



Cabinet

18 November 2020

Report of: Councillor Ronnie de Burle -
Portfolio Holder for Corporate
Finance and Resources

Treasury Management Mid-Year Report 2020/21

Corporate Priority:	Ensuring the right conditions to support Service Delivery
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

- 1.1 The Mid-Year Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities to the end of September 2020. The report also covers the actual position to date on the Prudential Indicators in accordance with the Prudential Code.
- 1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

2 Recommendations

- That Cabinet:
- 2.1 recommend to Council that the mid-year position on treasury activity for 2020-21 be noted
 - 2.2 recommend to Council that the mid-year position on the prudential indicators for 2020-21 be approved
 - 2.3 note the potential for borrowing to be undertaken as outlined in para 4.8.1 to be initially

3 Reason for Recommendations

- 3.1 The Treasury Management Code requires the Council to provide a mid-year update on Treasury Management activities to the Council. It is a requirement that Treasury Management performance is scrutinised during the year prior to consideration by the Council which falls within Cabinet's remit.
- 3.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators

4 Background

- 4.1 The Treasury Management & Prudential Indicators mid-year report for 2020-21 is attached at Appendix A.
- 4.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Department for Communities & Local Government (DCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise Treasury Management services.
- 4.3 The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk and impact of COVID on investment returns. This background encourages the Council to continue maintaining investments relatively short term (i.e. one year or less) and with high quality counterparties.
- 4.4 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.
- 4.5 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).
- 4.6 **Impact of Covid-19**

The onset of Covid-19 began to have an impact towards the end of 2019/20 and has continued into 2020/21, resulting in the following:

- The Bank of England reduced the Bank Rate to 0.1% with a corresponding impact on short term investment rates. Current average interest return is 0.94% up to the end of Q2 – down from 1.25% for 2019/20.
- The Council's property Fund investment has showed a reduction in value at 31st March of £70k and in addition, based on quarter 2 data, a further reduction in valuation of £79k (4.1%) during 2020/21
- The implementation of IFRS 16 bringing currently off balance sheet leased assets on to the balance sheet, has been delayed for one year to 2020/21.

4.7 Implementation of IFRS9

- 4.7.1 The implementation of IFRS9 has resulted in a change in the treatment of the £2m investment in the CCLA property fund, such that fluctuations in the value of the fund now impact on the Surplus or Deficit on the Provision of Services.
- 4.7.2 Following consultation, the MHLG introduced a mandatory statutory override to mitigate any effect on the General Fund. However, this override has been limited to 5 years to allow councils time to adjust their portfolio of investments, if that is felt necessary.
- 4.7.3 In 2019/20 there was a reduction in the valuation of the property fund of £70k but at present this is just a notional loss. The fund value could reduce further over the course of 2020/21 and there is a further £79k loss showing as at the end of quarter 2. However, in the long term the fund managers expect the fund value to return to previous levels as the economy recovers from COVID-19. Moving forward the Council has previously approved the establishment of a reserve in order to help offset any potential deficits that might arise in future in advance of the statutory override being removed. The 2020/21 budget includes a budget provision of £60k as part of the managed contributions in the medium term to build up a reserve fund to be called on in the future if required.
- 4.8 **Temporary Accommodation Investment Project**
- 4.8.1 Officers are currently developing proposals for member's consideration around a potential investment in property to provide temporary accommodation for vulnerable residents with the aim to reduce the cost pressures on the homelessness budget. This would involve a potential spend of circa £1m to be funded through borrowing with the aim to ensure the overall cost of maintaining these properties, offsetting any rental received would help to mitigate the additional costs pressures that would be payable for the continued use of B&B's for house residents presenting themselves to the Council as homeless.

5 Main Considerations

- 5.1 Considerations have been addressed in paragraph 4 to this report.

6 Options Considered

No other options considered. If the report was not provided councillors would not be aware of the ongoing management of the treasury functions and appropriate scrutiny is undertaken in accordance with the treasury framework.

7 Consultation

- 7.1 Consultation has been undertaken with the portfolio holder regarding the position for the 2020-21 financial year.

8 Next Steps – Implementation and Communication

- 8.1 This report will be submitted to the Council meeting on 17th December 2020.

9 Financial Implications

- 9.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.
- 9.2 The impact of COVID-19 continues to be felt with interest rates and associated investment returns reducing. At the mid-position officers are continuing to maximise returns but there will be a shortfall against the investment income budget which will add to the growing financial pressure the Council is facing during this national crisis. The latest forecast predicts a shortfall of £104k against a budgeted income level of £357k.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

- 10.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity.
- 10.2 This report is submitted in accordance with the Budget and Policy Framework Procedure rules.

Legal Implications reviewed by: Deputy Monitoring Officer

11 Equality and Safeguarding Implications

- 11.1 There are no direct equality or safeguarding issues arising from this report.

12 Community Safety Implications

- 12.1 There are no direct links to community safety arising from this report.

13 Environmental and Climate Change Implications

- 13.1 No implications have been identified.

14 Other Implications (where significant)

- 14.1 No other implications have been identified

15 Risk & Mitigation

These are assessed as part of the Corporate Services Risk Register.

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2020-21 as result of COVID-19 and associated reduction in interest rates	High	Marginal	Medium Risk
2	Reduction in the valuation of the Councils Property Fund investment. The Treasury	Low	Marginal	Low Risk

	Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council. A fund has been established to mitigate any losses in the property fund.			
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		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High		1		
	4 Significant				
	3 Low		2		
	2 Very Low				
	1 Almost impossible				

16 Background Papers.

16.1 Treasury Management Strategy Statement 2020/21

17 Appendices

17.1 Appendix A – Mid-Year Treasury Management Review 2020/21

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