

**REPORT OF THE CORPORATE COMMITTEE No. 4, 2016/17
COUNCIL 27 FEBRUARY 2017**

Chair:
Councillor Barbara Blake

Deputy Chair:
Councillor Eddie Griffith

INTRODUCTION

- 1.1 This report to Full Council arises from the report on the Treasury Management Strategy Statement 2017/18 – 2019/20, considered by the Corporate Committee at their meeting on the 31 January 2017.

SUMMARY

Treasury Management Strategy Statement 2017/18 – 2019/20

- 2.1 We considered the report on the Treasury Management Strategy Statement (TMSS) 2017/18, introduced by Oladapo Shonola, Head of Finance, Treasury and Pensions. We noted that the strategy covered borrowing to cover capital expenditure, investment principles and the prudential indicators. The Council's strategy complied with guidance from the CLG, the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. We noted that there was broadly no change to the previous TMSS as economic conditions remained much the same as they had been, and we were advised that the only proposed change to the TMSS was in relation to the Minimum Revenue Provision, which had been revised in order to better reflect the rules set out in the prudential code and government guidance and which would have a positive impact on the Council's finances.
- 2.2 We asked about the borrowing expected for the coming year, what this was for, the length of term and whether such borrowing was prudent in the current financial climate. The Head of Finance - Treasury and Pensions, advised that the Council's Capital Programme, approved by Cabinet, established the borrowing required and that some borrowing may also be required for the refinancing of maturing debt. We noted that all borrowing was provided for in the Council's revenue budget, and was therefore considered prudent; in particular, the refinancing of any maturing debt would be at a much lower interest rate than the existing loans and would therefore be positive for the Council. With regards to the term of any proposed borrowing, it was confirmed to us that the maturity rate would be spread in line with the indicators set out in the strategy, in order to minimise risk to the Council.
- 2.3 We noted the section on bail-in legislation within the TMSS, which meant that depositors would carry the risk of any bank failure, and asked whether a risk assessment was undertaken to ensure that the Council was able to deal with the implications of any such event; it was confirmed that this was taken into consideration in the formulation of the limits that the Council set for itself within the TMSS. We asked about the implications of Brexit on the Council's Treasury Management Strategy, in particular where current guidance was based on EU legislation. The Head of Finance – Treasury and Pensions, advised us that it was not anticipated that Brexit would have a material impact on the areas of activity covered in the TMSS, and that a briefing would be provided for Members on the

potential implications for the Council's Treasury Management arrangements arising from the decision to leave the EU.

- 2.4 We asked whether loans taken out by the Council were secured against Council property. The Head of Finance – Treasury and Pensions advised us that this was not the case, and it was agreed that this would be confirmed outside the meeting and a briefing circulated to Members.
- 2.5 We were pleased to note that there had been no breach of the Council's prudential indicators in the previous year, but expressed concern at the significant difference in the approved reserves/revenue contributions and projected out-turn for 2016/17, as set out in Table 4 of the TMSS relating to capital financing and asked for an explanation of the discrepancy. While we noted that this was outside the scope of the TMSS report, we agreed that Members would be provided with a briefing on this, covering how the difference arose and any implications for the Council. It was noted that this would also form part of the forthcoming Budget reports to Cabinet and Full Council in February.
- 2.6 We asked for an update on the position with the Council's Lender's Option Borrower's Option (LOBO) loans and it was agreed that an update on this would be provided. We noted that the position remained largely unchanged; the Council's external auditor had been asked to review the process by which these loans had been taken out back in 2007-8 and had come to the conclusion that this was a reasonable decision to have been taken at that time. We noted that a legal ruling was awaited in respect of whether there had been a technical breach of the Council's treasury management limits at the time when the loans were taken out, which related to whether these loans should have been classified as variable or fixed borrowing, and that it was not possible for the auditors to finally sign off their opinion until a decision was made on this point. It was not felt, however, that this would make a difference as to whether the decision had been a reasonable one.
- 2.7 We discussed paragraph 4.9 of the TMSS in respect of LOBOs, and whether the wording of the final sentence should be amended to read "No further LOBO loans will be considered", removing the option of any further such loans being taken into after discussion with the Corporate Committee. The Head of Finance – Treasury and Pensions advised against removing the option of considering such products altogether, as there was the chance the Council could miss out on a favourable borrowing option in future, but suggested that the wording could be amended such that the approval of the Committee was required in order to undertake any such borrowing. We discussed the proposal to amend the wording of this section at this stage, and agreed that this was an issue that the Committee would discuss in greater detail later on during the year.
- 2.8 Cllr Wright, Chair of the Overview and Scrutiny Committee, provided us with an update on the views of the Overview and Scrutiny Committee in respect of the TMSS, which they had considered the previous day. We noted that as a result of the discussion of the Overview and Scrutiny Committee, the following actions were being taken forward:
 - i) A meeting was to take place between the Chairs of the Corporate and Overview and Scrutiny Committees in order to manage the arrangements

- for the monitoring of the Council's treasury management activity and avoid duplication of effort;
- ii) Corporate Committee had been asked by the Overview and Scrutiny Committee to keep the LOBO position under review and to take action where appropriate to reduce any risk to the Council;
 - iii) Corporate Committee had been asked by the Overview and Scrutiny Committee to maintain a focus on monitoring the risks associated with Council borrowing, particularly borrowing undertaken on a joint basis, as it was felt that there was likely to be an increase in joint ventures in the coming years and it was important for the Committee to have sufficient oversight of the controls in place to manage this.

We noted the points made by the Overview and Scrutiny Committee.

- 2.9 We requested that briefings be provided for Members in respect of: the potential implications for the Council's Treasury Management arrangements arising from the decision to leave the EU, whether Council loans were secured against property, an explanation of the discrepancy between the approved reserves/revenue contributions and projected out-turn for 2016/17 and the implications of this, and an update on the Council's LOBO loans.

Post-meeting note: Draft (Revised) Treasury Management Strategy Statement (TMSS) & Minimum Revenue Provision (MRP) Policy - 2017/18 – 2019/20

- 3.0 Subsequent to the decision for the Corporate Committee to recommend that Full Council approve the Treasury Management Strategy Statement as considered at 31 January 2017, officers were advised that, although implied, approval for recommended policy changes outlined in the report should be explicit. In accordance with the provisions set out in the Council's Constitution, Part Three, Section E, part 1 – Paragraph 5.01(b), the Chair of the Committee and Chief Operating Officer considered a report setting out the explicit policy changes as appended to this report, and resolved that these changes to the Treasury Management Strategy Statement and Minimum Revenue Provision Policy 2017/18 – 2019/20 be recommended to Full Council for approval.

WE RECOMMEND

- 3.1 That Full Council approve the Treasury Management Strategy Statement for 2017/18 to 2019/20 as attached at annex four of the 2017/18 Budget report to Full Council, including the following additional clarifications in the Council's MRP policy:
- 3.2 That the proposed changes to the MRP policy are applied from 1st April 2016.
- 3.3 That full Council note and approve that financial agreements relating to capital investments that are reasonably expected to be returned in at maturity will not, at the discretion of the CFO, attract MRP where it is reasonably expected that the investment will be returned to the Council in full at maturity or over a defined period.

3.4 That full Council note changes to the capital expenditure tables.

3.5 That approvals in 3.1, 3.2, and 3.3 take effect from the date of authorisation of the changes to the appended report (16th February 2017).