

Meeting:	Council
Meeting date:	Friday 12 July 2019
Title of report:	Treasury Management - 2018/19 outturn
Report by:	Cabinet member finance and corporate services

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To approve the treasury management outturn for 2018/19.

The 2018/19 net treasury budget outturn was a surplus (underspend) of £1.9m, the main reason being the lower minimum revenue provision cost of £1.1m.

Cabinet reviewed the outturn at its meeting on 25 June and recommended it for approval.

An annual report is presented to Council in line with the Treasury Management Strategy and CIPFA treasury management best practice.

Recommendation(s)

That:

- (a) treasury management outturn for 2018/19 at appendix 1 be approved.**

Alternative options

1. There are no alternative options, financial reporting requirements state that the treasury management outturn be reported to full Council for approval.

Key considerations

2. Treasury management is where the council manages the cashflow position through investments and borrowings with the security of funds being the paramount objective.
3. The net treasury budget outturn was a surplus (underspend) of £1.9m, this is detailed in Appendix 1. The main reason being the lower than forecast minimum revenue provision cost of £1.1m. Minimum revenue provision is the cost set aside to finance capital expenditure financed by prudential borrowing. Due to capital spend in prior years being lower than forecast this resulted in a minimum revenue provision underspend.
4. In addition, there was a delayed need to borrow due to capital receipt cash funds from the sale of smallholdings; this reduced the forecast annual interest cost payable. At the same time, the forecast interest earned was higher reflecting the increase in the bank base rate in the year.
5. The council's borrowing strategy is determined each year within the treasury management strategy, which is approved as part of the budget setting process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.
6. In 2018/19 no new long term borrowing was undertaken. This is due, in part, to the cash balances held, including those in the capital receipts reserve, deferring the need to borrow. Total interest of £5.5m was paid on all council borrowing during the year.
7. Total borrowing as at 31 March 2019 was £137.5m (compared to £148.1m as at 31 March 2018).
8. Net borrowing (after offsetting investments) was £109.4m as at 31 March 2019, compared to £133.9m as at 31 March 2018.
9. Appendix 1 provides the detailed outturn report and includes an analysis in line with the CIPFA code of practice on treasury management. Herefordshire Council has adopted the recommendations made in CIPFA's Treasury Management in the Public Services: Code of Practice, which was revised in 2017. One of the clauses (identified in Section 5 of the code) is that full Council will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year; a mid-year review; and an annual report after its close.
10. An investment was made on 17 October 2018 to a building society that was not on the council's approved counter party list. The counter party list is a list of financial institutions and is included in the Treasury Management Strategy approved by Council. The investment was for £5m to the Market Harborough Building Society for 100 days earning an interest rate of 0.90%. An internal audit has been completed to review the controls in place at the time and how these did not prevent this investment from being actioned. The review has ascertained where controls need to be enhanced to prevent a repeat of this type of investment from being actioned in future. All internal audit recommendations have been adopted. The 2019/20 budget setting report approved a revised treasury management strategy which included the top five UK Building Society's as approved counterparties. The external audit work, to be completed by Grant Thornton during July

2019, will also include reviewing treasury management balances and transactions in line with the external audit work programme.

11. Apart from the investment detailed in 10 above, the council complied with its prudential indicators, Treasury Management Policy Statement and Treasury Management Practices for 2018/19 as detailed in Annex 1 of Appendix 1. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Community impact

12. The effective management of resources enables the council to direct those resources to support corporate plan priorities.
13. In accordance with the code of corporate governance, Herefordshire Council must ensure that it has an effective performance management system that facilitates effective and efficient delivery of planned services. Effective financial management, risk management and internal control are important components of this performance management system. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. Providing a report on the performance of our treasury management activity ensures openness and transparency is maintained.

Equality duty

14. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
15. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a factual summary of the performance in 2018/19, we do not believe that it will have an impact on our equality duty.

Resource implications

16. None arising from the recommendations as the outturn report is a factual summary of performance in 2018/19.

Legal implications

17. Regulation 24 of the Local Authorities (Capital Finance and Accountancy) (England) Regulations 2003 states that a local authority shall have regard to the Code of Practice

on Treasury Management in the Public Services: published by CIPFA, as amended or reissued from time to time.

18. There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The council has complied with its statutory obligations arising from the Local Government Act 2003, and all relevant CIPFA guidance.

Risk management

19. Council approves the treasury management strategy for the year ahead as part of the annual budget setting process which details the risk mitigation processes. Council is then required to approve the treasury management outturn position under financial reporting requirements with monitoring reported to cabinet throughout the year.
20. The setting of a Treasury Management Strategy documents the counterparties and value limits to mitigate risks in relation to the loss of funds. Paragraph 10 above details an investment made in 2018/19 that was not in line with the approved counterparty list. This was immediately reported to Cabinet and an internal audit was completed to identify any remedial action to minimise the risk of this re-occurring. All internal audit recommendations have been implemented.

Consultees

21. None

Appendices

Appendix 1 Treasury Management Outturn 2018/19

Background papers

None identified