expenditure commitments be deemed affordable and recommended for approval as part of the budget, then the level of such expenditure is unlikely to result in a material change to the strategy proposed.
6. The draft strategy includes any suggested recommendations arising from the independent review undertaken and reported to Audit Committee in November 2019. The main points to note in the draft Treasury Management Strategy are:
 - It is a single integrated strategy for the Council as a whole rather than separate strategies for the Housing Revenue Account and the Council's General Fund. The Council currently maintains a single pool of debt, however this is something that will need to be the subject of testing and review during 2020/21. This is to ensure that the original justification for such an approach remains valid and there are no adverse impact on financial resilience and costs of their respective activities and as a result of wider Council investment activity such as the acquisition of investment property.
 - The strategy is drafted in accordance with the requirements of the CIPFA Treasury Management Code (2017) and Welsh Government guidance on investments updated in 2019.
 - Consistent with previous years, the strategy shows a significant increase in the Council's underlying need to borrow to meet capital expenditure commitments approved as part of the capital investment programme in the medium term. Investment includes addressing the condition of assets, pre-commitments to specific projects and also 21st Century Schools Band B. A significant increase proposed in future periods also relates to the Housing Revenue Account, with increases in expenditure proposed for new affordable housing to meet affordable housing need in the City as well as to contribute to national targets.
 - Includes the revised approach to provision for debt repayment for supported borrowing as outlined later in the report and at Appendix 2.
 - The timing of borrowing decisions, associated risks and financial implications will be important in order to achieve a balance between using temporary cash balances held (internal borrowing) in the short term or external borrowing. The Strategy proposes that given the higher level of borrowing rates compared to investment rates, the Council continues to use internal borrowing in the short term.
 - The priority for Treasury investments remains security, liquidity then yield, with the Strategy retaining the potential use of a range of investment options to increase diversification where possible. Joint committee temporary cash will be managed within criteria and parameters set out in the strategy.

- Strong credit criteria are set for investments undertaken by the Council based on Fitch Credit Criteria.
- Interest rates on investments are likely to remain low. Whilst forecast to rise in the long term, borrowing rates are subject to significant variation due to economic and political uncertainty.
- The Strategy applies from the date of approval by Council.
- The Council is progressing significant capital projects which could have significant Treasury Management Implications. The impact on the Council as a result of these schemes and governance arrangements in place to deliver them will need to be closely monitored to ensure no adverse financial implications for the Council.

Minimum Revenue Provision Policy - Review

7. The Council has a statutory duty to calculate and set aside each year from its revenue budget an amount 'which it considers to be prudent', for the repayment of historic capital expenditure - (MRP). This results in a reduction in the Council's underlying need to borrow known as the Capital Financing Requirement (CFR).
8. Council approved the current MRP policy for 2019/20 as part of the Budget Proposals in February 2019. The report indicated that the approach to what was deemed to be a prudent provision was to be tested and reviewed during 2019/20.
9. Audit committee last received a report in November 2016 on changes to the approach to Minimum Revenue Provision and the approach has remained the same up until this review.
10. Appendix 2 and relevant annexes show the work undertaken to review and test the approach to prudent revenue provision particularly with respect to 'supported borrowing'. This includes:
 - Key terms
 - Regulatory background
 - The Council's and other authority approaches
 - Review process, outcomes and wider considerations
 - Proposed approach and strengthening of financial resilience
11. It should be noted that once set the MRP policy should not be changed regularly. The approach deemed prudent should be one deemed so now and in the very long term. Accordingly it is essential that the approach is carefully considered with the advice of the Section 151 Officer.
12. Subject to Council approval of policy, the outcome of this review is a revision to the approach for supported borrowing to 45 year straight line basis, from the previous reducing balance basis. This is the approach included in the Draft Treasury Management Strategy for 2020/21 and it will be proposed that this policy will apply from the 2019/20 financial year.

Reason for Report

13. To note the proposed Draft Treasury Management Strategy for 2020/21 (including the Minimum Revenue Provision Policy) and provide any comments as necessary that can be factored into the final document.

Legal Implications

14. No direct legal implications arise from this report.

Financial Implications

15. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2020/21, Medium Term Financial Plan and Capital Strategy to be considered by Council in February 2020.
16. The revenue budget impact of the proposed change in the approach to Prudent Provision for Supported Borrowing, will need to be considered as part of the revenue budget monitoring position for 2019/20, budget for 2020/21 as well as future years Medium Term Financial Plan. The main financial implications are shown in Appendix 1 and these will also need to be factored into revised prudential indicators and forecast included within the budget proposals recommended for Council to approve in February 2020.

RECOMMENDATION

17. That Audit Committee note the proposed Treasury Management Strategy for 2020/21 and provide comments as necessary with any amendments being considered for inclusion in the final Strategy which will be considered by Cabinet prior to approval by Council as part of the 2020/21 Budget Proposals Report.
18. That Audit Committee note the change to the Minimum Revenue Provision Policy Statement for 2019/20 and future years and provide comments as necessary with any amendments being considered for inclusion in the final Policy which will be considered by Council as part of the 2020/21 Budget Proposals Report.

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CORPORATE DIRECTOR RESOURCES
21 January 2020

The following appendices are attached

Appendix 1 – Draft Treasury Management Strategy 2020/21

Appendix 2 – Minimum Revenue Provision Policy - Review