Melton Borough Council
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Cabinet

21 July 2021

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

Treasury Management Annual Report 2020-21

Corporate Priority:	Ensuring the right conditions to support delivery (inward)
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 report provides a summary of the Treasury activities in 2020-21. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code

2 Recommendations

That Cabinet:

2.1 **Approve the Treasury Management Annual Report for 2019-20 for submission to Council**

2.2 **Note the actual position on Prudential Indicators for 2020-21**

3 Reason for Recommendations

3.1 It is important that Cabinet are aware of the Council's Treasury Management performance to ensure they can make informed decisions that protect the Council's financial assets while taking regard of financial stability and potential returns.

3.2 The Annual Treasury Report is a requirement of the Council's reporting procedures.

3.3 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.

4 Background

4.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. The following documents in respect of the 2020-21 financial year were approved by the Council as part of the budget setting process on 26 February 2020:

- Borrowing and Investment Objectives
- Capital Finance Objectives
- Investment and Borrowing Strategies
- Borrowing Limits

4.2 Updates have been provided to Members during the year through the Members bulletin.

4.3 Continued changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the year end position for treasury activities and highlights compliance with the Council's policies previously approved by members. The Council has complied with the requirement of the Code to give prior scrutiny to all of the above treasury management reports by this meeting before they are reported to the Council.

4.4 During 2020-21 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach. The key prudential indicators for the year, with comparators, are as follows:

Prudential and treasury indicators	2019/20 Actual £m	2020/21 Original £m	2020/21 Actual Housing Revenue Account 2020-21 Provisional Year End Position£m
Capital expenditure	3.119	6.147	2.916
Capital Financing Requirement: • Non-HRA • HRA • Total	 0.089 31.484 31.585	 0.077 31.484 31.573	 0.077 31.484 31.573
Gross borrowing / Debt	31.573	31,561	31,561
Investments: Less than 1 year Longer than1 year	 £18.5m £2.0m (Property Fund)	 £15.0m £2.0m (Property Fund)	 £20.9m £2.0m (Property Fund)

4.5 No borrowing was undertaken for any further purpose and the Council's maximum actual borrowing position of £31.413m was within its Statutory Borrowing Limit and the Authorised Limit of £46m. At 31 March 2021, the Council's external debt was £31.413m (£31.413m at 31 March 2020) and its investments totalled £20.9 (£20.1m at 31 March 2020).

4.6 The anticipated level of investments in 2020-21 was forecast at £15m in February 2020. Since this forecast the level of investments have been higher than predicted due to an underspend on the capital programme in 2020-21. In addition to this there has also been increased funding provided by government to support Covid initiatives in the community for business in particular which has resulted in increased levels of money being held prior to allocation.

4.7 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.

4.8 The key areas to note are:

a) The ratio of the financing costs to the net revenue stream has increased in respect of the General Fund (-3.33% in 2020-21 compared to -3.80% in 2019-20) and increased marginally in respect of HRA (31.19% in 2020-21 compared to 31.96% in 2019-20 as per Appendix A), due to a reduction in income. It can be seen that there has been little movement between the two years on the HRA due to debt levels being stable. On the general fund there are no financing costs (i.e. no debt) therefore the change between years is due to the minor decrease in investment returns.

b) The gross borrowing, except in the short term, should not exceed the CFR. This is to ensure that borrowing levels are prudent and, over the medium term, the Council's external borrowing, net of investments, is only utilised for a capital purpose. As at 31 March 2021 gross borrowing was below the CFR, primarily due to a small amount of internal borrowing on the HRA.

c) The overall investment rate of return was 0.81% compared to 1.25% in 2019-20.

d) Whilst the level of balances available for investment have been higher than anticipated the overall rate of return has been lower. This has resulted in £3k of shortfall of income against the original budget. This is across both the General Fund and HRA.

4.9 The 2020-21 financial year has continued to be a testing and difficult economic environment in which to manage investments with investment returns continuing to remain low. With the effects of Covid it hasn't been an easy backdrop in which to undertake treasury management activities, particularly investments but the Council has worked hard to maximise returns which resulted in a only a minor shortfall in investment income compared to the original budget set.

4.10 The investment portfolio has continued to incorporate more diversification in terms of both counterparty and maturity. As interest rates are currently at low levels given the impact of Covid it is not a good time to be locking funds into very long term investments through standard bank deposits and therefore the portfolio does not extend beyond twelve months. However, in order to maximise investment returns the Council continues to hold £2m in a CCLA property fund which has generated positive returns for the Council.

Impact of Covid

The onset of Covid-19 began to have an impact towards the end of 2019/20, resulting in the following:

- The Bank of England base rate has remained low at 0.1% with a corresponding impact on short term investment rates.
- The Council's property Fund investment has shown a fall in valuation of around 1% at the start of 2020/21
- The implementation of IFRS 16 bringing currently off balance sheet leased assets on to the balance sheet, has been delayed again to 2022/23.

Implementation of IFRS9

4.11 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.

4.12 Following consultation, the MHLG have 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.

4.13 In 2020-21 there was a reduction in the valuation of the property fund of £13k but at present this is just a notional loss. The fund value could reduce further over the course of 2021/22 but in the long term the fund managers expect the fund value to return to previous levels as the economy recoveries from Covid. 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. In line with the 2020-21 budget a provision of £60k has been made as part of the close down process 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.

4.14 A property fund by its very nature is a long-term investment in terms of potential fluctuations in asset values but since the initial investment was made in 2017 the council has received investment income of £335k in total which has supported the revenue budget.

5 Main Considerations

5.1 Considerations have been addressed in paragraph 4 to this report

6 Options Considered

6.1 No other options considered. If the report was not provided councillors would not be aware of ongoing developments and therefore would not be able to represent their residents effectively.

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 23rd September 2021.

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 continues to be felt with interest rates and associated investment returns reducing. It is still early in the financial year and whilst officers are continuing to maximise returns there could be a shortfall against the investment income budget which may add to the financial pressure the Council is facing.

Financial Implications reviewed by: Dawn Garton, 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. There are no direct legal implications arising from this report. Failure to follow the Code of Practice and Strategy could increase the risk of financial loss

Legal Implications reviewed by: Kieran Stockley, 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 but members may wish to note the council has an investment in a green and sustainable product that is focused around sustainable economic growth investment.

14 Other Implications (where significant)

14.1 No other implications have been identified.

15 Risk & Mitigation

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

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2021-22 as result of Covid and associated reduction in interest rates	High	Marginal	Medium Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting. The Treasury 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	Low	Marginal	Low Risk

		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				

Risk No	Mitigation
1	Continue to maximise returns in line with the Treasury management investment strategy
2	Establishment of a property fund reserve to help mitigate any losses in the future should they need to be charged direct to the revenue account in line with any change in accounting rules.

16 Background Papers

16.1 Treasury Management Strategy Statement 2020-21

17 Appendices

17.1 Appendix A – Annual Treasury Management Review 2020-21

Report Author:	**David Scott**, Corporate Services Manager
Report Author Contact Details:	01664 502448 dscott@melton.gov.uk
Chief Officer Responsible:	**Dawn Garton**, Director for Corporate Services
Chief Officer Contact Details:	01664 502444 DGarton@melton.gov.uk