

Mid-Year Treasury Management Report

Cabinet Member for Finance, Procurement, Customer Services
and Revenues & Benefits

Date:	12 November 2020
Agenda Item:	4
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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 2020) Treasury Management performance in 2020/21.
- 1.2 Capital expenditure is projected to be **£7,956,000** and this is **£11,000** higher than the Approved Revised Budget of **£7,945,000**. This is due to a re-profiling of planned vehicle purchases.
- 1.3 There is projected to be **(£207,000)** capital receipts received in 2020/21 compared to the Approved Budget of **(£116,000)**.
- 1.4 The funding of the Capital Programme in 2020/21 reflects the projected expenditure of **£7,956,000**.
- 1.5 The Balance Sheet projections indicate investment balances at the 31 March 2021 will be **£25,875,000** and these are **£9,106,000** higher than the Original Budget of **£16,769,000¹**. This is mainly due to the approval by Council to cancel the Investment in Property project meaning new internal borrowing will not be needed and this will therefore result in higher investment balances.
- 1.6 The Council was required to approve a new Investment Strategy Report for 2020/21 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.
- 1.7 The Council's treasury investments achieved a risk status of **AA-** (excluding the four 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.
- 1.8 The report confirms the Council was compliant with all Treasury Limits and Prudential Indicators for 2020/21.

2. Recommendations

- 2.1 To review the report and issues raised within.
- 2.2 To review the Prudential Indicators contained within the report.
- 2.3 To review and recommend to Council for approval the updated Treasury Management Practices shown at **APPENDIX D**.

¹ This figure includes the Financial Instruments Reserve figure of £68,000

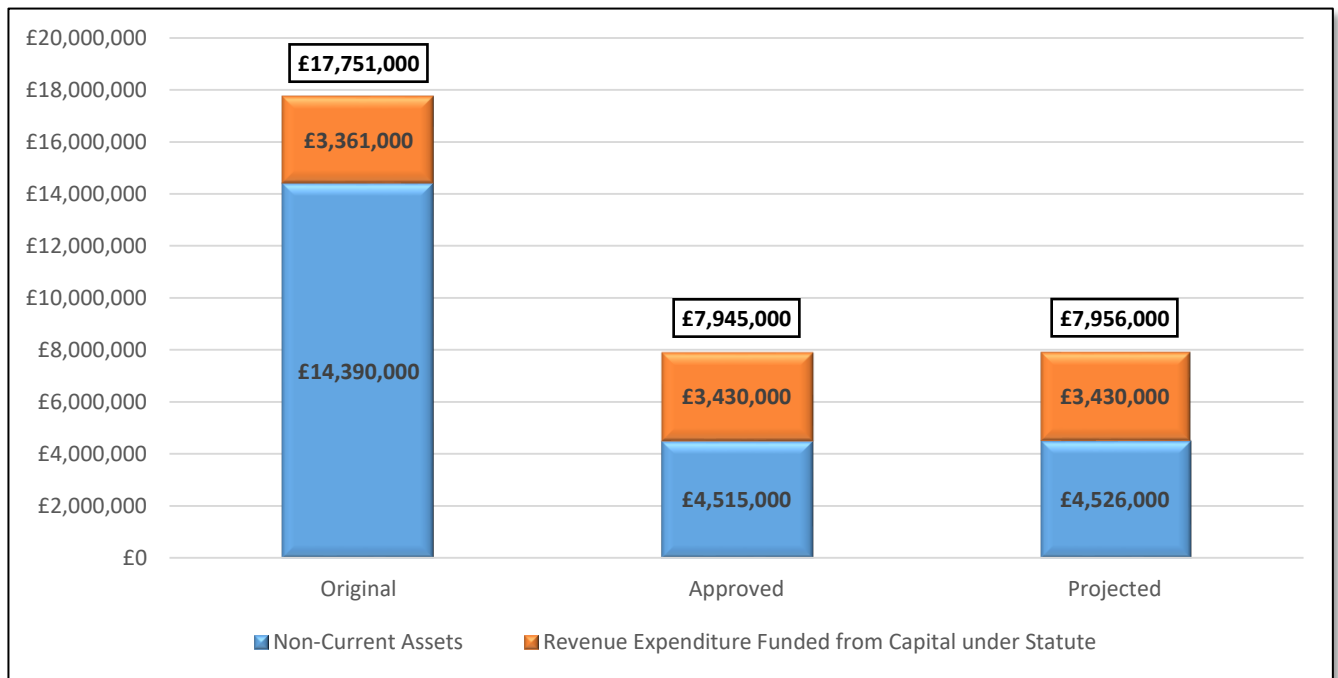
3. Background

The Capital Programme and Treasury Management

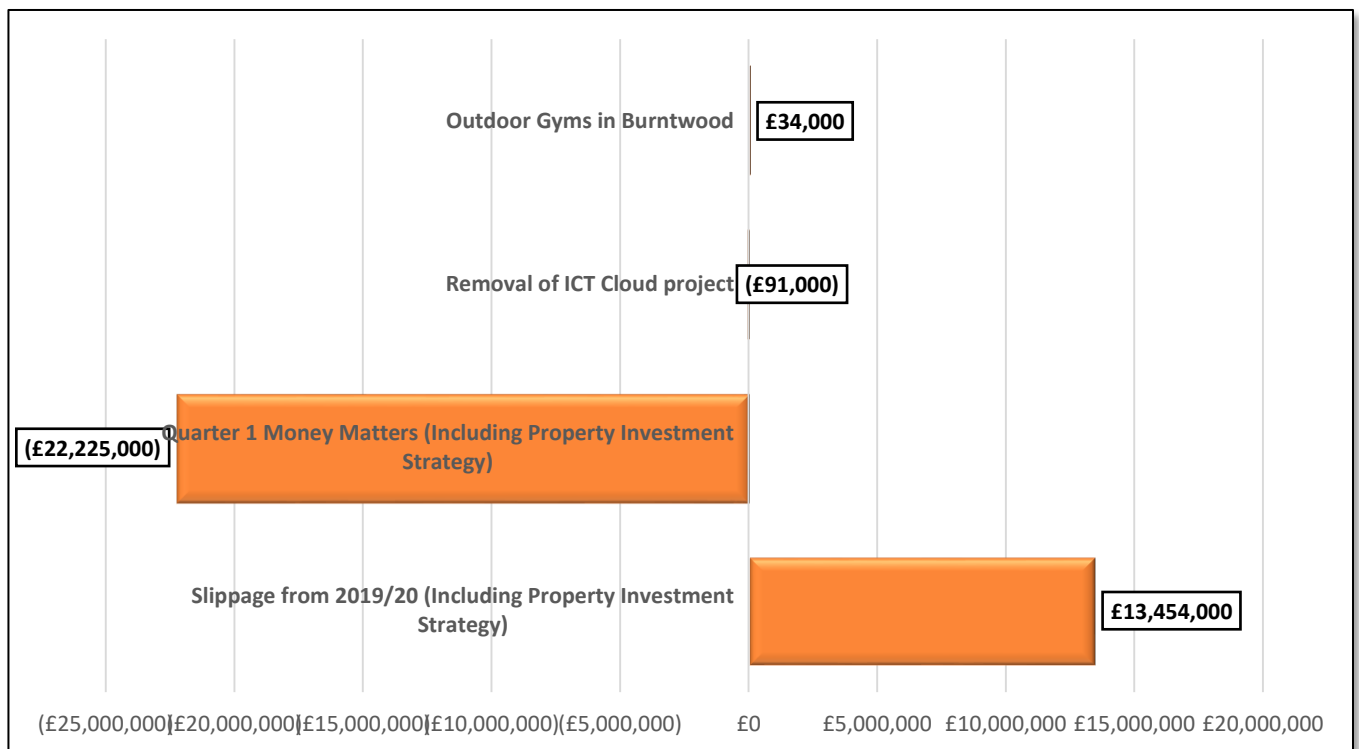
- 3.1. This Mid-Year Treasury Report is a requirement of the Council's reporting procedures. It covers the Treasury activity during 2020/21 and the projected Prudential Indicators for 2020/21.
- 3.2. Treasury Management is defined as: *"The management of the local authority's investments and cash flows, 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 2020/21;
 - 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).
- 3.30. 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. The Capital Programme

3.10. A summary of the Capital Programme performance showing the Original Budget, Approved Budget (taking account of decisions approved by Council on 13 October 2020 in relation to Investment in Property Budgets and the ICT Cloud) and the Projected Actual for 2020/21 is shown in detail at **APPENDIX A** and in the chart below:



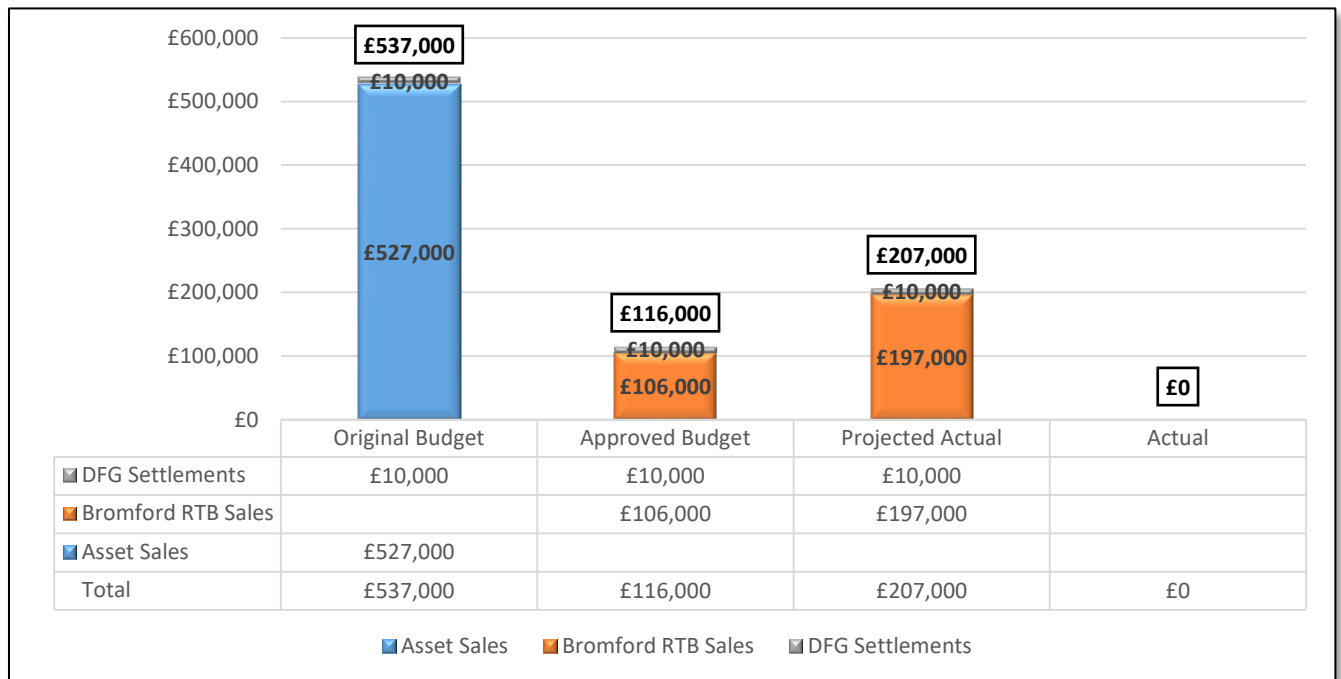
3.11. The reasons for the budgetary decrease mainly related to the Investment in Property project of **(£9,806,000)** from the Original Budget of **£17,751,000** to the Approved Budget of **£7,945,000** are shown below:



3.12. Capital expenditure is projected to be **£7,956,000** and this is **£11,000** higher than the Approved Revised Budget of **£7,945,000** and this projected variance is related to re-phasing of the plan for vehicle replacements.

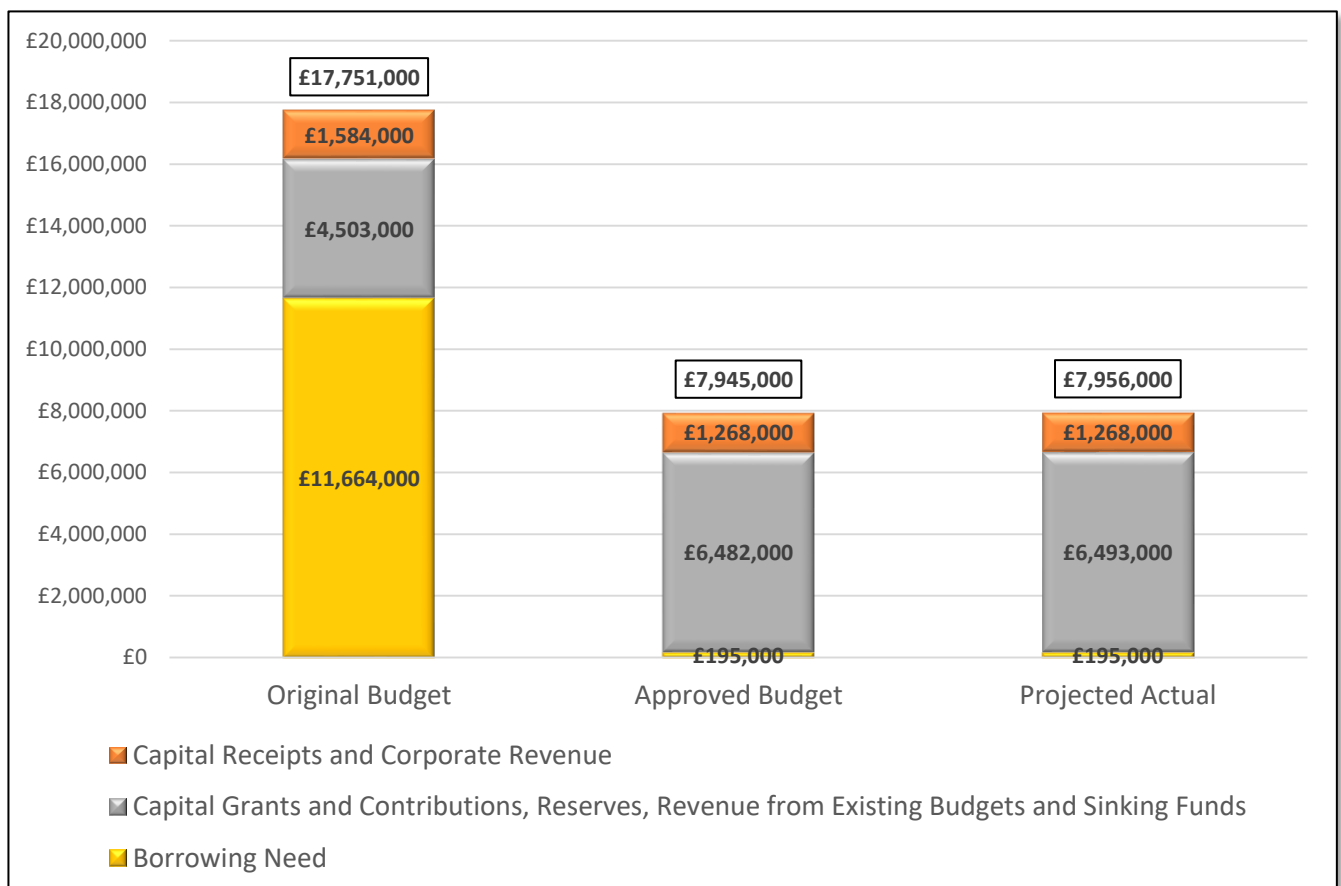
Capital Receipts

3.13. The Original Budget (asset sales relate to Land at Netherstowe and Leyfields), Approved Budget, and projected capital receipts received in the first six months are shown below:



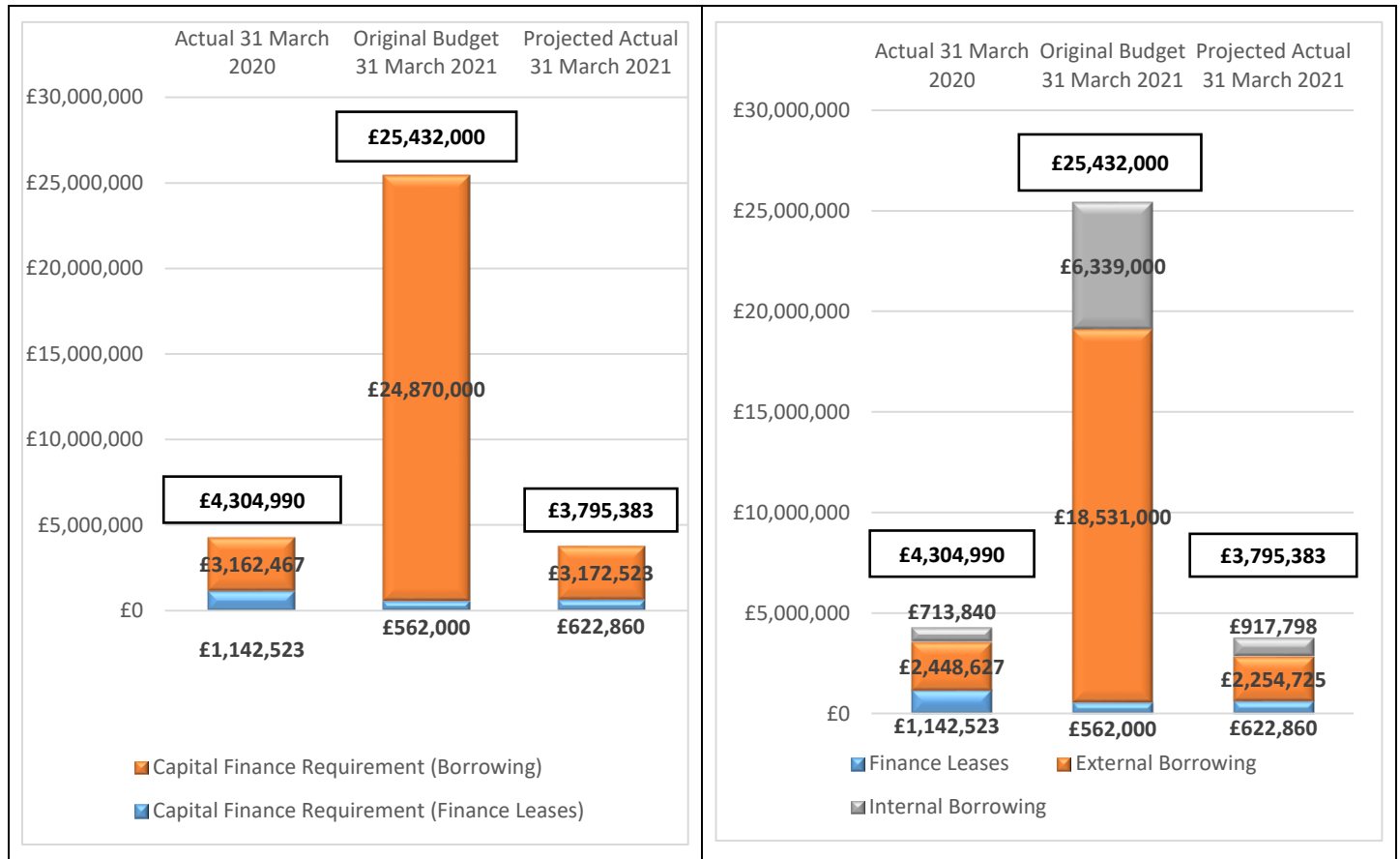
The Funding of the Capital Programme

3.14. The Original Budget, Approved Budget (the Approved Budget takes account of decisions approved by Council on 13 October 2020) and actual sources of funding for the Capital Programme are shown in detail at **APPENDIX A** and below:



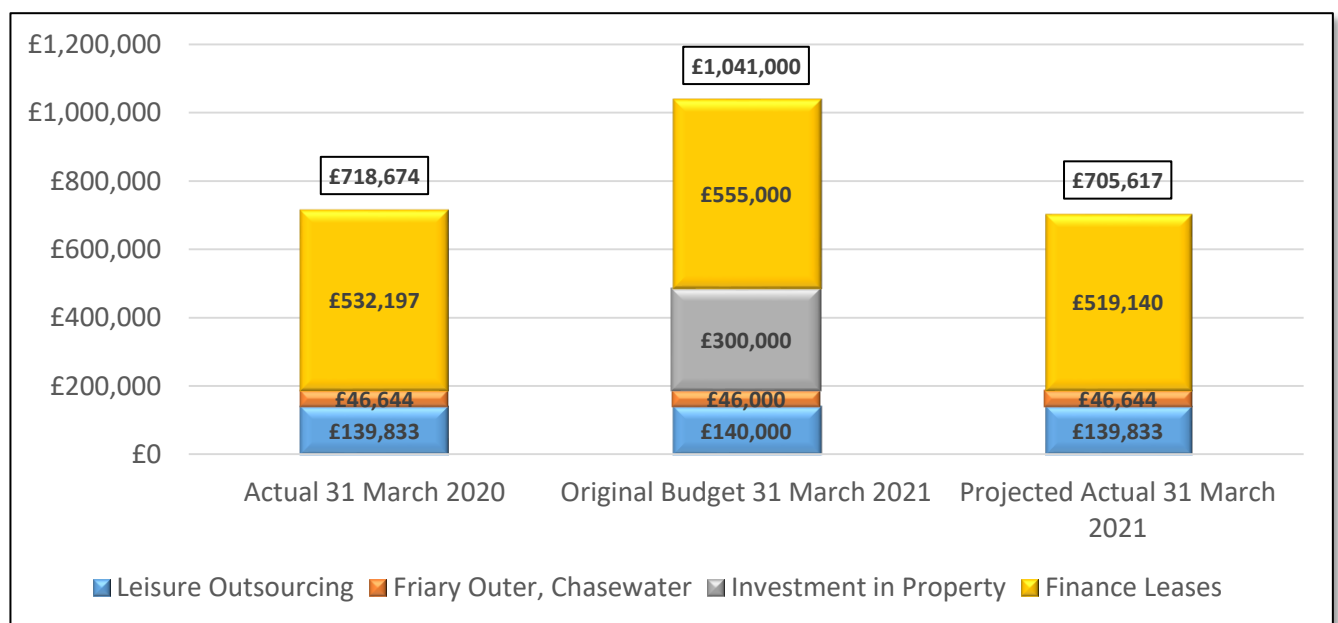
The Capital Financing Requirement (Borrowing Need) and its Financing

3.15. The actual for 2019/20, Original Budget and Projected Actual for 2020/21 of the Borrowing Need together with its financing (taking accounts of decisions approved by Council on 13 October 2020 related to the Investment in Property Project) is shown below:



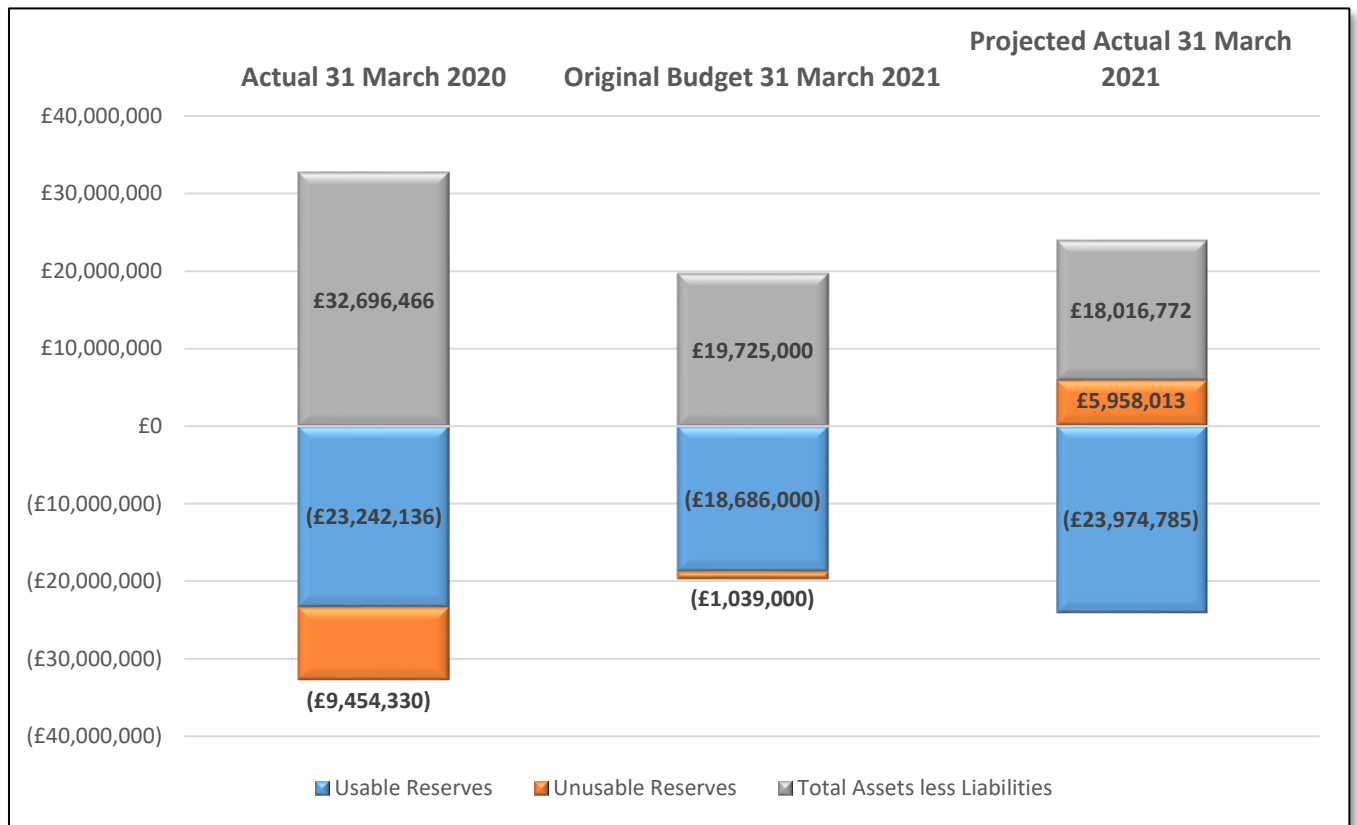
Minimum Revenue Provision in 2020/21

3.16. The Minimum Revenue Provision charged to revenue in 2019/20, the Original Budget for 2020/21 and the projected actual in 2020/21 (taking account of decisions approved by Council on 13 October 2020 related to the Investment in Property project) is shown below:



The Balance Sheet

3.17. The Balance Sheet Projections for 2020/21 compared to the Original Budget are shown in detail at **APPENDIX B** and in summary below:



3.18. The main reasons for the variances between the budgeted and projected Balance Sheet for 2020/21 are:

Total Assets Less Liabilities – lower than the budget by (£1,708,000) (9%)

- Higher investments of **£9,175,000** due to no internal borrowing as a result of the Investment in Property not proceeding.
- Reduction in Investment Property of **(£22,792,000)** and Borrowing of **£16,276,000** due to the Investment in Property capital project not proceeding.
- Working Capital increased by **(£4,052,000)**. This projection reflects the higher than budgeted level in 2019/20 plus a projected increase in debtors to reflect partner's share of the projected Collection fund deficit in 2020/21 due to COVID-19.

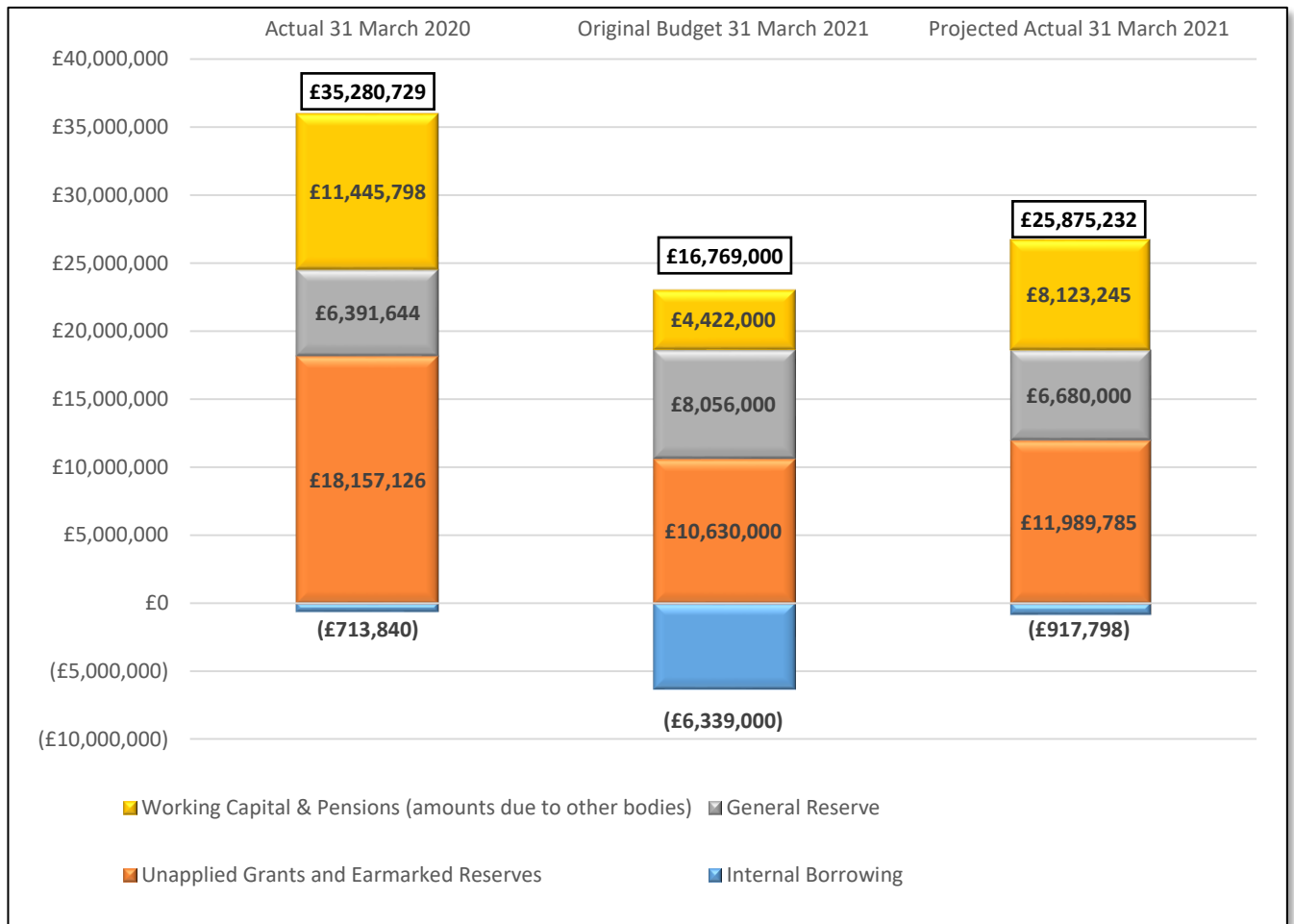
Usable Reserves – higher than budget by £5,289,000 (28%)

- A higher level of unapplied Capital Grants of **(£677,000)** due to higher Community Infrastructure Levy and lower capital spend.
- A higher level of capital receipts of **(£425,000)** due to higher Right to Buy sales and lower spend.
- A decrease in the General Fund Balance of **£1,376,000** this is due to the impact of COVID-19.
- An increase in the level of unrestricted earmarked reserves of **(£5,663,000)** due to an increase in the Business Rate Volatility reserve. This reflects the receipt in 2020/21 of additional grants from Government as compensation for COVID-19 Business Rate Reliefs that will be matched against the Collection Fund deficit in the next three years (see below).

Unusable Reserves – lower than budget by £6,997,000 (674%)

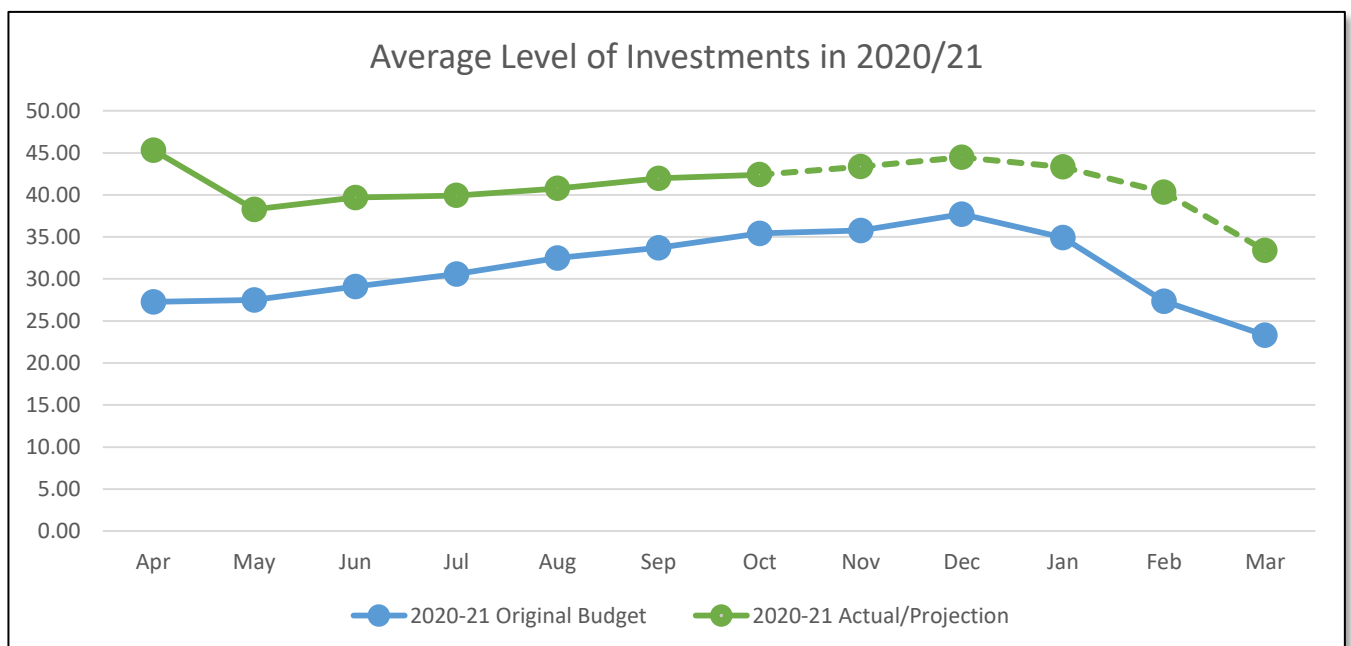
- An increase in the Council's share of the deficit in the Collection Fund reserve of **£5,305,000** due to the impact of COVID-19 that under regulation will impact on the Council's budget over the next three years.

3.19. The actual and Original Budget for investments (excluding financial instruments reserve) and Projected Actual (including financial instruments reserve) sources of cash are shown in the chart below:



Cash Flow Forecasts

3.20. The graph below compares the Original Budget for average investment levels in 2020/21 with the actual/projected levels. The significantly higher balance in April was due to the receipt of grants from the Government to support Business and local Communities.



3.21. Investment income and borrowing costs (taking account of decisions approved by Council on 13 October 2020 related to the Investment in Property project) are shown below:

Treasury Management	2020/21					
	Original Budget		Approved Budget		Projected	
	Investment Income	Borrowing	Investment Income	Borrowing	Investment Income	Borrowing
Average Balance	£31.27m	£10.10m	£38.00m	£2.35m	£41.09m	£2.35m
Average Rate	1.27%	2.68%	0.96%	2.17%	0.84%	2.17%

Gross Investment Income	(£397,000)		(£364,000)		(£346,000)	
Property Fund Transfer to Reserves	£45,000		£30,000		£22,000	
DIF Transfer to Reserves	£15,000		£20,000		£54,000	
External Interest		£273,000		£52,000		£52,000
Internal Interest		£4,000		£4,000		£4,000
Minimum Revenue Provision (less Finance Leases)		£486,000		£187,000		£187,000
Net Treasury Position	(£337,000)	£763,000	(£314,000)	£243,000	(£270,000)	£243,000
	£426,000		(£71,000)		(£27,000)	

Investment Strategy

3.22. 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.**

3.23. 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.

3.24. 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 **18 February 2020.**

Service Investments

3.25. There is one approved investment of a service nature and the investment and net return included in the Approved Budget is detailed below:

	Approved Budget				
	2020/21	2021/22	2022/23	2023/24	2024/25
Approved Loan to the Local Authority Company	£675,000	£675,000	£675,000	£675,000	£675,000
Net Income	£0	£4,000	£18,000	£22,000	£22,000
Net Return	0.00%	0.59%	2.67%	3.26%	3.26%
Total Investment	£675,000	£675,000	£675,000	£675,000	£675,000
Total Net Income	£0	£4,000	£18,000	£22,000	£22,000
Net Return	0.00%	0.59%	2.67%	3.26%	3.26%

3.26. To date, the loan to the Local Authority Company has not taken place and therefore the budgeted interest is not being generated.

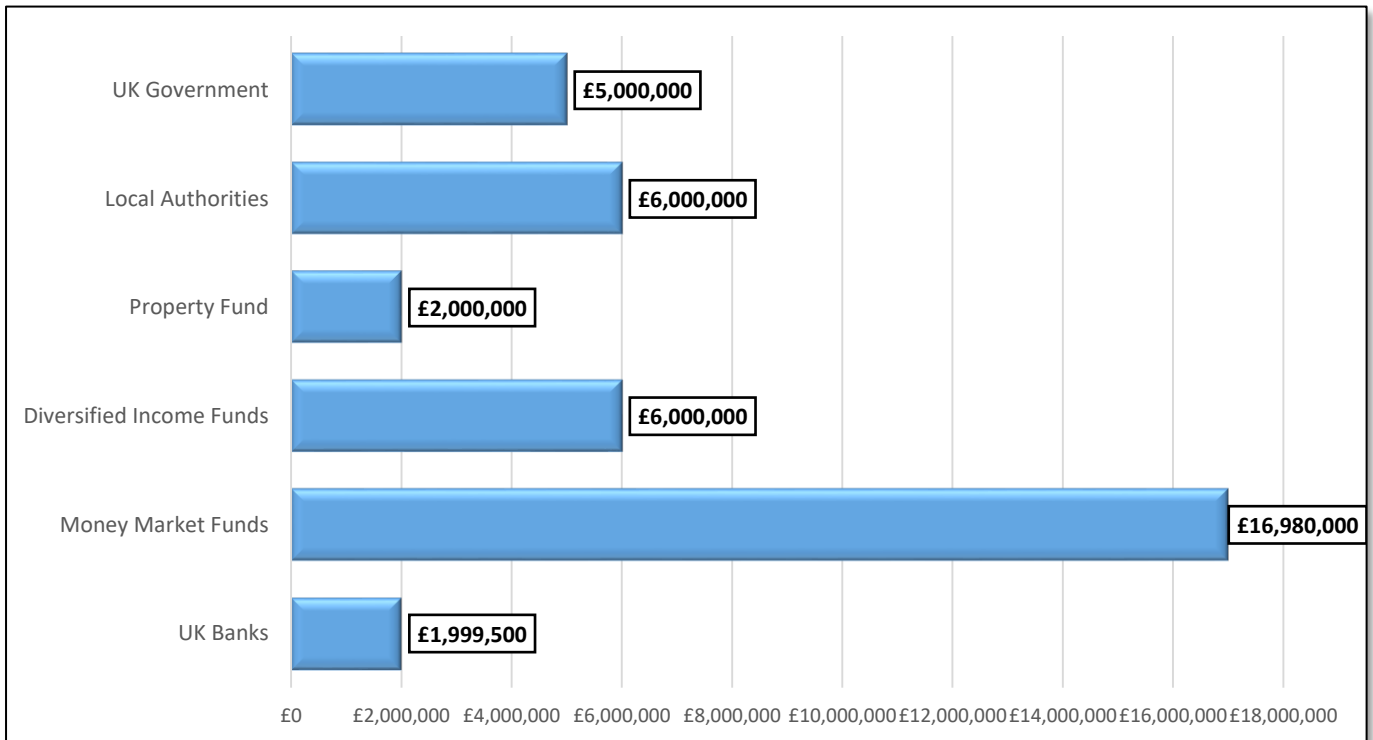
Commercial Investments

3.27. Council on 13 October 2020 approved the removal of all budgets related to Investment in Property and therefore currently there are no commercial investments planned.

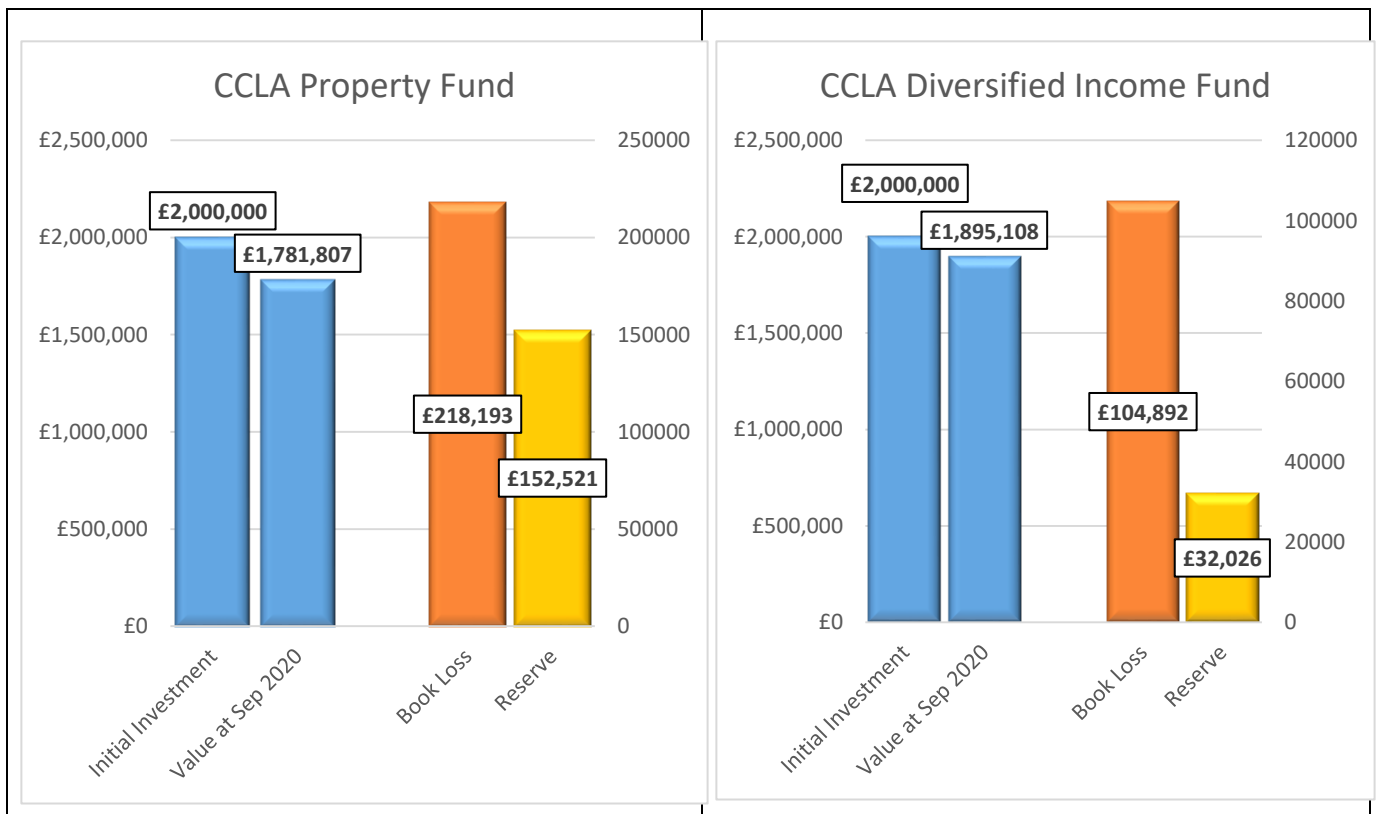
Treasury Management Investments

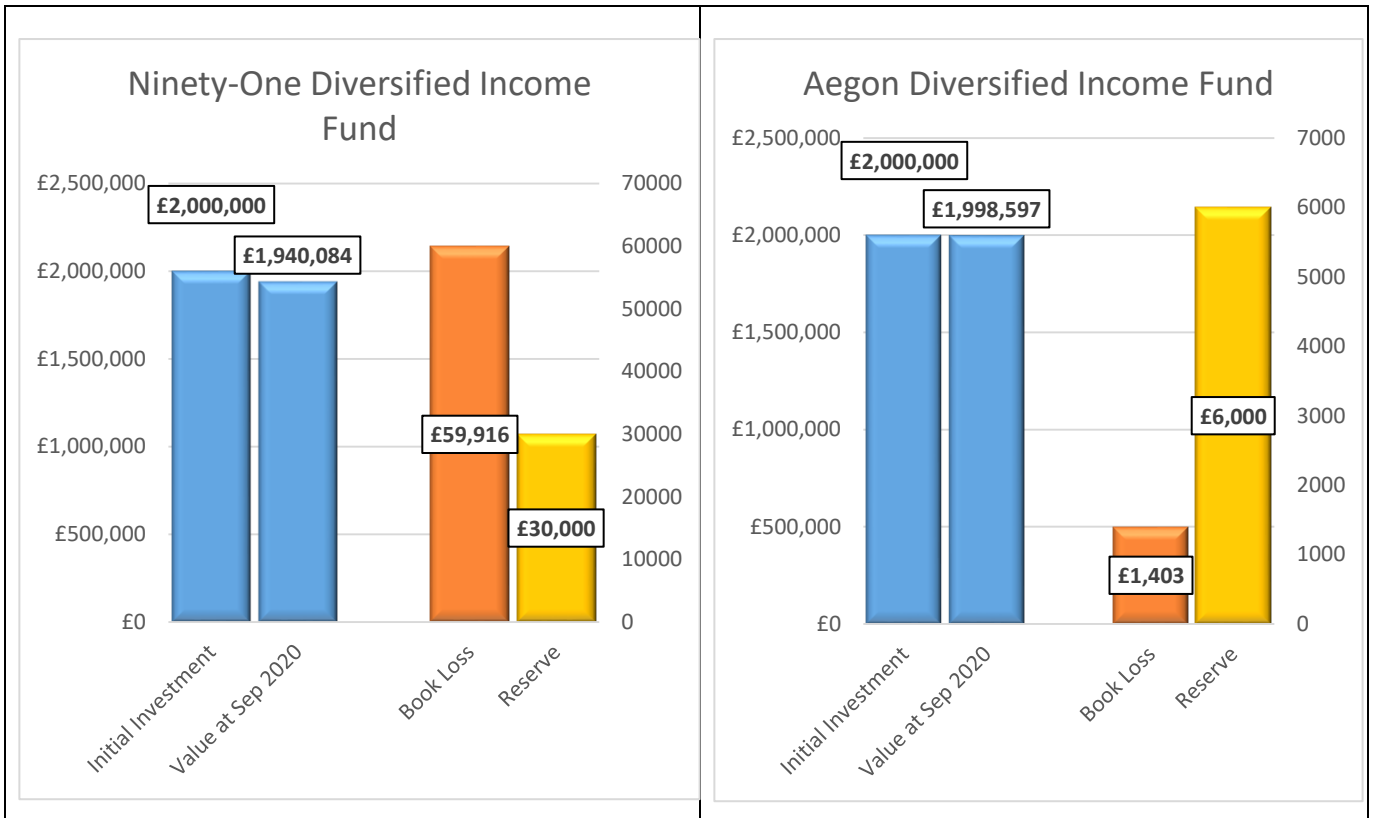
The Security of Our Investments

3.28. The investments the Council had at the 30 September 2020 of £37.98m (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**:

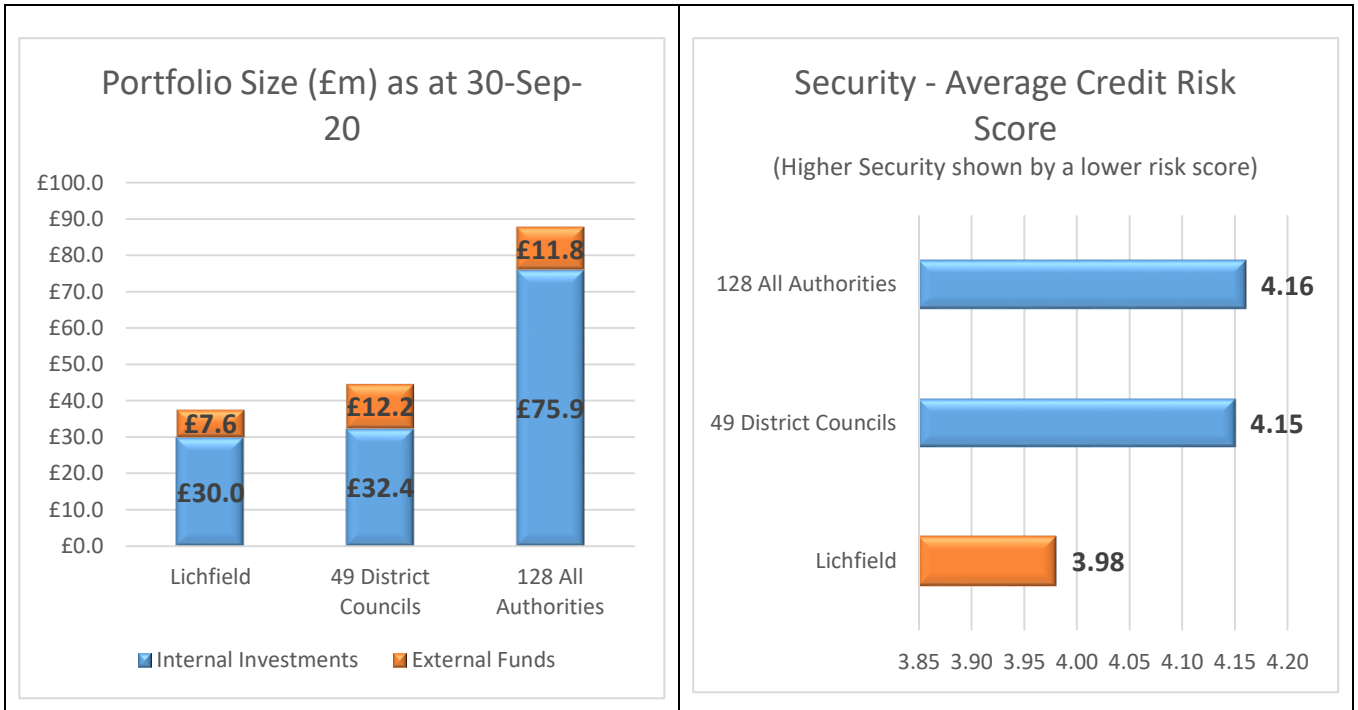


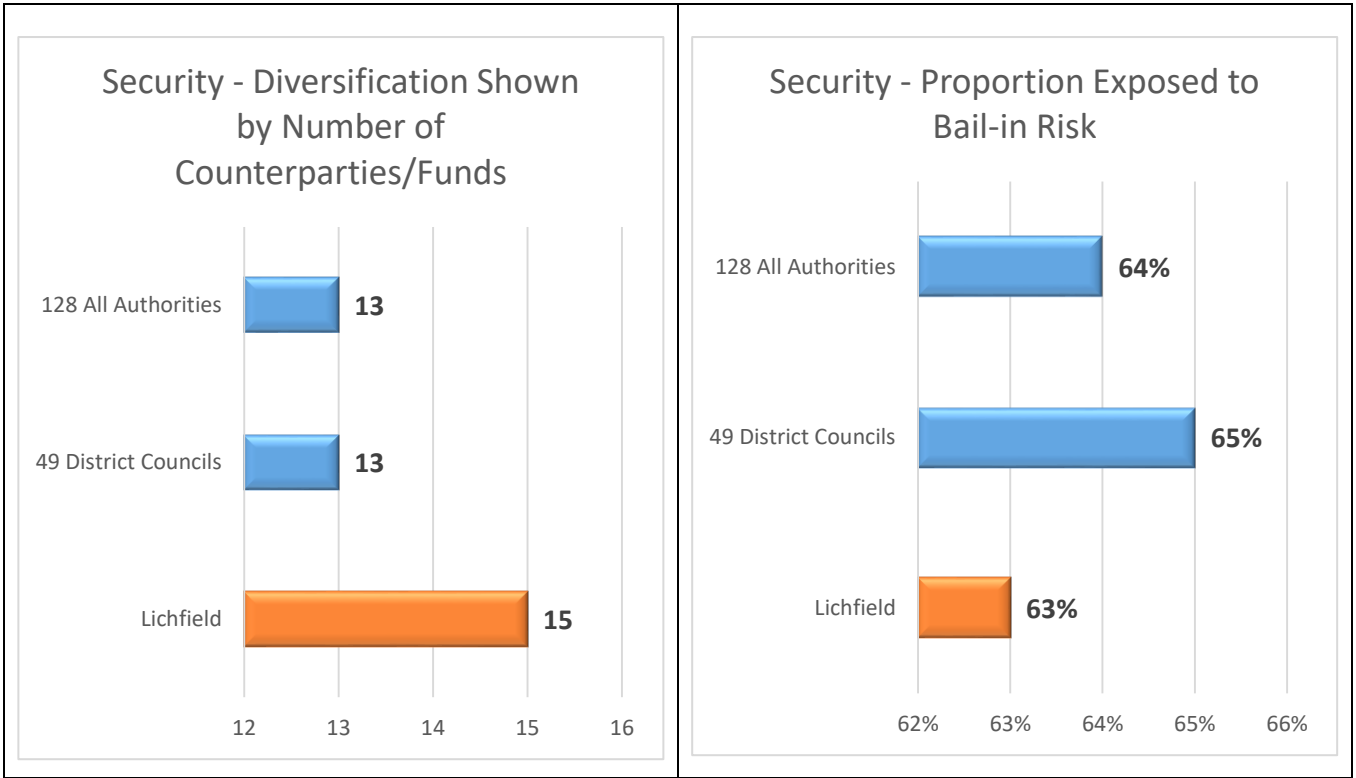
3.29. The current values of the Property Fund and the Diversified Income Fund together with the value of the projected earmarked reserve at the end of 2020/21 intended to offset reductions in value is shown below:



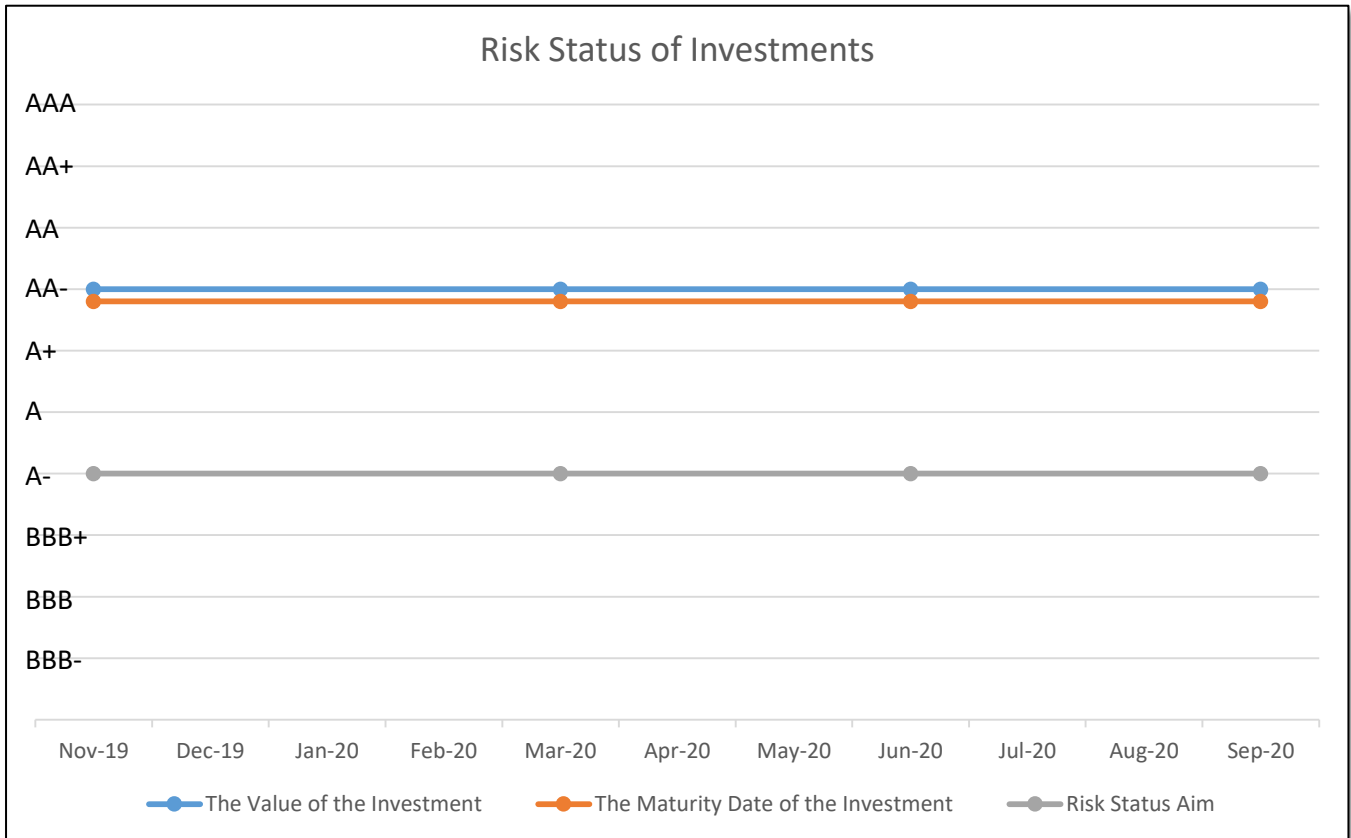


3.31. A comparison of the Council's portfolio size of **£37.6m** (with the Property and Diversified Income funds valued at their current value of **£7.6m**), average credit score, level of diversification and level of exposure to 'Bail in' risk compared to all Arlingclose Clients is shown in the charts below:



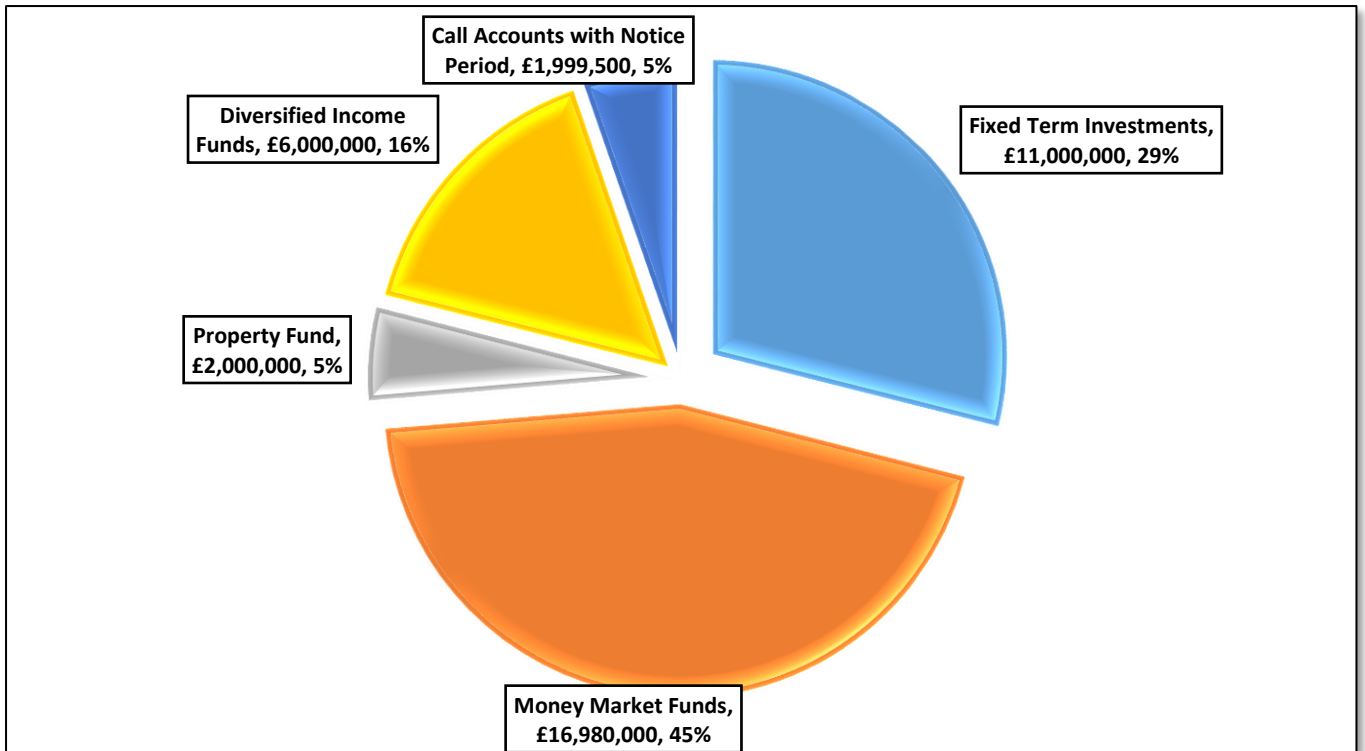


3.32. Our aim for the risk status of our investments was **A-**. The risk status based on the length of the investment and the value for a 12 month period is summarised below:

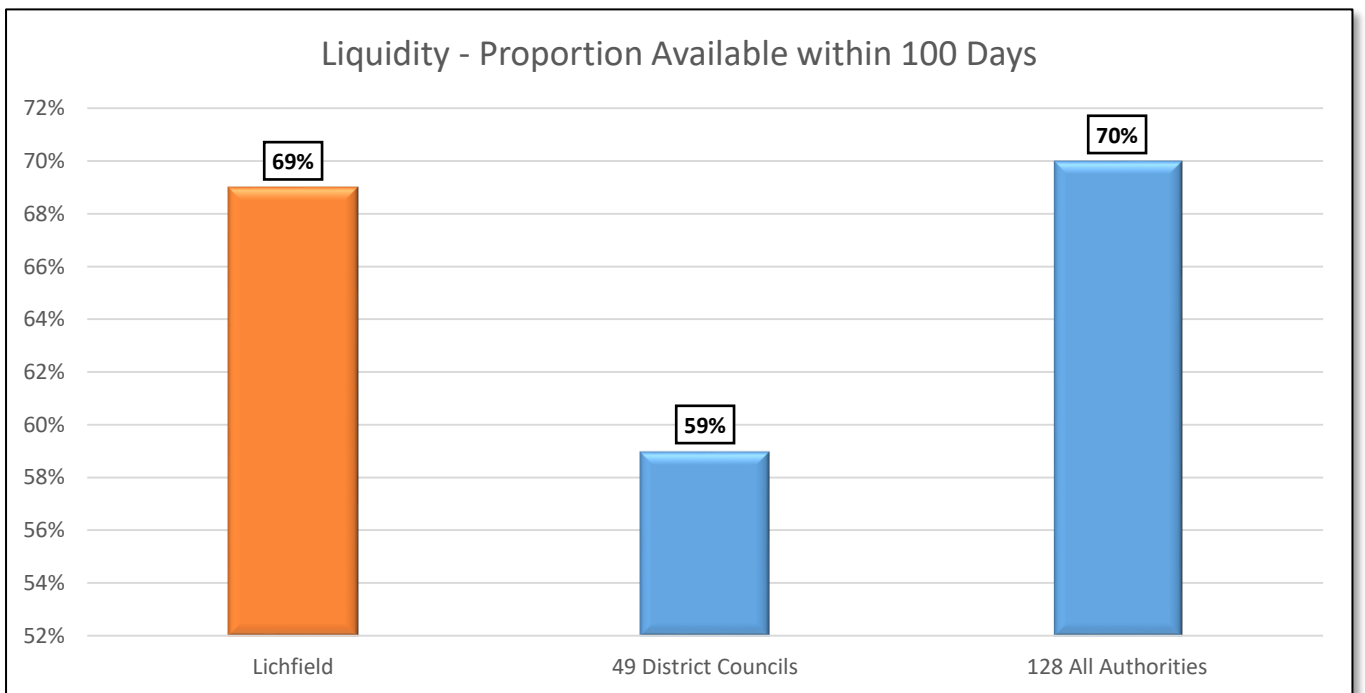


The Liquidity of our Investments

3.33. The Council has had to temporarily borrow during 2020/21 for a few days 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:

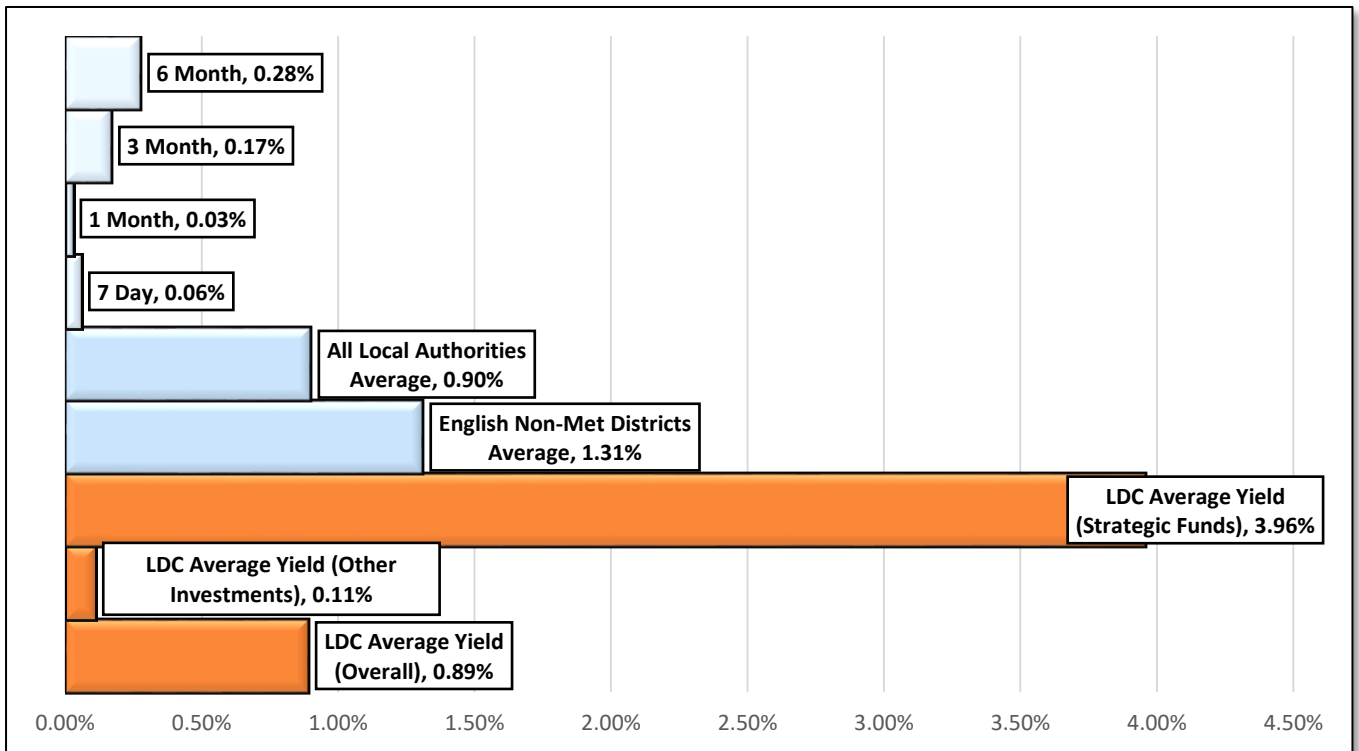


3.34. The proportion of the investment portfolio available within 100 days compared to all Arlingclose clients is shown below:



The Return or Yield of our Investments

3.35. 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

3.36. The Council currently has two external loans with the Public Works Loans Board with **£2,352,272** outstanding and these are shown in detail at **APPENDIX C**.

Treasury Management Practices

3.37. The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that Councils adopt all of Treasury Management Practices (TMPs) of the Treasury Management Code.

3.38. This Council formally adopted the TMPs in its meeting on 25 February 2003. These have been regularly updated either through approval by Council where major updates have been necessary or through delegation where minor administrative updates such as job titles have needed to be updated.

3.39. Internal Audit as part of a Treasury Management Audit recommended that these important guiding TMPs (**APPENDIX D**) be reviewed by the Committee prior to seeking the approval by Full Council.

Alternative Options	There are no alternative options.
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Financial Implications

Projected Prudential indicators (PI) 2020/21:

- We can confirm that the Council is compliant with its Prudential Indicators for 2020/21; these were originally approved by Council at its meeting on 11 February 2020 and will be fully revised and approved by Council on 16 February 2021.
- 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 2020/21.
- None of the other Prudential Indicators have been breached. The Prudential Indicators are summarised in the table below :

Capital Strategy Indicators				
Prudential Indicators				
Indicators	2019/20 Actual	2020/21 Original	2020/21 Approved	2020/21 Projected
Capital Investment				
Capital Expenditure (£m)	£2.297	£17.751	£7.945	£7.956
Capital Financing Requirement (£m)	£4.305	£25.432	£3.795	£3.795
Gross Debt and the Capital Financing Requirement				
Gross Debt	(£3.592) ²	(£19.091)	(£2.878)	(£2.878)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No
Total Debt				
Authorised Limit (£m)	£4.315	£31.906	£31.906	£15.404
Operational Boundary (£m)	£4.315	£23.088	£23.088	£6.812
Proportion of Financing Costs to Net Revenue Stream (%)	4%	10%	5%	5%

Local Indicators				
Indicators	2019/20 Actual	2020/21 Original	2020/21 Approved	2020/21 Projected
Replacement of Debt Finance or MRP (£m)	(£0.719)	(£1.041)	(£0.705)	(£0.705)
Capital Receipts (£m)	(£1.005)	(£0.537)	(£0.116)	(£0.207)
Liability Benchmark (£m)	£22.652	(£11.249)	(£13.540)	£13.620
Treasury Management Investments (£m)	£34.550	£16.769	£25.795	£25.875 ³

Treasury Management Indicators				
Prudential Indicators				
	2019/20 Actual	Lower Limit	Upper Limit	2020/21 Projected
Refinancing Rate Risk Indicator				
Under 12 months	7%	0%	100%	9%
12 months and within 24 months	7%	0%	100%	9%
24 months and within 5 years	25%	0%	100%	27%
5 years and within 10 years	33%	0%	100%	30%
10 years and within 20 years	25%	0%	100%	26%
20 years and within 30 years	1%	0%	100%	0%
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	2019/20 Actual	2020/21 Original	2020/21 Approved	2020/21 Projected
Principal Sums invested for periods longer than a year (£m)	£6.000	£10.000	£10.000	£10.000

² The figure reported in the Annual Treasury Management Report 2019/20 of (£3.041m) excluded the short term element of finance leases of (£0.551m) this amount was presentational and did not impact compliance with the approved Prudential Indicator.

³ This in year figure excludes the Financial Instruments Reserve.

Local Indicators				
Indicators	2019/20 Actual	2020/21 Original	2020/21 Approved	2020/21 Projected
		£m	£m	£m
Balance Sheet Summary and Forecast				
Borrowing Capital Financing Requirement	£3.162	£24.871	£3.173	£3.173
Internal (over) Borrowing	£0.714	£6.340	£0.918	£0.918
Investments (or New Borrowing)	(£34.550)	(£16.093)	(£25,795)	(£25.875) ⁴
Liability Benchmark	(£22.652)	£11.249	(£13,540)	(£13.620)
	2019/20 Actual	2020/21 Target	2020/21 Actual	
Security				
Portfolio average credit rating	AA-	A-	AA-	
Liquidity				
Temporary Borrowing undertaken	£0.000	£0.000	£3.000	
Total Cash Available within 100 days (maximum)	68%	90%	69%	

Contribution to the Delivery of the Strategic Plan	The MTFS underpins the delivery of the Strategic Plan.
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Equality, Diversity and Human Rights Implications	There are no additional Equality, Diversity or Human Rights implications.
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Crime & Safety Issues	There are no additional Crime and Safety Issues.
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Environmental Impact	There are no additional Environmental Impacts.
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GDPR/Privacy Impact Assessment	There are no GDPR/Privacy Impact Assessment Issues.
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	Risk Description	How We Manage It	Severity of Risk
Strategic Risk SR1 - Non achievement of the Council's key priorities contained in the Strategic Plan due to the availability of finance.			
A	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.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
B	The review of the New Homes Bonus regime	Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2021/22 £500,000 is included and this is then being reduced by £100,000 per annum.	Likelihood : Red Impact : Yellow Severity of Risk : Yellow
C	The increased Localisation of Business Rates and the Fair Funding Review in 2022/2023	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Likelihood : Red Impact : Red Severity of Risk : Red
D	The affordability and risk associated with the Capital Strategy	An estates management team has been recruited to provide professional expertise and advice in relation to investment in property and to continue to take a prudent approach to budgeting.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape.			
E	The financial impact of COVID-19 is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114 notice	The use of general and earmarked reserves to fund any shortfall	Likelihood : Green Impact : Red Severity of Risk : Yellow

⁴ This in year figure excludes the Financial Instruments Reserve.

	Risk Description	How We Manage It	Severity of Risk
F	The Council cannot achieve its approved Delivery Plan for 2020/21	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the impact of the pandemic.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
G	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	The MTFS will be updated through the normal review and approval process	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
H	Government and Regulatory Bodies introduce significant changes to the operating environment	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour	Likelihood : Green Impact : Yellow Severity of Risk : Yellow

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) 2019-24 – Cabinet 11 February 2020.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2019-24 – Council 18 February 2020.
- Money Matters: 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 2 June 2020.
- The Medium Term Financial Strategy and the projected financial impact of the COVID-19 Pandemic – Cabinet 7 July 2020.
- Money Matters: 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 8 September 2020.
- Medium Term Financial Strategy 2020-25 – Cabinet 6 October 2020.

Relevant web links

Capital Programme 2020/21

Project	Original Budget	Approved Budget	Actual to Date	Projected Actual	Variance
New Build Parish Office/Community Hub	92,000	92,000	0	92,000	0
Armitage with Handsacre Village Hall storage	6,000	6,000	0	6,000	0
Armitage War Memorial and surrounding area	120,000	120,000	0	120,000	0
Canopy and installation of artificial grass at Armitage	0	3,000	0	3,000	0
Burntwood LC CHP Unit	0	223,000	145,886	223,000	0
King Edwards VI School	0	101,000	0	101,000	0
Friary Grange - Short Term Refurbishment	521,000	640,000	34,706	640,000	0
Replacement Leisure Centre	164,000	195,000	31,000	195,000	0
St. Stephen's School, Fradley	0	22,000	0	22,000	0
Gym Equipment at Burntwood Parks	0	34,000	34,000	34,000	0
Accessible Homes (Disabled Facilities Grants)	1,698,000	1,100,000	368,591	1,100,000	0
Home Repair Assistance Grants	15,000	36,000	3,365	36,000	0
Decent Homes Standard	172,000	172,000	0	172,000	0
Energy Insulation Programme	10,000	48,000	0	48,000	0
DCLG Monies	212,000	212,000	0	212,000	0
Affordable Housing Monies	414,000	684,000	75,000	684,000	0
Enabling People Total	3,424,000	3,688,000	692,548	3,688,000	0
Darnford Park	13,000	13,000	0	13,000	0
Canal Towpath Improvements (Brereton & Ravenhill)	0	36,000	0	36,000	0
Loan to Council Dev Co.	675,000	675,000	0	675,000	0
Lichfield St Johns Community Link	35,000	35,000	0	35,000	0
Staffordshire Countryside Explorer	44,000	44,000	0	44,000	0
Equity in Council Dev Co.	0	225,000	225,000	225,000	0
Bin Purchase	150,000	150,000	0	150,000	0
Vehicle Replacement Programme (Waste)	0	0	0	22,000	22,000
Vehicle Replacement Programme (Other)	56,000	44,000	0	43,000	(1,000)
Upper St John St & Birmingham Road	0	7,000	0	7,000	0
Stowe Pool Improvements	50,000	50,000	56,820	50,000	0
The Leomansley Area Improvement Project	0	3,000	0	3,000	0
Cannock Chase SAC	22,000	51,000	31,237	51,000	0
Shaping Place Total	1,045,000	1,333,000	313,057	1,354,000	21,000
Multi Storey Car Park Refurbishment Project	0	300,000	0	300,000	0
Coach Park	625,000	1,475,000	(6,178)	1,475,000	0
Birmingham Road Site - Short Term Redevelopment	0	222,000	170,203	222,000	0
Vehicle Replacement Programme (Car Parks)	0	10,000	0	0	(10,000)
Car Parks Variable Message Signing	0	32,000	0	32,000	0
Old Mining College - Refurbish access and signs	0	13,000	0	13,000	0
St. Chads Sculpture (Lichfield City Art Fund)	0	5,000	0	5,000	0
Developing Prosperity Total	625,000	2,057,000	164,025	2,047,000	(10,000)
Property Investment	11,500,000	0	0	0	0
Property Planned Maintenance	125,000	229,000	3,701	229,000	0
New Financial Information System	250,000	150,000	0	150,000	0
Depot Sinking Fund	11,000	0	0	0	0
IT Infrastructure	55,000	154,000	14,538	154,000	0
IT Cloud	100,000	0	0	0	0
ICT Hardware	202,000	4,000	0	4,000	0
IT Innovation	250,000	280,000	42,248	280,000	0
District Council House Repair Programme	164,000	50,000	0	50,000	0
Good Council Total	12,657,000	867,000	60,487	867,000	0
Approved Budget	17,751,000	7,945,000	1,230,117	7,956,000	11,000
Capital Receipts	1,402,000	1,086,000		1,086,000	0
Corporate Revenue	182,000	182,000		182,000	0
Borrowing Need - Borrowing and Finance Leases	11,664,000	195,000		195,000	0
Capital Grants and Contributions	3,287,000	3,491,000		3,609,000	118,000
Reserves, Existing Revenue Budgets and Sinking Funds	1,216,000	2,991,000		2,884,000	(107,000)
Capital Programme Total	17,751,000	7,945,000		7,956,000	11,000

Balance Sheet Projections

	2019/20 Actual £000s	2020/21 Original £000s	2020/21 Projected £000s	2020/21 Variance £000s
Non-Current Assets	46,000	72,087	47,841	(24,246)
Equity Investment in Local Authority Company	0	225	225	0
Long Term Debtors	141	288	141	(147)
Long Term Debtors (Company Loan)	0	675	675	0
Investments	34,737	16,701	25,875	9,175
Borrowing	(2,449)	(18,531)	(2,255)	16,276
Finance Leases	(1,143)	(561)	(623)	(62)
Working Capital	(11,872)	(7,212)	(11,263)	(4,052)
Pensions	(32,718)	(43,948)	(42,600)	1,348
TOTAL ASSETS LESS LIABILITIES	32,696	19,725	18,017	(1,708)
<u>Unusable Reserves</u>				
Revaluation Reserve	(9,425)	(9,419)	(9,425)	(6)
Capital Adjustment Account	(32,269)	(38,137)	(35,521)	2,617
Deferred Credits	(47)	(47)	(47)	0
Pension Scheme	32,718	46,278	44,930	(1,348)
Benefits Payable During Employment Adjustment Account	332	219	332	113
Collection Fund	(1,307)	0	5,305	5,305
Financial Instruments Reserve	544	68	384	316
<u>Usable Reserves</u>				
Unapplied Grants and Contributions	(2,938)	(994)	(1,578)	(584)
Usable Capital Receipts	(2,673)	(1,394)	(1,794)	(400)
Sinking Funds	(248)	(25)	(25)	0
<u>Earmarked Reserves - Unrestricted</u>				
Leisure VAT Claim	(897)	(302)	(355)	(53)
Business Rates Volatility Reserve	(1,429)	(1,531)	(7,114)	(5,583)
Birmingham Road Site	(568)	(239)	(374)	(135)
Business Rates Pilot	(585)	0	(28)	(28)
Other	(3,316)	(2,254)	(2,211)	43
<u>Earmarked Reserves - Restricted</u>				
Three Spires Multi Storey	(2,386)	(2,281)	(2,166)	115
Other Earmarked Reserves - Restricted	(1,811)	(1,610)	(1,650)	(40)
General Fund Balance	(6,392)	(8,056)	(6,680)	1,376
TOTAL EQUITY	(32,696)	(19,725)	(18,017)	1,708
Capital Funding	(32,269)	(38,137)	(35,521)	2,617
Revaluation Reserve	(9,425)	(9,419)	(9,425)	(6)
Borrowing and Leasing	(3,591)	(19,091)	(2,878)	16,214
Non-Current Assets	46,000	72,312	48,066	(24,246)
Investments	34,737	16,769	25,875	9,106
Unapplied Grants & Earmarked Reserves	(16,850)	(10,630)	(17,295)	(6,665)
General Reserve	(6,392)	(8,056)	(6,680)	1,376
Long Term Debtors	141	288	141	(147)
Long Term Debtors (Company Loan)	0	675	675	0
Working Capital & Pensions	(12,350)	(4,710)	(2,958)	1,752
Balance Sheet Summary Total	0	0	0	0
Internal Borrowing	715	6,339	918	(5,422)
Capital Financing Requirement (Borrowing)	3,163	24,645	3,173	(21,472)
Working Capital, Pensions and Long Term Debtors	(12,572)	(4,710)	(2,817)	1,893
Usable Reserves	(23,242)	(18,686)	(23,975)	(5,289)
Minimum Level of Investments	10,000	10,000	10,000	0
Liability Benchmark	(22,652)	11,249	(13,620)	(24,869)

Investments in the 2020/21 Financial Year

The table below shows a breakdown of our investments at the 30 September 2020:

Counterparty	Principal	Matures	Days to Maturity	Rate	Credit Rating	Non-UK Organisation
Money Market Funds						
Invesco Aim	£4,000,000	01-Oct-20	Instant Access	0.04%	0	N/A
Blackrock Institutional	£3,740,000	01-Oct-20	Instant Access	0.01%	0	N/A
Legal & General	£4,000,000	01-Oct-20	Instant Access	0.05%	0	N/A
Federated	£1,240,000	01-Oct-20	Instant Access	0.01%	0	N/A
Aberdeen	£4,000,000	01-Oct-20	Instant Access	0.09%	0	N/A
Strategic Funds						
CCLA Property Fund	£2,000,000	N/A	N/A	3.63%	N/A	No
Ninety-One Diversified Income Fund	£2,000,000	N/A	N/A	3.89%	N/A	No
CCLA Diversified Income Fund	£2,000,000	N/A	N/A	3.26%	N/A	No
Kames Diversified Income Fund	£2,000,000	N/A	N/A	2.57%	N/A	No
Fixed Term Investments						
Surrey Heath Borough Council	£2,000,000	15-Dec-20	76	0.80%	LOCAL	No
Monmouthshire Council	£2,000,000	28-Jun-21	271	0.25%	LOCAL	No
Debt Management Office	£5,000,000	19-Oct-20	19	0.01%	UK Government	No
Conwy County Borough Council	£2,000,000	30-Jun-21	273	0.15%	LOCAL	No
Call Accounts with Notice Period						
Lloyds	£1,000,000	03-Jan-21	95	0.10%	A+	No
HSBC	£999,500	31-Oct-20	31	0.20%	A+	No
Total Investments	£37,979,500					

External Borrowing

The Council currently has two external loans:

	Principal	Average Rate	Years to Final Maturity	(Premium) /Discount
PWLB Fixed Equal Instalment of Principal (EIP)	£1,217,600	2.59%	19.5	(£278,650)
PWLB Fixed Annuity	£1,134,672	1.71%	7.7	(£84,922)
TOTAL PWLB	£2,352,272	2.17%	13.8	(£363,572)
Lender Option Borrower Option (LOBO) Loans	£0	-	-	£0
Other Loans	£0	-	-	£0
TOTAL BORROWING	£2,352,272	2.17%	13.8	(£363,572)

Treasury Management Practices

TMP 1: RISK MANAGEMENT

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The Head of Finance & Procurement will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

- 1) **Credit and Counterparty Risk Management:** Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

Principle: The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques, and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

- 2) **Liquidity Risk Management:** Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

Principle : The Head of Finance & Procurement will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme.

- 3) **Interest Rate Risk Management:** Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

Principle: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

- 4) **Exchange Rate Risk Management:** The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

Principle: The Council will manage its exposure to fluctuations in exchange rates so as to minimize any detrimental impact on its budgeted income/expenditure levels.

- 5) **Inflation Risk Management:** The chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation

Principle: The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

- 6) **Refinancing Risk Management:** The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

- 7) **Legal and Regulatory Risk Management:** The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

Principle: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

- 8) **Fraud, Error and Corruption, and Contingency Management:** This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

Principle: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

- 9) **Price Risk Management:** This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2: PERFORMANCE MEASUREMENT

Principle: The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

CIPFA supports the use of risk benchmarks in measuring treasury management performance.

TMP 3: DECISION-MAKING AND ANALYSIS

Principle: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time.

The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of investment decisions, the Council should consider the risks to capital and returns and the implications for the Council's future plans and budgets.

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1 Risk Management**.

The consideration of skills and experience is particularly critical where organisations request to be treated as professional clients under MIFID II. Designation under MIFID II should be endorsed by the treasury management strategy and regularly reviewed to ensure that designation remains appropriate.

TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

Principle : The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the

recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance & Procurement will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Financial Analyst will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Financial Analyst will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Financial Analyst will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the Head of Finance & Procurement in respect of treasury management are set out in the schedule below. The Head of Finance & Procurement will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Cabinet will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Cabinet will receive regular monitoring reports on treasury management activities and risks.

The Audit & Member Standards Committee will have responsibility for the scrutiny of treasury management policies and practices.

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle : The Head of Finance & Procurement will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques**. The form which the Council's budget will take is set out in the schedule below.

The Head of Finance & Procurement will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements**.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out below.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP 8: CASH AND CASH FLOW MANAGEMENT

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Head of Finance & Procurement, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Financial Analyst will ensure that these are adequate for the purposes of monitoring compliance with **TMP1 [2] liquidity risk management**.

TMP 9: MONEY LAUNDERING

Principle : The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP 10: TRAINING AND QUALIFICATIONS

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Financial Analyst will recommend and implement the necessary arrangements.

The Head of Finance & Procurement will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over

reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

TMP 12: CORPORATE GOVERNANCE

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice. This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance & Procurement will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TMP 13 - INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all its investments are covered in the Capital Strategy, investment strategy or equivalent, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It is recognised that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investment, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The Council recognises that many of the principles underlying TMPs 1 to 12 will apply to non-treasury investments as they do to treasury investments. However, some aspects are likely to differ significantly. A published schedule has been agreed by full council that sets out the investment practices for non-treasury investments and this will be complied with by all officers or agencies responsible for such investments.