

Cabinet

27 November 2019

Report of:

**Portfolio Holder Corporate
Finance and Resources**

MID YEAR REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND PRUDENTIAL INDICATORS 2019-20

| 1.0 Corporate Priority: | Decision Type: |
|---|-----------------------|
| 1.1 OG3 Becoming a more agile and commercial Council; securing our financial future | Non Key Decision |

| 2.0 Summary: |
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| <p>2.1 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</p> <p>2.2 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.</p> |

| 3.0 Recommendations |
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| <p>3.1 That Cabinet recommend to Council that the mid-year position on treasury activity for 2019-20 be noted.</p> <p>3.2 That Cabinet recommend to Council that the mid-year position on the prudential indicators for 2019-20 be approved.</p> <p>3.3. That Cabinet recommend to Council that a new Treasury Management Provision Reserve is established from 2019/20 as outlined in para 6.6 with delegated authority given to the Director for Corporate Services to determine the affordable amount to contribute into this each year during the statutory override period.</p> |

| 4.0 Reason for Recommendation: |
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| <p>4.1 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 which falls within Cabinet's remit.</p> <p>4.2 To facilitate the decision making process and support capital investment decisions</p> |

the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators.

5.0 Alternate Options Considered

5.1 No alternatives were considered for this report as a decision is not required.

6.0 Report Detail

6.1 The Treasury Management & Prudential Indicators mid-year report for 2019-20 is attached at Appendix A.

6.2 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.

6.3 The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments relatively short term (ie one year or less) and with high quality counterparties.

6.4 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. It should be noted that due to the refresh of the HRA business plan the HRA indicators are likely to change as a result of this.

6.5 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).

6.6 Implementation of IFRS9

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

Following consultation, the MHCLG 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. Consideration is being given as to how any variation could be mitigated on the revenue account.

Moving forward it is proposed that the Council establishes a reserve from any surpluses generated in year from the property fund in order to help offset any potential deficits that might arise in future in advance of the statutory override being removed. The actual amount will be determined by the Director for Corporate Services based on affordability for 2019/20 and then incorporated into the budget setting process moving forward during the statutory override period.

7.0 Consultation and Feedback (including Scrutiny Committee)

7.1 Consultation has been undertaken with the Portfolio Holder for Finance and Resources regarding the position for the 2019-20 financial year.

8.0 Next Steps

8.1 This report will be submitted to the Council meeting on 18th December 2019.

9.0 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 Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The mid-year and annual report provides details of all Treasury Management activities. The Council's budgeted gross investment return for 2019/20 is £223k, and the current year end is forecast to be in excess with a prediction that £365k will be achieved, a proportion of which is credited to the HRA. The increase in the forecast is due to a combination of reserve balances being higher than predicted due to slippage on the HRA capital programme, working capital being higher in general and average rate of return (1.27%) being higher than predicted which mainly relates to the Council's investment in a property fund which is achieving a rate of return of circa 4%

9.3 In relation to the HRA capital programme, due to issues regarding staffing, capacity and additional workload around fire safety and other property safety compliance related works, planned maintenance and development projects are not being taken forward as planned. There is likely to be underspending on this budget for this financial year. The HRA business plan is being revised and will inform the spend and budget setting process going forward. It is not possible to forecast the year end position until the HRA business plan is prepared which is expected to conclude in December 2019 and will take into account the works emerging from the Housing Improvement Plan (HIP) approved by the Council on 5th November. The HIP results in a significant increase in budgets for the actions proposed and the underspend from the planned maintenance projects will help with meeting those needs.

10.0 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.

11.0 Equality and Safeguarding Implications:

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

12.0 Community Safety Implications:

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

13.0 Other Implications (HR, Data Protection, Climate Change, etc)

13.1 No other implications have been identified

14.0 Risk & Mitigation:

14.1 These are assessed as part of the Corporate Services Risk Register. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council.

14.2 In order to minimise risk the TMSS ensures the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This

also enables diversification and thus avoidance of concentration risk, whilst also seeking to maximising returns.

Background Papers:

Treasury Management Strategy Statement 2019/20

Appendices

Appendix A – Mid Year Treasury Management Review 2019/20

Report Timeline:

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|---|------------|
| Equalities Check & Challenge | N/A |
| SLT Sign off | N/A |
| Previously Considered by Cabinet | N/A |
| Director Approval | 06.11.2019 |
| Legal Approval | 15.11.2019 |
| Chief Finance Officer Sign Off | 06.11.2019 |
| Monitoring Officer Sign Off | 15.11.2019 |
| Chief Executive Sign Off | 18.11.2019 |

Exempt Reports

N/A

Date of Review to make public

N/A

Report Author

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