	Policy and Resources Committee **23 October 2018**
Title	**Treasury Management – Out-Turn Report (2017-18) and Mid-Year Review (2018-19)**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Out-Turn Treasury Management (2017-18) Appendix 2 - Mid – Year Treasury Management (2018-19) Appendix 3 – Revised TMSS 2018-19.
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Summary

Council approved the Treasury Management Strategy Statement ("TMSS") for 2017-18 on 7th March 2017 and the TMSS for 2018-19 on 6 March 2018. The CIPFA Treasury Management Code of Practice requires a mid-year review of activities and annual out-turn report. This report covers the out-turn for 2017-18 and mid-year for 2018-19. The attached reports demonstrate compliance with the limits contained within the TMSS's for both years. It is proposed to amend the TMSS for 2018-19 by including within the investment strategy an additional investment category for "Loans to organisations delivering community benefits". The amendment to the TMSS requires the approval of Council.

Recommendations

The Policy and Resources Committee is invited to:

1. Note the TMSS Out-turn report for 2017-18 (appendix 1)
2. Note the TMSS Mid-year report for 2018-19 (appendix 2)
3. Recommend to Council the amended appendix 5.3 Credit and Counterparty Risk Management to the 2018-19 TMSS as highlighted in appendix 3.

1. WHY THIS REPORT IS NEEDED

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 3 January 2003. The code requires an annual Treasury Management Strategy Statement ("TMSS") to be approved by Council and mid-year and annual out-turn reports to be prepared and scrutinised. Attached is the out-turn report for 2017-18 and mid-year report for 2018-19.

Out-turn report 2017-18

1.2 The out-turn report discussed treasury outcomes for the year to 31 March 2018 compared with the projections at the start of the year.

1.3 There was no new borrowing during the year with a small reduction in PFI balances. Gross debt declined by £0.4 million to £320.1 million as at 31 March 2018. Capital expenditure requiring funding by debt / internal balances during the year was £23.5 million, much lower than the TMSS projection of £199.9 million.

1.4 Investment balances increased modestly to £95.5 million as at 31 March 2018 compared with £80.2 million twelve months earlier.

1.5 There were no breaches of TMSS limits during the year to 31 March 2018.

Mid-year report 2018-19

1.6 The mid-year report is designed to discuss treasury progress against the activity projected in the TMSS for 2018-19 and compliance with the limits set out therein.

1.7 The report indicates that capital expenditure is projected to be significant (£102.1 million) less than estimated in the TMSS. The revised capital expenditure of £290.8 million compared with the start of year projection of £392.9 million. The element of capital expenditure to be funded by debt has declined by £42.3 million to £134.5 million.

1.8 As a consequence of both the reduced capital expenditure projection for the year and a lower than anticipated debt balance at the start of the year, the revised projected debt outcome for 2018-19 is gross debt of £396.3 million compared with the TMSS projection of £510.8 million. Currently (as at 10 October 2018) actual debt of £320.1 million (including PFI of £16.0 million) is unchanged from the start of the year. It is intended to fund new borrowing requirements with short-term local authority debt until clarity of long term borrowing needs is established.

1.9 Cash balances are anticipated to fall from £95.5 million at the start of the year to a level sufficient to maintain liquidity, estimated at £45.5 million.

1.10 All the limits, including capital expenditure, borrowing and investment counterparty, set out in the TMSS have been complied with in the period.

Alteration to TMSS 2018-19

1.11 Included within the TMSS are the parties to whom the Council can lend monies available for investment. Historically investments have comprised deposits with banks, building societies, other local authorities and money market funds. The opportunity set is much wider including a range of debt instruments that have not recently been used as cash balances have been maintained with short maturity in the expectation that cash will be required to fund the capital programme.

1.12 It is proposed to include a new classification of investment within the TMSS "Loans to organisations delivering community benefits". The purpose of this category is described in the paragraph below that has been inserted into the TMSS:

"The Council will allow loans (as a form of investment) to be made to organisations operating in the borough that bring community benefits. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate level of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type, risk and duration of the loan. A limit of **£25 million** per counterparty (and **£50 million** in aggregate) for this type of investment is proposed with a duration commensurate with the life of the asset and Council's cash flow requirements. **All loans would need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels."**

1.13 Attached (appendix 3) is the revised counterparty policy for investment. The changes are highlighted in yellow. The key controls around this type of investment are the requirement for approval in accordance with current delegations and the requirement for a credit assessment by a suitably qualified external advisor appointed by the Council.

2. REASONS FOR RECOMMENDATIONS

2.1 The preparation and review of treasury management mid-year and out-turn reviews is required by CIPFA's treasury management Code of Practice.

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 A change in the investment strategy for 2018-19 is proposed to allow loans to organisations providing local benefits. The alternative is to leave the strategy

unchanged. Any such loan would be approved by the Finance Director (and in accordance with all other decision threshold limits) after considering suitable external advice.

4 POST DECISION IMPLEMENTATION

4.1 The revisions to the TMSS for 2018-19 requires the approval of Council.

5 IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The TMSS forms part of the Council's Corporate Plan for 2015-20.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The report discusses financial and budgetary issues.

5.2.2 There are no performance and value for money, staffing, IT, Property or Sustainability implications arising from this report.

5.3 Social Value

5.3.1 There are no social value issues in connection with the report.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Article 7 specifies the terms of reference of the Policy and Resources Committee to include "Finance including Treasury Management".

5.4.2 Section 15 of the Local Government Act 2003 requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in Regulation 24 require local authorities to have regard to the TM Code of Practice. Investment guidance issued by the Department for Communities and Local Government (DCLG) which came into effect from 1st April 2010 requires investment policy to emphasise security and liquidity over income.

5.5 Risk Management

5.5.1 The Council has the freedom to adopt its own treasury management policies. The CIPFA code of practice, which specifies the format and frequency of reporting, is part of the risk management procedures for treasury.

5.6 Equalities and Diversity

Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.7 Consultation and Engagement

5.7.1 The TMSS forms part of the Corporate Plan and is consulted on as part of the plan.

6 BACKGROUND PAPERS

6.1 Full Council, 7 March 2017 – Business Planning, item 11.1 Appendix I

https://barnetintranet.moderngov.co.uk/mgChooseDocPack.aspx?ID=8819

6.2 Full Council 6 March 2018 – Business Planning item 12.1 Appendix J

https://barnetintranet.moderngov.co.uk/ieListDocuments.aspx?CId=162&MId=9162&Ver=4