

Mid-Year Treasury Management Report

Cabinet Member for Finance and Procurement

| | |
|--------------------|-----------------------------------|
| Date: | 14 November 2019 |
| Agenda Item: | 4 |
| Contact Officer: | Anthony Thomas |
| Tel Number: | 01543 308012 |
| Email: | Anthony.thomas@lichfielddc.gov.uk |
| Key Decision? | YES |
| Local Ward Members | Full Council |



AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 The report covers the projected mid-year (30 September 2019) Treasury Management performance in 2019/20.
- 1.2 Capital expenditure is projected to be **£10,877,000** and this is **(£1,664,000)** less than the Approved Revised Budget of **£12,541,000**. This projected reduction is principally due to the re-phasing of Housing Grants until 2020/21 **(£751,000)** and delaying the loan to the Council Development Company **(£675,000)** for one year.
- 1.3 There is projected to be **(£1,382,000)** capital receipts received in 2019/20 compared to the Approved Budget of **(£1,387,000)**.
- 1.4 The funding of the Capital Programme in 2019/20 reflects the projected expenditure of **£10,877,000**.
- 1.5 The Balance Sheet projections indicate investment balances at the 31 March 2020 will be **£26,802,000** and these are **£3,113,000** higher than the Approved Budget of **£23,689,000**. This is due to higher than projected earmarked reserves.
- 1.6 In terms of funding the Capital Programme, the borrowing need of **£6,208,000** and its financing is projected to be in line with the Approved Budget although this is highly dependent on the financial performance of the Property Investment Strategy.
- 1.7 The Council was required to approve a new Investment Strategy Report for 2019/20 to comply with the requirements of statutory guidance issued by the Government in January 2018. This report focuses on Treasury Management investments as well as how the authority invests its money to support local services and earns investment income from commercial investments. Monitoring information on Service and Commercial investments is provided in this mid-year report.
- 1.8 The Council's treasury investments achieved a risk status of **AA-** (excluding the two long-dated pooled funds) that was more secure than the aim of **A-** and yield exceeded all four of the industry standard London Interbank (LIBID) yield benchmarks.
- 1.9 The report confirms the Council was compliant with all Treasury Limits and Prudential Indicators for 2019/20.

2. Recommendations

- 2.1 To review the report and issues raised within.
- 2.2 To note that from 1 April 2019, the Council under IFRS9, will apply Fair Value through Profit and Loss (FVPL) to financial assets such as the Property Fund. The impact of this change on the revenue account will be mitigated by the Statutory Override from 1 April 2019 until the 31 March 2023.
- 2.3 To review the projected 2019/20 Prudential Indicators contained within the report.

3. Background

The Capital Programme and Treasury Management

- 3.1. This Mid-Year Treasury Report is a requirement of the Council's reporting procedures. It covers the Treasury activity during 2019/20 and the projected Prudential Indicators for 2019/20.
- 3.2. Treasury Management is defined as: *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 3.3. Overall responsibility for Treasury Management remains with the Council. No Treasury Management activity is without risk; the effective identification and management of risk are integral to our Treasury Management objectives.
- 3.4. Our Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members be informed of treasury management activities at least twice a year.
- 3.5. We report quarterly to the Cabinet on Treasury activity and this report to Audit and Member Standards will provide more information on capital financing, Balance Sheet projections and Prudential Indicators.
- 3.6. This report is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code and
 - a) presents details of capital spend, capital financing, borrowing and investment transactions;
 - b) reports on the risk implications of Treasury decisions and transactions;
 - c) gives details of the mid-year position on Treasury Management transactions in 2019/20;
 - d) confirms compliance with Treasury limits and Prudential Indicators
- 3.7. The performance of the Treasury Management function should be measured against the hierarchy of investment objectives of **Security** (the safe return of our monies), **Liquidity** (making sure we have sufficient money to pay for our services) and **Yield** (the return on our investments).
- 3.8. In addition, external borrowing is considered against the objectives of it being **affordable** (the impact on the budget and Council Tax), **prudent** and **sustainable** (over the whole life).
- 3.9. We have recently reviewed the approach to Treasury Management focussing on the financing of the Property Investment Strategy and the approach to investments and several revisions are proposed in the draft MTFS.
- 3.10. The Approved Property Investment Strategy indicated "where acquisitions are being made, it would be considered unwise to fully fund property investment through borrowing due to the associated risks, and so the proposed approach is for borrowing to be limited to between 65-75% of the cost."
- 3.11. The approved MTFS was based on a prudent approach until updated Balance Sheet projections were available and modelled financing of the Property Investment Strategy using 100% external borrowing.
- 3.12. The MTFS however did reference the potential to reduce external borrowing for the Property Investment Strategy through the use of internal borrowing (Minimum Revenue Provision is still legally required to be set aside).

3.13. Internal borrowing has three advantages:

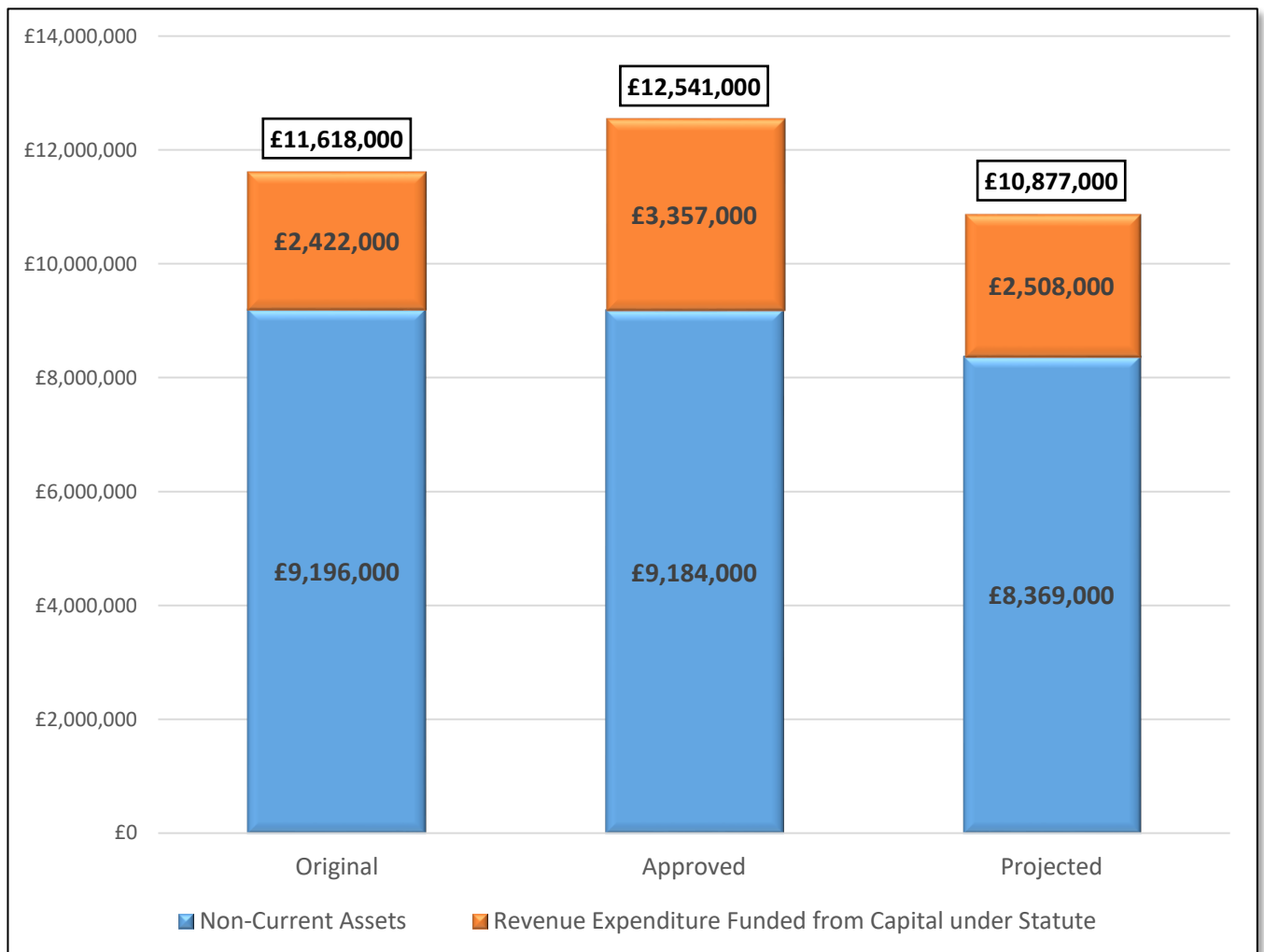
- It reduces credit risk (i.e. the risk that investments will not be repaid).
- It has a lower cost than external borrowing (2.83%) with the financing cost being the investment income foregone (0.85%).
- There is the ability to 'repay' the internal borrowing as a result of windfall income without early repayment penalties and therefore no Minimum Revenue Provision is payable thereby increasing the asset's net return.

3.14. Balance Sheet projections indicate that there is the option of **£11m** of internal borrowing being used to fund the Property Investment Strategy of **£45m** and this would result in a lower financing cost. It is important to note, internal borrowing is dependent on both Balance Sheet and interest rate projections.

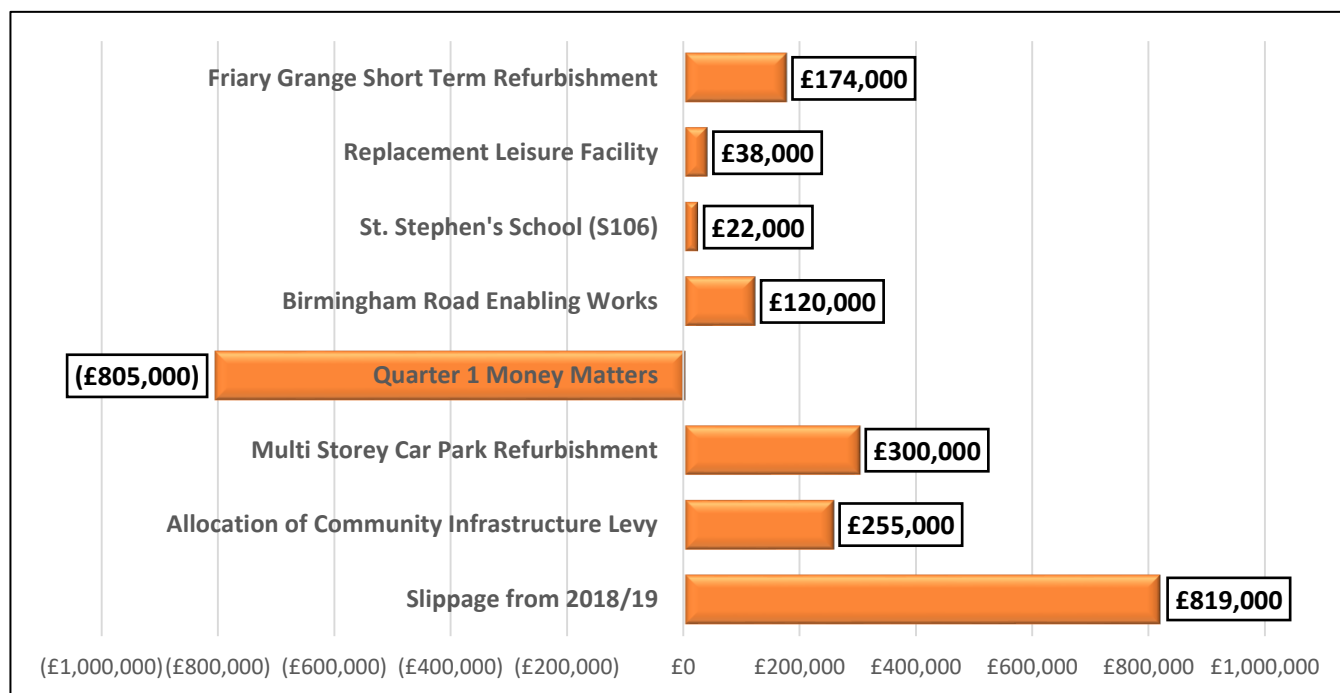
3.15. In addition, the successful investments in the Property Fund, Diversified Income Fund and Invest to Save schemes mean that further investments are planned in these areas to increase income.

The Capital Programme

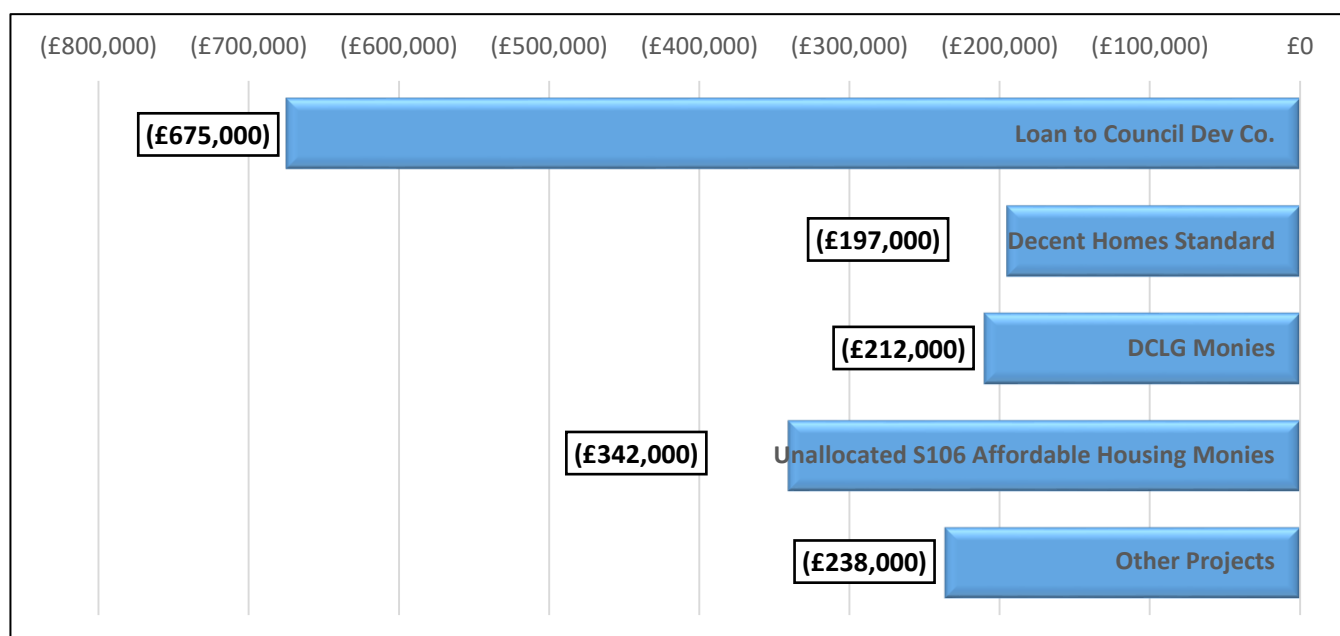
3.16. A summary of the Capital Programme performance from the Original Budget to the Projected Actual for 2019/20 is shown in detail at **APPENDIX A** and in the chart below:



3.17. The reasons for the budgetary increase of **£923,000** from the Original Budget of **£11,618,000** to the Approved Revised Budget of **£12,541,000** are shown below:



3.18. Capital expenditure is projected to be **£10,877,000** and this is **(£1,664,000)** less than the Approved Revised Budget of **£12,541,000** and the main project variances are shown below:

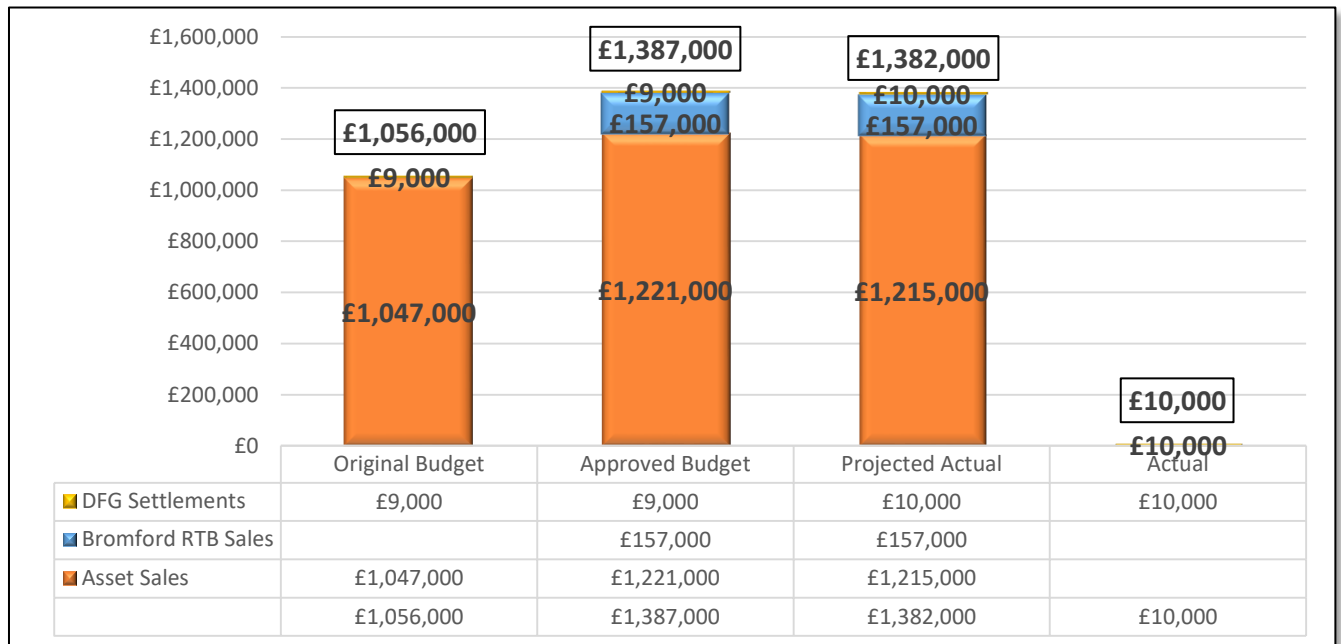


3.19. The reasons for the main project variances are explained below:

- **Loan to the Council Development Company** – the Company is unlikely to require the funding provided by the loan of **£675,000** in 2019/20. This is because any expenditure undertaken by the Company can be funded through the equity investment of **£225,000**.
- **Housing Grants and S106 Affordable Housing Monies** – our partners Spring, have identified the type of properties the Council will need to achieve its desired housing outcomes. We are currently trying to identify suitable properties that match our needs and purchase them. This process including due diligence will mean it is unlikely that any purchases will be completed by 31 March 2020.

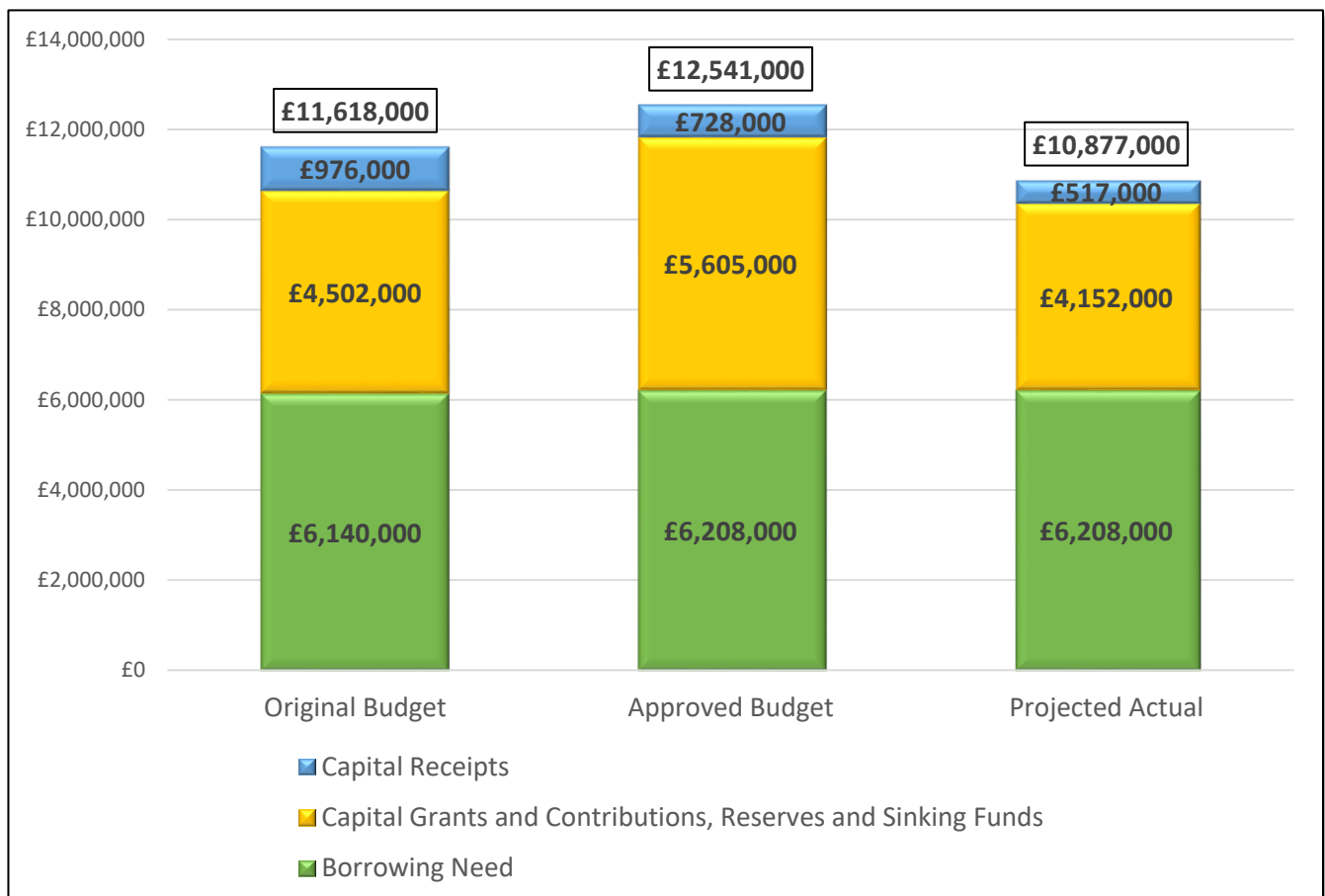
Capital Receipts

3.20. The Original Budget, Approved Budget (asset sales relate to Beacon Park Cottage, Land at Netherstowe and Leyfields, and Guardian House), projected capital receipts and actual capital receipts received in the first six months are shown below:



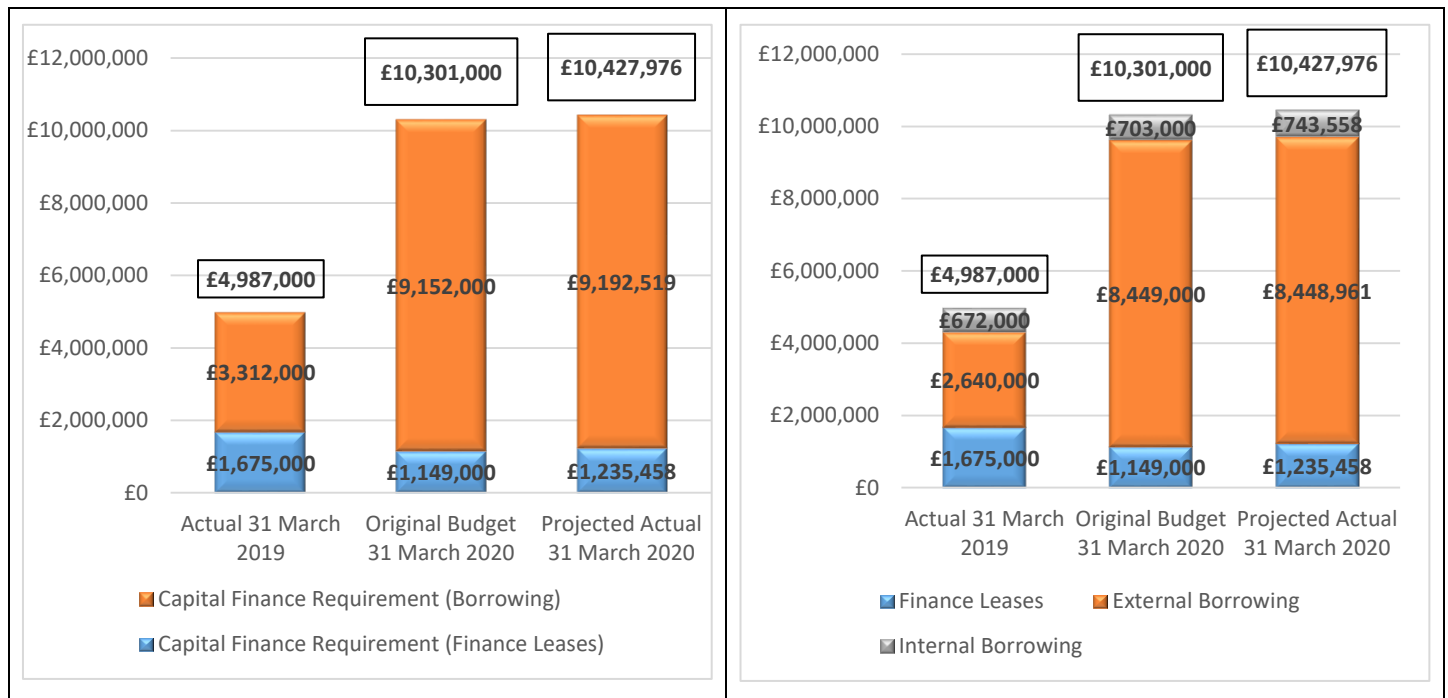
The Funding of the Capital Programme

3.14. The budgeted and actual sources of funding for the Capital Programme are shown in detail at **APPENDIX A** and below:



The Capital Financing Requirement (Borrowing Need) and its Financing

3.15. The actual for 2018/19, Original Budget and Projection for 2019/20 of the Borrowing Need together with its financing is shown below:

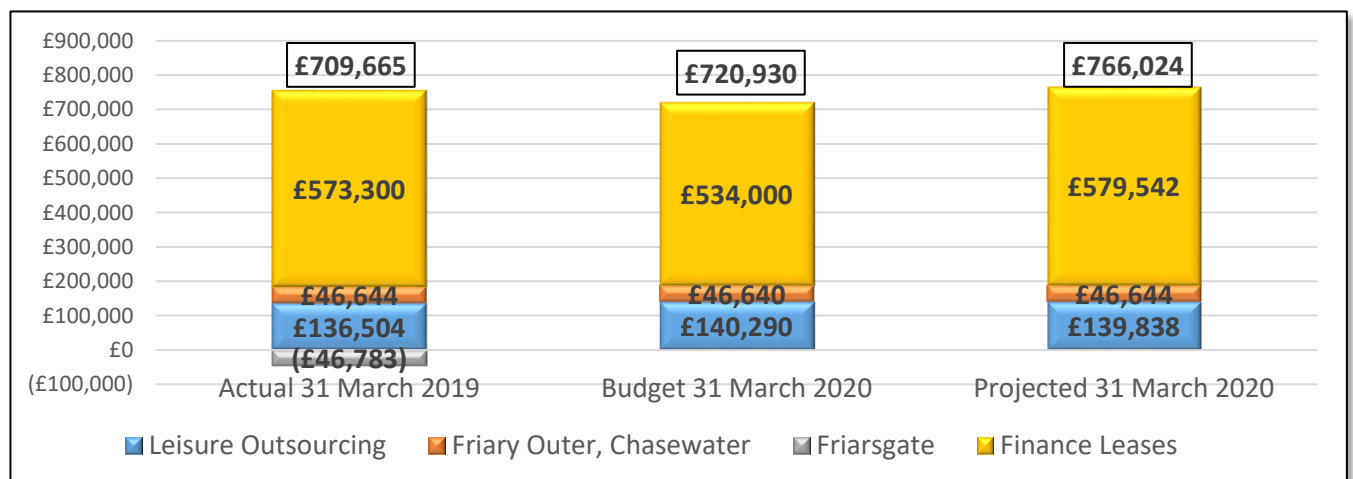


International Financial Reporting Standard 16 (Leases)

- 3.16. The new Standard is applicable from 1 April 2020 and will require more arrangements where there is a right to use an asset to be included on the Council's Balance Sheet. The level of non-current assets is likely to increase and these will be matched by a liability to reflect the lease payments to be made.
- 3.17. The identification and inclusion of these assets on the Council's Balance Sheet will also mean there will be an increase in the Capital Financing Requirement (Borrowing Need), financing and a number of Prudential Indicators related to debt.
- 3.18. The Council already has a comprehensive list of leases and lease type arrangements that is used to produce the Statement of Accounts. Members of the Finance Team have also attended specialist training events to enable the successful implementation of the new Standard.

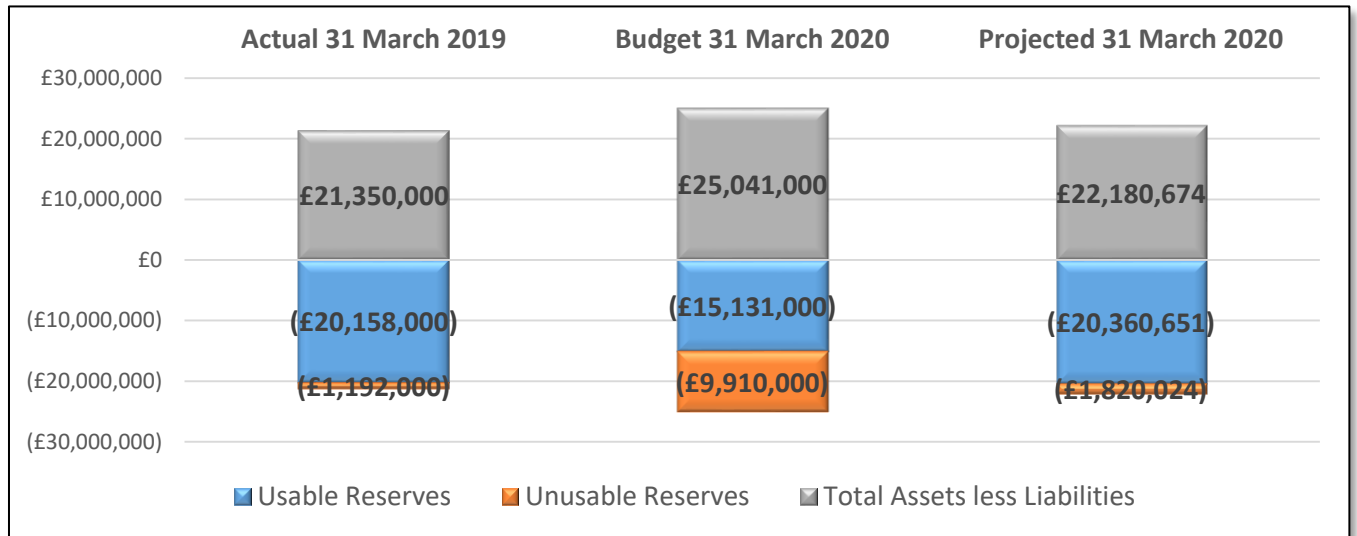
Minimum Revenue Provision in 2019/20

3.19. The minimum Revenue provision charged to revenue in 2018/19, the Original Budget for 2019/20 and the projected actual in 2019/20 is shown below:



The Balance Sheet

3.20. The Balance Sheet Projections for 2019/20 compared to the Original Budget are shown in detail at **APPENDIX B** and in summary below:



3.21. The main reasons for the variances between the budgeted and projected Balance Sheet for 2019/20 are:

Total Assets Less Liabilities – lower than the budget by (£2,861,000) (11%)

- Higher investments of **£3,146,000** due to higher usable reserves less lower working capital.
- The Actuary increased the Long Term Liability for Pensions at 31 March 2019 and the projected variance is **(£6,244,000)**.

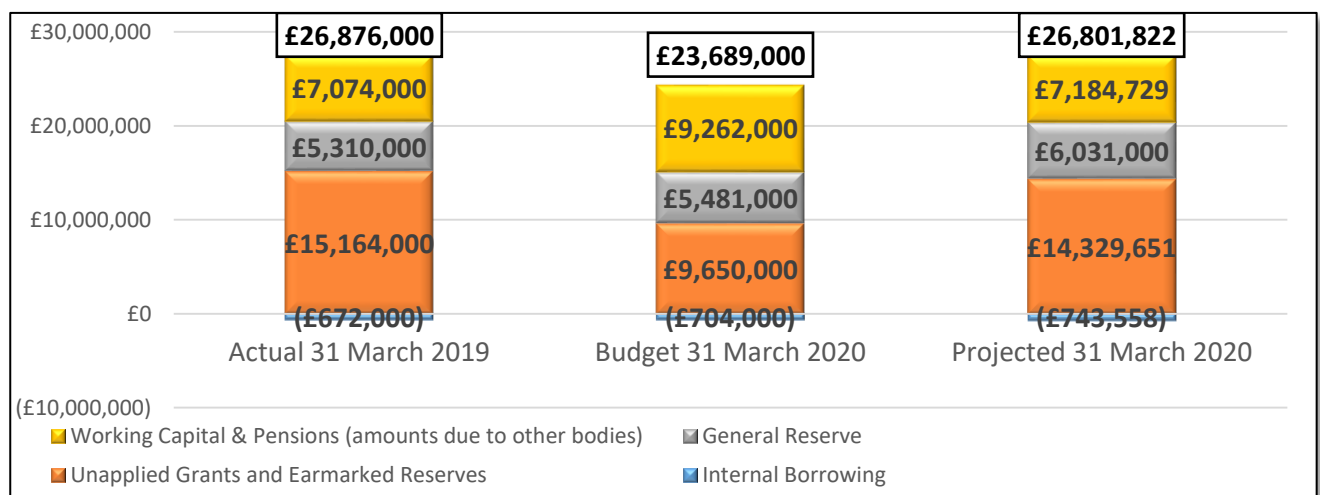
Usable Reserves – higher than budget by (£5,229,000) (34%)

- A higher level of unapplied Capital Grants of **(£1,388,000)** due to higher Community Infrastructure Levy and lower capital spend.
- A higher level of capital receipts of **(£1,251,000)** due to higher Right to Buy sales and lower spend.
- An increase in earmarked reserves of **(£2,035,000)** due to a higher contribution to the Business Rates volatility Reserve, an update to the profiling of the loan to the Company to 2020/21 and an update to the profiling of the vehicle replacement reserve.

Unusable Reserves – lower than budget by £8,090,000 (82%)

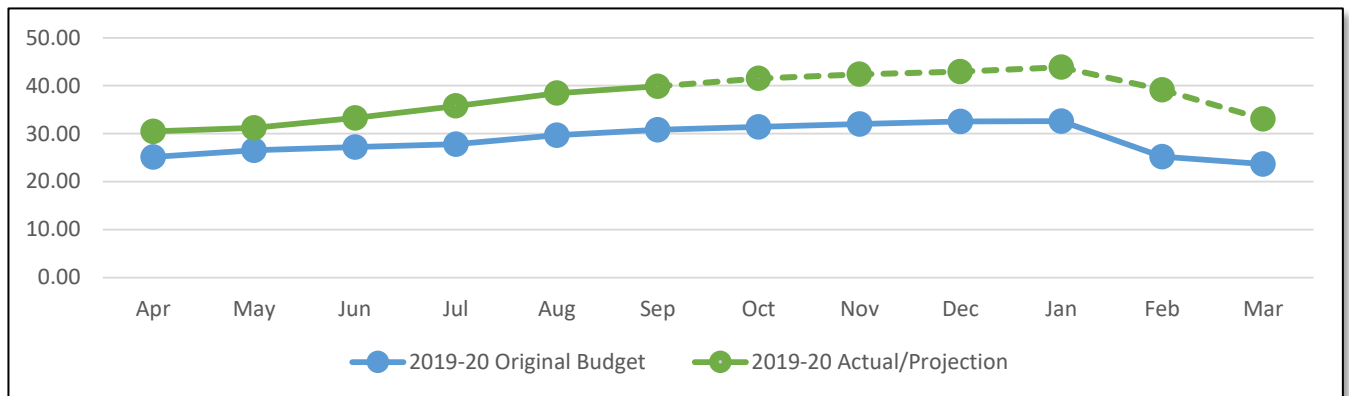
- An increase in the Pension Reserve of **£6,244,000** to offset the increase in the long term liability.

3.22. The level of investments and the sources of cash are shown in the chart below:



Cash Flow Forecasts

3.23. The graph below compares the Original Budget for average investment levels in 2019/20 with the actual/projected levels.



3.24. The Treasury Management Performance for 2019/20 for both investment income and borrowing are shown below:

| Treasury Management | 2018/19 | | | |
|---|-------------------|------------------|-------------------|-------------------|
| | Approved Budget | | Projected | |
| | Investment Income | Borrowing | Investment Income | Borrowing |
| Average Balance | £33.69m | £2.52m | £38.39m | £2.52m |
| Average Rate | 1.01% | 2.15% | 1.06% | 2.15% |
| Gross Investment Income | (£341,000) | | (£408,000) | |
| Property Fund Transfer to Reserves | £30,000 | | £30,000 | |
| DIF Transfer to Reserves | £10,000 | | £10,000 | |
| External Interest | | £54,070 | | £54,070 |
| Internal Interest | | £4,000 | | £4,000 |
| Minimum Revenue Provision (less Finance Leases) | | £186,930 | | £186,482 |
| Net Treasury Position | (£301,000) | £245,000 | (£368,000) | £244,552 |
| | | (£56,000) | | (£123,448) |

Public Works Loans Board (PWLB) Interest Rate Rise

3.25. HM Treasury made an announcement on 9th October that with immediate effect the PWLB new loan rates would be increased by **100 basis points** or **1%**.

3.26. The PWLB will remain a funding source for the Council, however the Council will explore alternative funding sources which are likely to be cheaper than the now higher PWLB rates but will involve a longer lead time and more administration (lender's credit assessment, loan documentation, negotiation of terms etc.).

3.27. The Council plans to borrow **£45m** over the next four years to fund its Property Investment Strategy and a further **£5m** to fund a replacement for Friary Grange Leisure Centre. Any increase in interest rates either from the Bank of England or other another arm of Government will impact on the viability of planned projects.

3.28. The external borrowing rates used in the Medium Term Financial Strategy (MTFS) compared to current rates (excluding any potential discounts) are shown below:

- **Property Investment Strategy** – MTFS rate **2.83%**, current rate **3.13%** (additional cost of £2,396,250 or on average £68,460 per year over 35 years).
- **Replacement for Friary Grange Leisure Centre** – MTFS rate **1.87%**, current rate **2.79%** (additional cost of £586,500 or on average £23,460 per year over 25 years).

Investment Strategy

3.28. The Council undertakes investments for three broad purposes:

- It approves the support of public services by lending or buying shares in other organisations – **Service Investments.**
- To earn investment income – **Commercial Investments.**
- It has surplus cash, as a result of its day to day activities, when income is received in advance of expenditure or where it holds cash on behalf of another body ready for payment in the future – **Treasury Management Investments.**

3.29. The Government has recognised in recent Ministry of Housing, Community and Local Government (MHCLG) guidance, as a result of increased commercial activity, that the principles included in Statutory Guidance requiring that all investments should prioritise security and liquidity over yield must also be applied to service and commercial investments.

3.30. The MHCLG Guidance requires the approval by Council of an Investment Strategy Report to increase the transparency around service and commercial investment activity. The Council approved its Investment Strategy Report on **19 February 2019.**

Service Investments

3.31. There are three approved investments of a service nature (the loan to the LA Company is shown at the approved level where no income to the Council was assumed). The investment and net return included in the Approved Budget is detailed below:

| | Approved Budget | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
| Loan to the Local Authority Company | £675,000 | £675,000 | £675,000 | £675,000 | £675,000 |
| Net Income (net of loss of investment income) | £0 | (£4,000) | (£18,000) | (£22,000) | (£22,000) |
| Net Return | 0.00% | 0.59% | 2.67% | 3.26% | 3.26% |
| Equity in the Local Authority Company | £225,000 | £225,000 | £225,000 | £225,000 | £225,000 |
| Net Income | £0 | £0 | £0 | £0 | £0 |
| Net Return | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Investment in Burntwood Leisure Centre | £1,395,000 | £1,395,000 | £1,395,000 | £1,395,000 | £1,395,000 |
| VAT Benefit | (£19,000) | (£20,000) | (£23,000) | (£25,000) | (£25,000) |
| Net Income (after loan repayments) | (£38,000) | (£38,000) | (£38,000) | (£38,000) | (£38,000) |
| Net Return (excluding VAT Benefit) | 2.72% | 2.72% | 2.72% | 2.72% | 2.72% |
| ICT Cloud | £25,000 | £125,000 | £125,000 | £125,000 | £125,000 |
| Net Income | (£30,000) | (£100,000) | (£150,000) | (£150,000) | (£150,000) |
| Net Return | 120.00% | 80.00% | 120.00% | 120.00% | 120.00% |
| Total Investment | £2,320,000 | £2,420,000 | £2,420,000 | £2,420,000 | £2,420,000 |
| Total Net Income | (£68,000) | (£142,000) | (£206,000) | (£210,000) | (£210,000) |
| Net Return | 2.93% | 5.87% | 8.51% | 8.68% | 8.68% |

3.32. To date, only the investment in Burntwood Leisure Centre has taken place and is generating net income.

Commercial Investments

3.33. The only commercial investment currently planned relates to the Property Investment Strategy and the investment and net return in the Approved Budget is detailed below:

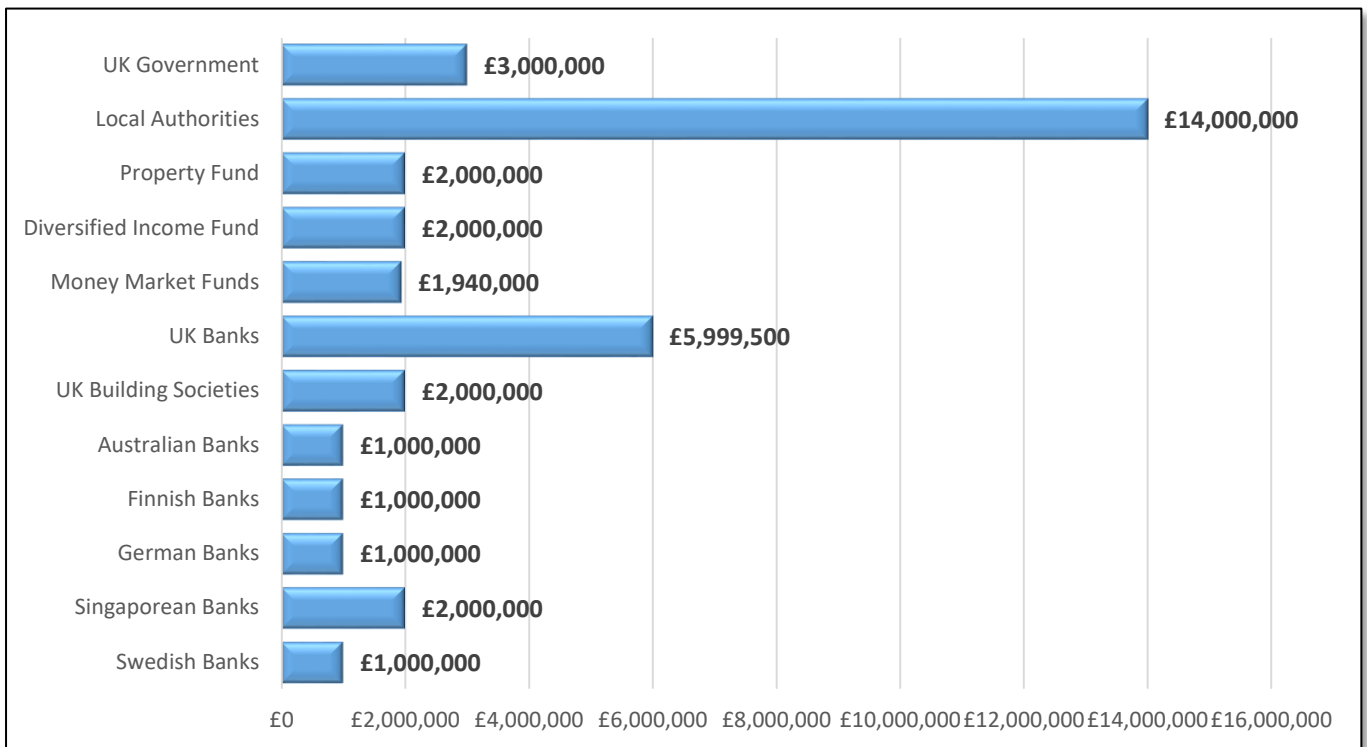
| | Approved Budget | | | | |
|---------------------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
| Property Investment | £6,000,000 | £19,000,000 | £32,000,000 | £45,000,000 | £45,000,000 |
| Net Income | | (£56,000) | (£180,000) | (£303,000) | (£427,000) |
| Net Return (previous year end) | | 0.93% | 0.95% | 0.95% | 0.95% |

3.34. To date, no property investment has taken place and therefore the budgeted net income is not currently being generated.

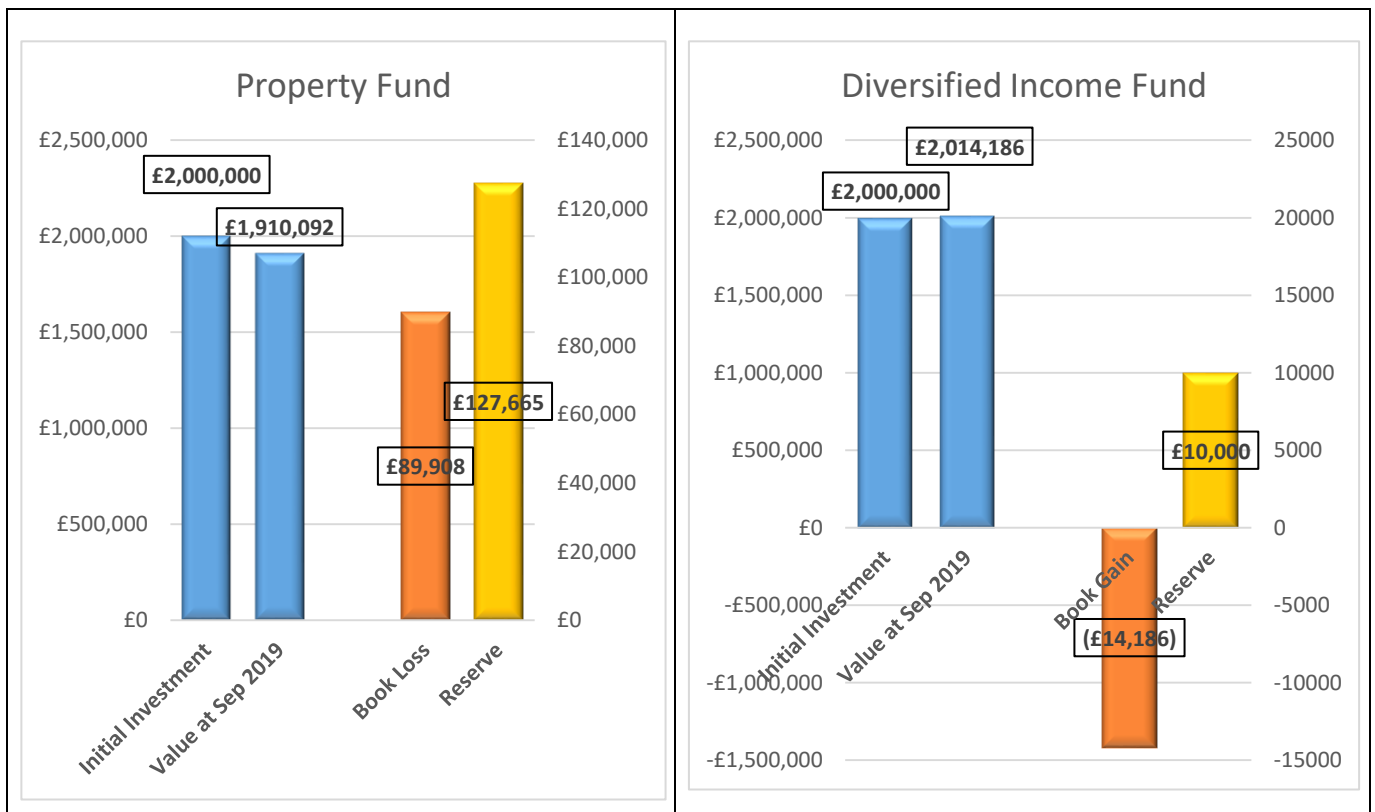
Treasury Management Investments

The Security of Our Investments

3.35. The investments the Council had at the 30 September 2019 of £36.94m (with the property and diversified income fund valued at original investment of £2.00m) by type and Country are summarised in the graph below and in more detail at **APPENDIX C**:



3.36. The current values of the Property Fund and the Diversified Income Fund together with the value of the projected earmarked reserve at the end of 2019/20 intended to offset reductions in value is shown below:



International Financial Reporting Standard (IFRS) 9 and its application to these Investments

3.37. It is important to note that:

- There is a 'book loss' on the Property Fund investment currently of **£89,908** and the balance on the Volatility Reserve to offset any reduction in value is projected to be **(£127,665)**.
- There is a 'book gain' on the Diversified Income Fund currently of **(£14,186)** and the balance on the Volatility Reserve to offset any reduction in value is projected to be **(£10,000)**.

3.38. The Council is required to apply the International Financial Reporting Standard (IFRS) 9 accounting treatment to these investments and because this is a relatively new standard, there are differences of opinion on its application to certain financial investments.

3.39. In the 2017/18 Statement of Accounts the Council elected to account for the Property Fund investment in equity instruments at fair value through other comprehensive income. This accounting treatment was applied because it is considered to be a long-term strategic holding and changes in their fair value are not considered to be part of the Council's annual revenue account performance.

3.40. This accounting treatment was also applied in 2018/19 with the 'book loss' accounted within the Financial Instruments Revaluation Reserve being **£68,000** and therefore the value is not considered material.

3.41. As part of the audit of the Statement of Accounts, the External Auditor commented they do not consider that this election is available for the type of investments that the Council holds. It is their opinion that movements in the fair value of these assets should be recognised in the Comprehensive Income and Expenditure Statement (CIES) as part of the annual revenue account performance.

3.42. The impact of this change would mean that in the absence of the earmarked reserve, any 'book loss' would be charged to the revenue account and therefore depending on financial performance, potentially reduce the level of General Reserves.

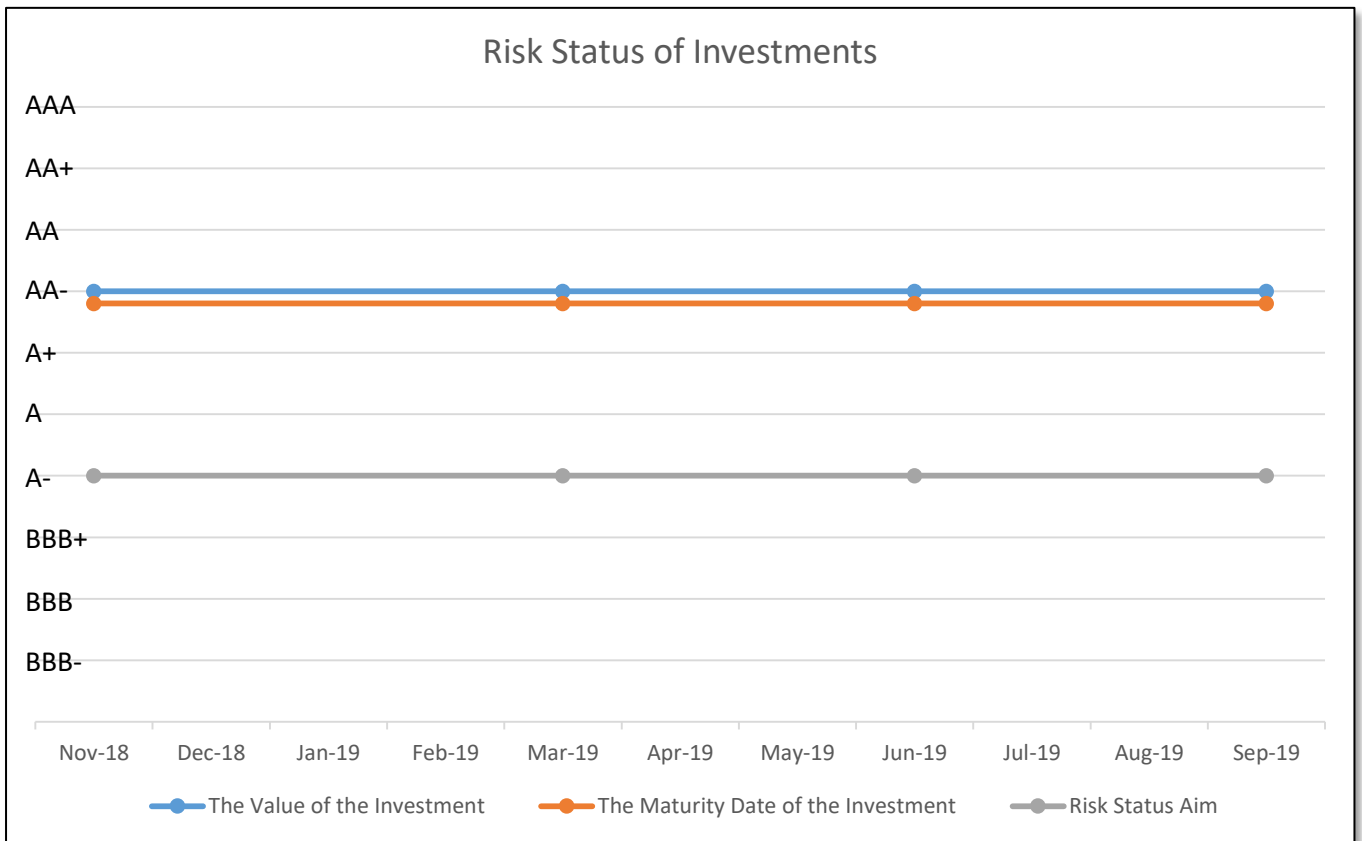
3.43. There is now a Statutory Override available for the five year period from 1 April 2018 to 31 March 2023 that would mitigate any gains or losses being accounted for within the revenue account.

3.44. Therefore to address the External Auditor's concerns, the Council will account for any gain or losses related to these type of investments within the revenue account and apply the Statutory Override. In the event that the Statutory Override is not extended beyond 31 March 2023, any gains and losses will need to be managed through the earmarked reserves established to manage volatility and credit risk.

3.45. A comparison of the Council's portfolio size of **£36.8m** (with the Property and Diversified Income funds valued at their current value of **£3.9m**), average credit score, level of diversification and level of exposure to 'Bail in' risk compared to all Arlingclose Clients is shown in the charts below:

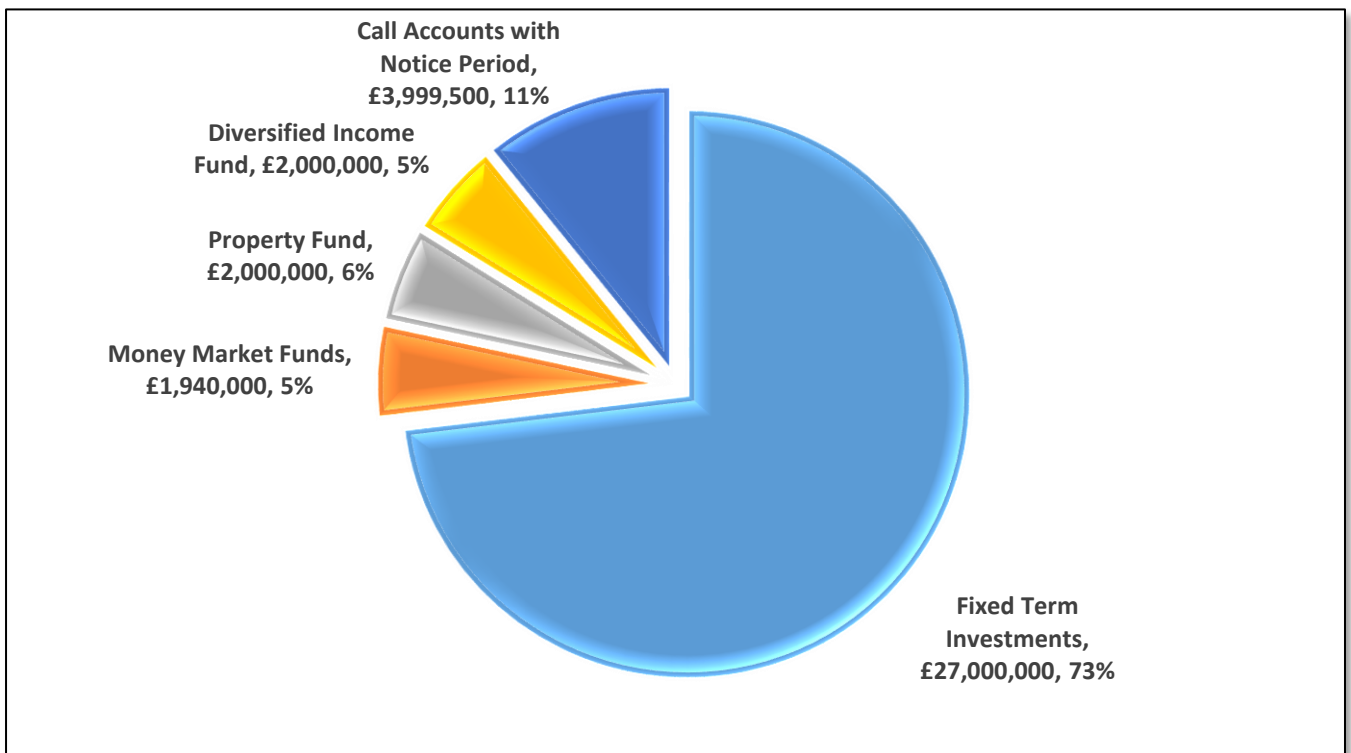


3.46. Our aim for the risk status of our investments was **A-**. The risk status based on the length of the investment and the value for a 12 month period is summarised below:

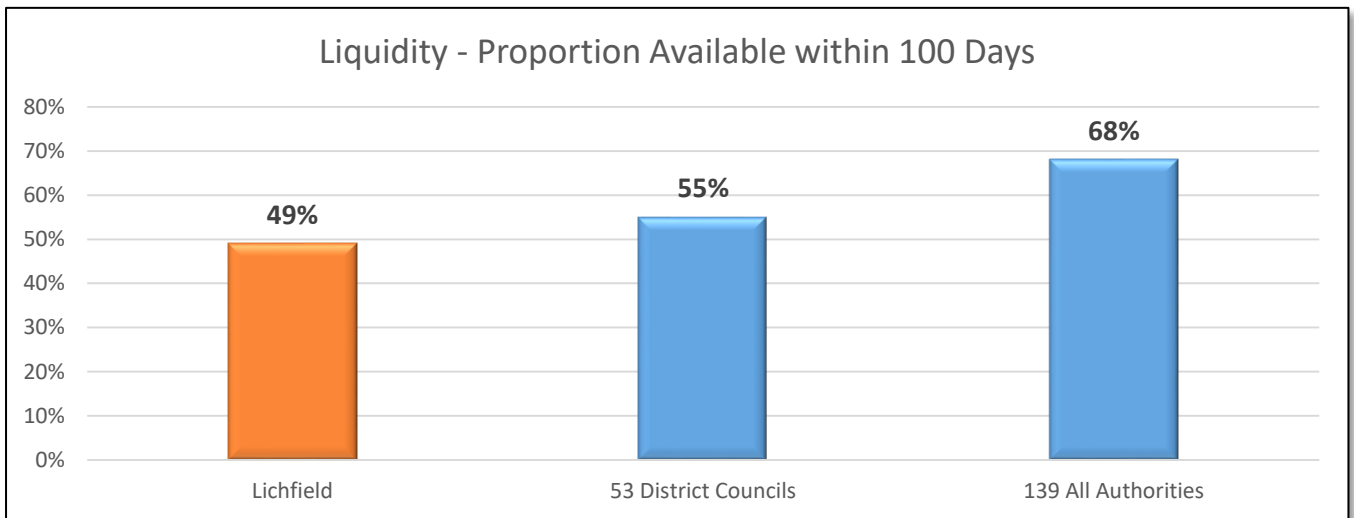


The Liquidity of our Investments

3.47. The Council has not had to temporarily borrow during 2019/20 and retains a proportion of its investments in instant access Money Market Fund investments to ensure there is sufficient cash available to pay for goods and services. The investments by type (with the property and diversified income fund at their original value of **£2m**) are shown below:

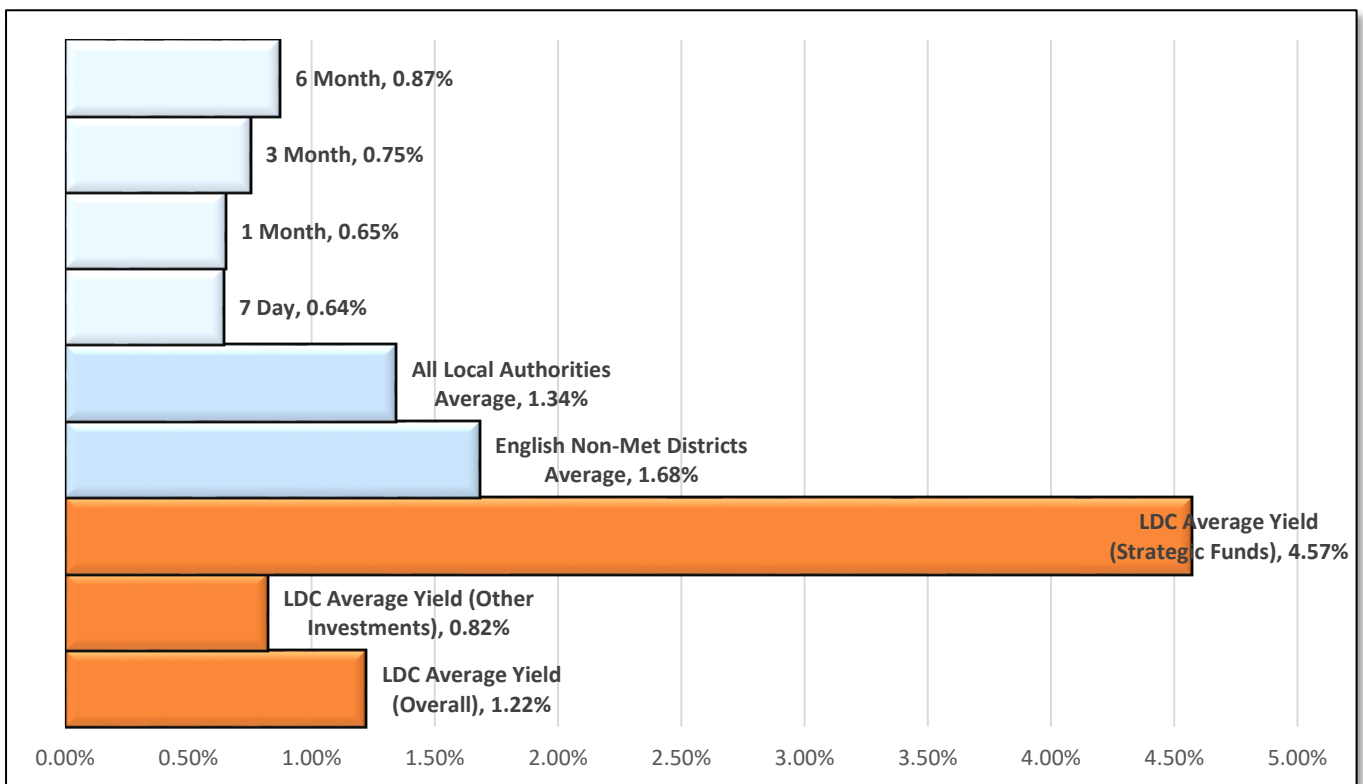


3.48. The proportion of the investment portfolio available within 100 days compared to all Arlingclose clients is shown below:



The Return or Yield of our Investments

3.49. The yield the Council was achieving as at 30 September compared to a number of industry standard benchmarks (including our preferred benchmark of the seven day LIBID rate) and all Arlingclose clients is shown below:



External Borrowing

3.50. The Council currently has two external loans with the Public Works Loans Board with **£2,513,984** outstanding and these are shown in detail at **APPENDIX C**.

| | |
|---------------------|--|
| Alternative Options | There are no alternative options. |
| Consultation | Consultation is undertaken as part of the Strategic Plan 2016-20 and with Leadership Team. |

Financial Implications

Projected Prudential indicators (PI) 2019/20:

- We can confirm that the Council is compliant with its Prudential Indicators for 2019/20; these were originally approved by Council at its meeting on 19 February 2019 and will be fully revised and approved by Council on 11 February 2020.
- In compliance with the requirements of the CIPFA Code of Practice this report provides members with a Summary Report of the Treasury Management Activity during 2019/20.
- None of the other Prudential Indicators have been breached. The Prudential Indicators are summarised in the table below :

| Capital Strategy Indicators | | | | |
|--|-----------------------|-------------------------|------------------------|--------------------------|
| Prudential Indicators | | | | |
| Indicators | 2018/19 Actual | 2019/20 Original | 2019/20 Current | 2019/20 Projected |
| Capital Investment | | | | |
| Capital Expenditure (£m) | £4.910 | £11.618 | £12.541 | £10.877 |
| Capital Financing Requirement (£m) | £4.987 | £10.301 | £10.303 | £10.428 |
| Gross Debt and the Capital Financing Requirement | | | | |
| Gross Debt | (£4.315) | (£9.598) | (£9.599) | (£9.684) |
| Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement | No | No | No | No |
| Total Debt | | | | |
| Authorised Limit (£m) | £4,751 | £21.598 | £21.598 | £9.684 |
| Operational Boundary (£m) | £4,751 | £13.006 | £13.006 | £9.684 |
| Proportion of Financing Costs to Net Revenue Stream (%) | 5% | 6% | 4% | 4% |

| Local Indicators | | | | |
|---|-----------------------|-------------------------|------------------------|--------------------------|
| Indicators | 2018/19 Actual | 2019/20 Original | 2019/20 Current | 2019/20 Projected |
| Replacement of Debt Finance or MRP (£m) | (£0.710) | (£0.721) | (£0.766) | (£0.766) |
| Capital Receipts (£m) | (£0.760) | (£1.056) | (£1.387) | (£1.382) |
| Liability Benchmark (£m) ¹ | £14.168 | £4.823 | N/A | £8.285 |
| Treasury Management Investments (£m) | £26.150 | £23.689 | N/A | £26.802 |

| Treasury Management Indicators | | | | |
|--|-----------------------|--------------------|--------------------|--------------------------|
| Prudential Indicators | | | | |
| | 2018/19 Actual | Lower Limit | Upper Limit | 2019/20 Projected |
| Refinancing Rate Risk Indicator | | | | |
| Under 12 months | 7% | 0% | 100% | 8% |
| 12 months and within 24 months | 7% | 0% | 100% | 8% |
| 24 months and within 5 years | 22% | 0% | 100% | 25% |
| 5 years and within 10 years | 36% | 0% | 100% | 33% |
| 10 years and within 20 years | 23% | 0% | 100% | 25% |
| 20 years and within 30 years | 3% | 0% | 100% | 1% |
| 30 years and within 40 years | 0% | 0% | 100% | 0% |
| 40 years and within 50 years | 0% | 0% | 100% | 0% |
| 50 years and above | 0% | 0% | 100% | 0% |

| Indicators | 2018/19 Actual | 2019/20 Original | 2019/20 Current | 2019/20 Projected |
|---|-----------------------|-------------------------|------------------------|--------------------------|
| Principal Sums invested for periods longer than a year (£m) | £2.000 | £6.000 | £6.000 | £4.000 |

¹ See note in Appendix B.

Local Indicators

| Indicators | 2018/19 Actual | 2019/20 Original | 2019/20 Current | 2019/20 Projected |
|--|-------------------|---------------------|--------------------|----------------------|
| <u>Balance Sheet Summary and Forecast</u> | | | | |
| Borrowing Capital Financing Requirement (£m) | £3.312 | £9.153 | £9.194 | £9.193 |
| Internal (over) Borrowing (£m) | £0.672 | £0.704 | £0.744 | £0.744 |
| Investments (or New Borrowing) (£m) | (£26.150) | (£23.689) | N/A | (£26.802) |
| Liability Benchmark (£m) | (£14.168) | (£4.823) | N/A | (£8.285) |

| | 2018/19 Actual | Target | 2019/20 Actual |
|--|-------------------|--------|-------------------|
| <u>Security</u> | | | |
| Portfolio average credit rating | AA- | A- | AA- |
| <u>Liquidity</u> | | | |
| Temporary Borrowing undertaken | £0.000 | £0.000 | £0.000 |
| Total Cash Available within 100 days (maximum) | 70% | 90% | 49% |

Contribution to the Delivery of the Strategic Plan

The MTFS underpins the delivery of the Strategic Plan 2016-20.

Equality, Diversity and Human Rights Implications

There are no additional Equality, Diversity or Human Rights implications.

Crime & Safety Issues

There are no additional Crime and Safety Issues.

GDPR/Privacy Impact Assessment

There are no GDPR/Privacy Impact Assessment Issues.

| | Risk Description | How We Manage It | Severity of Risk |
|----|--|--|--------------------------|
| A | Achievement of The Council's key Council priorities. | Close monitoring of performance and expenditure; maximising the potential of efficiency gains; early identification of any unexpected impact on costs including Central Government Policy changes, movement in the markets, and changes in the economic climate. | Green - Tolerable |
| B | Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations. | To closely monitor the level of appeals. An allowance of 4.7% (in line with the MHCLG Allowance) for appeals has been included in the Business Rate Estimates. | Red - Severe |
| C | The review of the New Homes Bonus regime in 2020/21. | Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2020/21 £600,000 is included and this is then being reduced by £100,000 per annum. | Red - Severe |
| D | The increased Localisation of Business Rates and the Fair Funding Review in 2020/2021. | To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour. | Red - Severe |
| E | The affordability and risk associated with the Capital Strategy. | | Yellow - Material |
| E1 | Planned Capital Receipts are not received. | The budget for capital receipts will be monitored as part of the Council's normal budget monitoring procedures. | Yellow - Material |

| | Risk Description | How We Manage It | Severity of Risk |
|----------|--|---|--------------------------|
| E2 | Slippage Occurs in the Capital Spend | Spend will be monitored through normal budget monitoring procedures with budgets updated to reflect latest plans and projections. | Yellow - Material |
| E3 | Actual cash flows differ planned cash flows | Cash flow is monitored on a daily basis through normal Treasury Management processes. | Green Tolerable |
| F | The affordability and risk associated with the Property Investment Strategy. | | Yellow - Material |
| F1 | Slippage occurs in the Capital Spend | Spend will be monitored through normal budget monitoring procedures with budgets updated to reflect latest plans and projections. | Yellow - Material |
| F2 | Change in Government Policy including Regulatory Change | To monitor proposed changes to policy and regulation and seek to influence in the Council's favour. | Yellow - Material |
| F3 | The form of exit from the EU adversely impacts on the UK economy including the Property Market and Borrowing Costs | To monitor the situation and where possible identify alternative options. | Red - Severe |
| F4 | There is a cyclical 'downturn' in the wider markets | To monitor the wider markets and where possible adapt plans to minimise the Council's risk exposure. | Yellow - Material |
| F5 | There is insufficient expertise to implement the Property Investment Strategy | Recruit an estates management team to provide professional expertise and advice in relation to the Property Investment Strategy. | Yellow - Material |
| F6 | Inability to acquire or dispose of assets due to good opportunities not being identified | To utilise Property Agents to identify opportunities for potential acquisitions and disposals. | Red - Severe |

Background documents

- CIPFA Code of Practice for Treasury Management in the Public Services
- The Prudential Code for Capital Finance in Local Authorities
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2018-23 – Cabinet 12 February 2019.
- Money Matters: 2018/19 Review of Financial Performance against the Financial Strategy – Cabinet 13 June 2019.
- Money Matters:2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 10 September 2019.

Relevant web links

APPENDIX A

Capital Programme 2019/20 (£000)

| Project | Original Budget | Approved Budget | Actual to Date | Projected Actual | Projected Variance |
|--|-----------------|-----------------|----------------|------------------|--------------------|
| Leisure Review: Capital Investment | 0 | 30 | 25 | 30 | 0 |
| Replacement of Play Equipment at Hill Ridware Village Hall | 71 | 30 | 30 | 30 | 0 |
| New Build Parish Office/Community Hub | 92 | 92 | 0 | 0 | (92) |
| Fradley Village Heating & CCTV | 0 | 5 | 0 | 5 | 0 |
| Fradley Youth & Community Centre Cladding & Porch | 0 | 15 | 10 | 15 | 0 |
| Armitage with Handsacre Village Hall heating upgrade | 0 | 5 | 5 | 5 | 0 |
| Armitage with Handsacre Village Hall storage container | 0 | 6 | 0 | 0 | (6) |
| Re-siting/improvement of Armitage War Memorial | 40 | 120 | 0 | 120 | 0 |
| Canopy and installation of artificial grass at Armitage | 0 | 13 | 10 | 13 | 0 |
| Burntwood LC CHP Unit | 235 | 235 | 9 | 235 | 0 |
| Westgate Practice Refurbishment | 0 | 120 | 0 | 120 | 0 |
| King Edwards VI School | 0 | 101 | 0 | 101 | 0 |
| Friary Grange - Short Term Refurbishment | 0 | 174 | 0 | 174 | 0 |
| Replacement Leisure Centre | 0 | 38 | 0 | 38 | 0 |
| St. Stephen's School, Fradley | 0 | 22 | 0 | 22 | 0 |
| Accessible Homes (Disabled Facilities Grants) | 1,104 | 1,500 | 660 | 1,500 | 0 |
| Home Repair Assistance Grants | 15 | 28 | 0 | 28 | 0 |
| Decent Homes Standard | 197 | 197 | 0 | 0 | (197) |
| Energy Insulation Programme | 10 | 38 | 0 | 38 | 0 |
| DCLG Monies | 212 | 212 | 0 | 0 | (212) |
| Unallocated S106 Affordable Housing Monies | 400 | 342 | 0 | 0 | (342) |
| Healthy & Safe Communities Total | 2,376 | 3,323 | 749 | 2,474 | (849) |
| Darnford Park | 13 | 0 | 0 | 0 | 0 |
| Canal Towpath Improvements (Brereton & Ravenhill) | 211 | 211 | 0 | 211 | 0 |
| Loan to Council Dev Co. | 900 | 675 | 0 | 0 | (675) |
| Lichfield St Johns Community Link | 0 | 10 | 0 | 10 | 0 |
| Staffordshire Countryside Explorer | 0 | 0 | 0 | 0 | 0 |
| Equity in Council Dev Co. | 0 | 225 | 0 | 225 | 0 |
| Vehicle Replacement Programme | 441 | 426 | 18 | 426 | 0 |
| Shortbutts Park, Lichfield | 23 | 23 | 0 | 23 | 0 |
| Env. Improvements - Upper St John St & Birmingham Road | 7 | 7 | 0 | 7 | 0 |
| Stowe Pool Improvements | 550 | 50 | 0 | 50 | 0 |
| The Leomansley Area Improvement Project | 0 | 3 | 0 | 3 | 0 |
| Cannock Chase SAC | 13 | 40 | 39 | 40 | 0 |
| Clean, Green and Welcoming Places to Live Total | 2,158 | 1,670 | 57 | 995 | (675) |
| Multi Storey Car Park Refurbishment Project | 0 | 300 | 0 | 300 | 0 |
| Birmingham Road Site - Coach Park | 238 | 236 | 0 | 236 | 0 |
| Birmingham Road Site - Short Term Redevelopment | 353 | 473 | 0 | 473 | 0 |
| Car Parks Variable Message Signing | 32 | 32 | 0 | 32 | 0 |
| Old Mining College - Refurbish access and signs | 0 | 13 | 0 | 13 | 0 |
| Erasmus Darwin Lunar Legacy (Lichfield City Art Fund) | 0 | 3 | 3 | 3 | 0 |
| St. Chads Sculpture (Lichfield City Art Fund) | 50 | 50 | 45 | 50 | 0 |
| A Vibrant and Prosperous Economy Total | 673 | 1,107 | 48 | 1,107 | 0 |
| Property Investment Strategy | 6,000 | 6,000 | 0 | 6,000 | 0 |
| Depot Sinking Fund | 11 | 0 | 0 | 0 | 0 |
| IT Infrastructure | 105 | 105 | 0 | 105 | 0 |
| IT Cloud | 25 | 25 | 0 | 25 | 0 |
| IT Innovation | 167 | 200 | 7 | 60 | (140) |
| District Council House Repair Programme | 103 | 111 | 0 | 111 | 0 |
| A Council that is Fit for the Future Total | 6,411 | 6,441 | 7 | 6,301 | (140) |
| Approved Budget | 11,618 | 12,541 | 861 | 10,877 | (1,664) |

| Funding Source | Original Budget | Approved Budget | Projected Actual | Projected Variance |
|---|-----------------|-----------------|------------------|--------------------|
| Capital Receipts | 976 | 728 | 517 | (211) |
| Borrowing Need - Borrowing and Finance Leases | 6,140 | 6,208 | 6,208 | 0 |
| Capital Grants and Contributions | 2,769 | 3,210 | 2,361 | (849) |
| Reserves and Sinking Funds | 1,733 | 2,395 | 1,791 | (604) |
| Capital Programme Total | 11,618 | 12,541 | 10,877 | (1,664) |

Balance Sheet Projections

| | Type | 2018/19 Actual £000s | 2019/20 Original £000s | 2019/20 Projected £000s | 2019/20 Variance £000s |
|---|-------|-----------------------------|------------------------------|-------------------------------|------------------------------|
| Property, Plant and Equipment | ASSET | 42,786 | 42,836 | 43,145 | 309 |
| Heritage Assets | ASSET | 450 | 515 | 450 | (65) |
| Investment Property | ASSET | 4,867 | 11,200 | 10,867 | (333) |
| Intangible Assets | ASSET | 73 | 76 | 73 | (3) |
| Assets Held for Sale | ASSET | 200 | 0 | 0 | 0 |
| Equity Investment in Local Authority Company | ASSET | 0 | 0 | 225 | 225 |
| Long Term Debtors | CRED | 288 | 93 | 288 | 195 |
| Long Term Debtors (Company Loan) | LOAN | 0 | 900 | 0 | (900) |
| Investments | INV | 26,808 | 23,588 | 26,734 | 3,146 |
| Borrowing | BOLE | (2,640) | (8,449) | (8,449) | (0) |
| Finance Leases | BOLE | (1,675) | (1,149) | (1,235) | (86) |
| Working Capital | CRED | (8,409) | (8,540) | (7,644) | 895 |
| Pensions | CRED | (41,398) | (36,028) | (42,272) | (6,244) |
| TOTAL ASSETS LESS LIABILITIES | | 21,350 | 25,041 | 22,182 | (2,861) |
| <u>Unusable Reserves</u> | | | | | |
| Revaluation Reserve | REV | (9,419) | (9,016) | (9,419) | (403) |
| Capital Adjustment Account | CAP | (33,970) | (36,208) | (34,913) | 1,295 |
| Deferred Credits | CRED | (47) | (947) | (47) | 900 |
| Pension Scheme | CRED | 42,272 | 36,028 | 42,272 | 6,244 |
| Benefits Payable During Employment Adjustment Account | CRED | 219 | 132 | 219 | 87 |
| Collection Fund | CRED | (315) | 0 | 0 | 0 |
| Financial Instruments Reserve | CRED | 68 | 101 | 68 | (33) |
| <u>Usable Reserves</u> | | | | | |
| Unapplied Grants and Contributions | UGER | (2,194) | (582) | (1,970) | (1,388) |
| Usable Capital Receipts | UGER | (2,004) | (1,618) | (2,869) | (1,251) |
| Sinking Funds | UGER | (261) | (18) | (25) | (6) |
| <u>Earmarked Reserves - Unrestricted</u> | | | | | |
| Leisure VAT Claim | UGER | (897) | (791) | (703) | 88 |
| Business Rates Volatility Reserve | UGER | (831) | (843) | (1,531) | (688) |
| Birmingham Road Site | UGER | (1,161) | (486) | (281) | 205 |
| Business Rates Pilot | UGER | 0 | (568) | (568) | 0 |
| Other | UGER | (3,702) | (910) | (2,880) | (1,970) |
| <u>Earmarked Reserves - Restricted</u> | | | | | |
| Three Spires Multi Storey | UGER | (2,228) | (2,357) | (1,928) | 429 |
| Other Earmarked Reserves - Restricted | UGER | (1,570) | (1,477) | (1,576) | (99) |
| General Fund Balance | GEN | (5,310) | (5,481) | (6,031) | (550) |
| TOTAL EQUITY | | (21,350) | (25,041) | (22,182) | 2,861 |
| Capital Funding | CAP | (33,970) | (36,208) | (34,913) | 1,295 |
| Revaluation Reserve | REV | (9,419) | (9,016) | (9,419) | (403) |
| Borrowing and Leasing | BOLE | (4,315) | (9,598) | (9,684) | (86) |
| Non-Current Assets | ASSET | 48,376 | 54,627 | 54,760 | 133 |
| Investments | INV | 26,808 | 23,588 | 26,734 | 3,146 |
| Unapplied Grants & Earmarked Reserves | UGER | (14,848) | (9,651) | (14,331) | (4,679) |
| General Reserve | GEN | (5,310) | (5,481) | (6,031) | (550) |
| Long Term Debtors (Company Loan) | LOAN | 0 | 900 | 0 | (900) |
| Working Capital & Pensions | CRED | (7,322) | (9,160) | (7,116) | 2,044 |
| Summary Balance Sheet Total | | (0) | 0 | (0) | (0) |
| Internal Borrowing | | 672 | 703 | 744 | 39 |
| Capital Financing Requirement (Borrowing) | | 3,312 | 9,153 | 9,193 | 39 |
| Working Capital & Pensions | | (7,322) | (9,160) | (7,116) | 2,044 |
| Usable Reserves | | (20,158) | (15,132) | (20,362) | (5,229) |
| Minimum Level of Investments | | 10,000 | 10,316 | 10,000 | (316) |
| Liability Benchmark | | (14,168)² | (4,823) | (8,285) | (3,462) |

² The Annual Treasury Management Report reported a figure of £14.209m in the Prudential Indicators and a figure of £14.525m in the Balance Sheet. This was due to inconsistent treatment of Long Term Debtors, Collection Fund and the Financial Instruments Reserve in the two calculations. The classification of these items has now been updated to use a consistent basis in the calculation moving forwards.

Investments in the 2019/20 Financial Year

The table below shows a breakdown of our investments at the end of September 2019:

| Counterparty | Principal | Matures | Days to Maturity | Rate | Credit Rating | Foreign Parent |
|---|--------------------|-----------|------------------|-------|---------------|----------------|
| Money Market Funds | | | | | | |
| CCLA MMF | £1,940,000 | 01-Oct-19 | Instant Access | 0.74% | 0 | N/A |
| Strategic Funds | | | | | | |
| CCLA Property Fund | £2,000,000 | N/A | N/A | 3.92% | N/A | No |
| CCLA Diversified Income Fund | £2,000,000 | N/A | N/A | 3.02% | N/A | No |
| Fixed Term Investments | | | | | | |
| Lloyds | £1,000,000 | 15-Nov-19 | 46 | 1.00% | A+ | |
| Coventry Building Society | £1,000,000 | 04-Oct-19 | 4 | 0.93% | A- | |
| Landesbank Hessen-Thüringen (Helaba) | £1,000,000 | 09-Oct-19 | 9 | 0.89% | A | |
| Fife Council | £2,000,000 | 07-Feb-20 | 130 | 1.00% | LOCAL | |
| United Overseas Bank | £1,000,000 | 18-Nov-19 | 49 | 0.86% | AA- | |
| Surrey Heath Borough Council | £2,000,000 | 13-Dec-19 | 74 | 0.80% | LOCAL | |
| Australia and New Zealand Banking Group | £1,000,000 | 12-Dec-19 | 73 | 0.92% | AA- | |
| Brentwood Borough Council | £2,000,000 | 29-Jul-20 | 303 | 0.93% | LOCAL | |
| Barclays Bank | £1,000,000 | 25-Oct-19 | 25 | 0.63% | A | |
| Nationwide | £1,000,000 | 20-Jan-20 | 112 | 0.79% | A | |
| Highland Council | £2,000,000 | 29-Jan-20 | 121 | 0.75% | LOCAL | |
| Monmouthshire Council | £2,000,000 | 27-Mar-20 | 179 | 0.78% | LOCAL | |
| Rugby Borough Council | £2,000,000 | 27-Mar-20 | 179 | 0.77% | LOCAL | |
| Aberdeen City Council | £2,000,000 | 24-Feb-20 | 147 | 0.75% | LOCAL | |
| DBS Bank | £1,000,000 | 19-Mar-20 | 171 | 0.82% | AA- | |
| Treasury Bills | £3,000,000 | 21-Oct-19 | 21 | 0.70% | UK Government | |
| Call Accounts with Notice Period | | | | | | |
| Santander | £1,000,000 | 28-Mar-20 | 180 | 0.95% | A | |
| Goldman Sachs International Bank | £1,000,000 | 03-Jan-20 | 95 | 0.89% | A | |
| Svenska Handelsbanken AB | £1,000,000 | 04-Nov-19 | 35 | 0.65% | AA- | |
| HSBC | £999,500 | 31-Oct-19 | 31 | 0.85% | AA- | |
| Certificates of Deposit | | | | | | |
| Standard Chartered | £1,000,000 | 04-Oct-19 | 4 | 0.98% | A | |
| Nordea Bank AB | £1,000,000 | 17-Oct-19 | 17 | 0.85% | AA- | |
| Total Investments | £36,939,500 | | | | | |

External Borrowing

The Council currently has two external loans:

| | Principal | Average Rate | Years to Final Maturity | (Premium) /Discount |
|--|-------------------|--------------|-------------------------|---------------------|
| PWLB Fixed Maturity | £0 | - | - | £0 |
| PWLB Fixed Equal Instalment of Principal (EIP) | £1,248,040 | 2.59% | 20.5 | (£284,836) |
| PWLB Fixed Annuity | £1,265,944 | 1.71% | 8.7 | (£89,523) |
| PWLB Variable Maturity | £0 | - | - | £0 |
| PWLB Variable EIP | £0 | - | - | £0 |
| TOTAL PWLB | £2,513,984 | 2.15% | 14.5 | (£374,359) |
| Lender Option Borrower Option (LOBO) Loans | £0 | - | - | £0 |
| Other Loans | £0 | - | - | £0 |
| TOTAL BORROWING | £2,513,984 | 2.15% | 14.5 | (£374,359) |