# TREASURY STRATEGY AND PLAN 2021/22

## 1.0 Introduction

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) latest Code of Practice on Treasury Management and the Council's Treasury Management Policy Statement, a Treasury Strategy and Plan is prepared each year.

For the purpose of this strategy, treasury management includes the management of all capital market transactions in connection with the cash and funding resources of the Council. This covers all funds and reserves including the collection fund and includes the arrangement of leases.

The strategy includes broad principles, which provide the framework within which the Council’s treasury management activities are conducted together with detailed plans for the management of the Council’s loans and investment portfolios. The strategy includes those indicators required by the Prudential Code that relate to treasury management.

## 2.0 Treasury Management Objectives

The primary objective of treasury management operations will be to maximise the revenue resources available to the Council whilst ensuring the effective management of risks associated with treasury management activities in accordance with the following principles:

i) That the cost of borrowing is minimised commensurate with following a prudent funding policy.

ii) That the most advantageous rates of return on investments are secured commensurate with the <u>primary principle of maintaining the capital value of funds</u>.

iii) That the Council maintains flexibility in its borrowing and lending portfolios.

iv) That the Council manages its borrowings and investments as a combined portfolio in order to achieve the optimum net debt position.

The sections below provide a summary of the principal activities anticipated during the period covered.

## 3.0 Balanced Budget Requirement

It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, it requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level of increase in costs to revenue from:-

- Increases in interest charges caused by increased borrowing and,
- Any increase in running costs from new capital projects

to a level which is affordable within the projected income of the Council for the foreseeable future.

## 4.0 Current Treasury Position

The Council's detailed treasury position is highlighted in the following table.

| | | 31st March 2020 Actual | | Rate | 31st March 2021 Actual | | Rate |
|---|---|---|---|---|---|---|---|
| | | GF £ 000s | HRA £ 000s | % | GF £ 000s | HRA £ 000s | % |
| Fixed Rate Debt | PWLB | 500 | | 4.10 | 500 | | 4.10 |
| | PWLB | 0 | 17,108 | 2.98 | | 16,101 | 3.09 |
| | PWLB | 4,731 | | 2.66 | 4,650 | | 2.66 |
| | Market | 8,000 | 2,500 | 0.99 | 14,000 | 4,000 | 0.3 |
| Variable Rate Debt | PWLB | 0 | 0 | | 0 | 0 | |
| | Market | 0 | 0 | | 0 | 0 | |
| Total Debt | | 13,231 | 19,608 | | 19,150 | 20,101 | |
| Other Long-term Liabilities | | 0 | | | 0 | 0 | |
| **Total** | | **13,231** | **19,608** | | **19,150** | **20,101** | |
| Fixed Investments | | 0 | 0 | | 5,000 | 0 | |
| Variable Investments | | 0 | 0 | | 0 | 0 | |
| **Total Investments** | | **0** | **0** | | **5,000** | **0** | |
| **Net Borrowing** | | **13,231** | **19,608** | | **14,150** | **20,101** | |

## 5.0 Borrowing and Debt Strategy

### General Fund

As at 31st March 2020, the Council's outstanding borrowing for General Fund purposes stood at a total of £13.2 million. This was made up of two loans from the Public Works Loan Board (PWLB), and £8m of short-term borrowing, as shown in the table at 4.0.

Up until the end of 2015/16, the Council was able to utilise cash balances, held in the form of short-term investments, grants and capital reserves, to help in the funding of its capital programme. Consequently, the Council was able to avoid increasing its long term borrowing, despite carrying out ambitious schemes both in the General Fund and Housing Revenue Account.

In 2016/17 the financing of the Council's new leisure development was finalised. The Council borrowed £5 million from the PWLB, taken over 39 years. The remaining £5 million of the £10 million project was funded by internal borrowing.

From 2016/17 to 2020/21 the Council did not borrow any further funds long term and instead continued to take advantage of the very low short term rates to keep interest payments under control. While there is scope to continue with this policy to some extent, the need to control the council's exposure to refinancing risk means that future borrowing in support of the capital programme will need to consist of a mix of short and long-term debt.

Short-term debt applicable to the General Fund is forecast to rise to £9m during 2020/21, in support of the current capital programme, with another £8.5m required in 2021/22, and an additional £7m required in 2022/23.

No new long-term borrowing is forecast in 20/21, however £2m will be required in 2021/22, and an additional £9m in 2022/23, in order to maintain the proportion of short-term borrowing to gross debt below 50%.

Total external debt relating to the General Fund for future financial years is expected to be:

| | |
|---|---|
| 2021/22 | £24.5 million |
| 2022/23 | £40.5 million |
| 2023/24 | £40.5 million |

The above estimates of borrowing are based on the current capital programme, and do not take account of the proposals for a Commercial Investment Strategy & Business Plan detailed in the Investment Strategy.

If the proposals to invest in existing commercial property, significant property redevelopment schemes, and the private residential sector are pursued, considerable additional borrowing, both long and short-term, will be required. However, since the express purpose of the proposals is to generate income to support the General Fund, no such investment would be undertaken if it did not cover the cost of capital by a significant margin.

The Commercial Investment Strategy & Business Plan is an early stage of development, and investment proposals, amounts, and associated liabilities have yet to be determined.

**Housing Revenue Account (HRA)**

The self financing settlement involved the Council taking on £18.114 million of PWLB borrowing. The HRA business plan provides the repayment of HRA debt over its life. The initial borrowing was commenced to repayment in 2020, however due to changes in government legislation which has impacted detrimentally on the financial position of the HRA, this debt repayment plan is now likely to need restructuring with a new plan being drawn up.

In 2016/17 and 2017/18 the HRA used a total of £1.6m borrowing to fund its capital programmes. This initially was supported by internal balances, however £2.0m of short-term borrowing in 2018/19 can be attributed to the support of the HRA capital programme, with an additional required £0.5m in 2019/20, and £0.5m forecast again in 20/21

The Council's initial investment of £18.114m which it borrowed for the new financial regime for housing in 2012 commenced repayment at the end of 2019/20, at the rate of £1m per annum. In the medium-term, it is proposed to refinance this using short-term borrowing, so as to minimise the costs of servicing the debt.

## 6.0 Prudential Indicators and Limits on Activity

The purpose of these Prudential Indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

### 6.1 Authorised Limit for External Debt

This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Council. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

| | 2020/21 Estimate £ 000s | 2021/22 Estimate £ 000s | 2022/23 Estimate £ 000s | 2023/24 Estimate £ 000s |
|---|---|---|---|---|
| Borrowing | 44,000 | 56,000 | 72,000 | 72,000 |
| Other Long Term Liabilities | 0 | 0 | 0 | 0 |
| **Total** | | | | |

**The Chief Financial Officer (Section 151 Officer) reports that the authorised limits given above are consistent with the council's current commitments, existing plans and the proposals in the capital programme report. The limits are also consistent with the Council's approved treasury management policy statement and practices. Risk analysis of the key elements of the council's cash flow forecasts has been undertaken to determine these limits.**

## 6.2 Operational Boundary for External Debt

This indicator is based on the probable external debt during the course of the year (allowing for peaks and troughs in cash flow and the impact of treasury management decisions). It is not a maximum and actual borrowing could vary around the boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

| | 2020/21 Estimate £ 000s | 2021/22 Estimate £ 000s | 2022/23 Estimate £ 000s | 2023/24 Estimate £ 000s |
|---|---|---|---|---|
| Borrowing | 39,000 | 51,000 | 67,000 | 67,000 |
| Other Long Term Liabilities | 0 | 0 | 0 | 0 |
| **Total** | **38,000** | **39,000** | **39,000** | **39,000** |

### 6.3 Limits in Interest Rate Exposure

**Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates based upon net interest payments.

**Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

| | **2020/21 Upper %** | **2021/22 Upper %** | **2022/23 Upper %** |
|---|---|---|---|
| Limits on Fixed Interest Rates | 100 | 100 | 100 |
| Limits on Variable Interest Rates | 25 | 25 | 25 |

### 6.4 Maturity Structure of Fixed Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

| | **Lower %** | **Upper %** |
|---|---|---|
| Under 12 months | 0 | 50 |
| 12 months to 2 years | 0 | 50 |
| 2 years to 5 years | 0 | 50 |
| 5 years to 10 years | 0 | 100 |
| 10 years and above | 0 | 100 |

### 6.5 Total Principal Sums Invested

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| **Price Risk Indicator** | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|
| Limit on principal invested beyond year end | £10m | £10m | £10m |

## 7.0 Local Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the Prudential Indicators, which are predominantly forward looking. The Council also sets local performance indicators which are as follows.

| Local Indicator | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|
| Average rate of interest on borrowing compared to the national average | Level | Level | Level | level |
| Average rate of interest on investments compared to the national average | Level | Level | Level | Level |

The results of these indicators will be reported as part of the Treasury Management Annual Report before 30th September each year.

## 8.0 Minimum Revenue Provision

Local authorities are required each year to set aside some of their revenue budget as provision for debt repayment. This scheme of Minimum Revenue Provision (MRP) is set out in sections 27, 28 and 29 of the Capital Finance Regulations 2003.

Under the guidance a statement of policy on making MRP is required. Members are asked to approve the following statement:

***General Fund***

***For the financial year 2020/21, it is proposed that in respect of debt that is supported by Revenue Support Grant (RSG), MRP is calculated using the Capital Financing Requirement (CFR) method. For new borrowing for which no Government support is being given and is therefore self- financed, it is proposed that the Annuity Asset Life method will be used.***

***The CFR method calculates MRP as 2% of the non-housing CFR at the end of the preceding financial year (2% of the capital expenditure funded by supported borrowing). This is consistent with the way in which supported borrowing costs are paid through Revenue Support Grant.***

***The Annuity Asset Life method requires that the MRP for each year be the amount presumed to be the principal element of the equal amounts that would be payable each year in respect of a loan at a***

*specified rate of interest that would reduce the outstanding principal amount to zero at the end of the estimated useful life of the asset. This results in an MRP charge that rises over time. This is deemed to be particularly appropriate for assets which generate increasing revenues over time.*

***<u>HRA</u>***

*There is no statutory requirement to make a MRP in the HRA. There is, therefore, no requirement to follow the DCLG Guidance when considering an appropriate provision for the HRA. Therefore, because*

- *There is no statutory requirement,*
- *Repayment of debt is began in March 2020 and*
- *Resources were required in the early years of the HRA business plan to fund the demands of the asset management strategy*

*It is planned in the medium term that HRA debt will be replaced with short term borrowing, in order to minimise the costs of servicing the debt.*