Agenda Item No 10

Bolsover District Council

Council

7 November 2018

Treasury Management Update

Report of Cllr B Watson, Portfolio Holder Finance and Resources and Renewable Energy

This report is public

Purpose of the Report

- To update Council on the treasury management activities for the period April to September 2018.
- To update Council on the Government's proposal regarding removing the debt cap for local housing authorities.
- For Council to approve the amended Treasury Management Strategy.

1 Report Details

1.1 The Council approved the 2018/19 Treasury Management Strategy at its meeting in February 2018. This monitoring report details the treasury management activity during the first half year. This is in line with best practice as outlined in the CIPFA Treasury Management Code of Practice.

1.2 The treasury management function covers the borrowing and investment of Council money. This includes both the management of the Council's day to day cash position and the management of its long term debt. All transactions are conducted in accordance with the Council's approved strategy and the CIPFA Code of Practice. Good treasury management plays an important role in the sound financial management of the Council's resources.

1.3 Appendix 1 of this report, details the treasury management activities that have taken place between April and September 2018.

1.4 The Council uses external treasury advisors, Arlingclose Ltd, who provide a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of places at training events offered on a regular basis.

- Credit ratings/market information service comprising the three main credit rating agencies.

Housing Revenue Account (HRA) Debt Cap and Debt Repayment

1.5 At their recent annual conference the Government announced that the debt cap for the HRA would be removed allowing Councils more freedom to borrow in order to build new social housing. Further details on how this will affect local housing authorities was released by the Ministry of Housing, Communities and Local Government (MHCLG) on 18 October. It confirmed that the debt cap would be removed as soon as possible with further details being confirmed in the Budget. Once the detail is known, a review of the impact on the Council's treasury activities will be performed and a revised treasury management strategy will be presented for consideration to Council.

1.6 Section 1.49 to 1.50 of the current Treasury Management Strategy sets out the Council's approach to repayment of HRA debt. Unlike the General Fund, there is no statutory requirement to set aside funds to repay debt in the HRA so it is effectively the Council's decision. Since the HRA Self-Financing Settlement in 2012, the strategy has recommended that a fixed annual contribution be made to a debt repayment reserve earmarked to repay the HRA self-financing loans as they become due over the period 2012-2042. There are currently sufficient funds held in this reserve to repay all loans due up to 2026.

1.7 For context, there has been considerable pressure on the HRA in recent years. Under national policy, rent reductions of 1% per annum have been in place since 2016 which has seen rental income reduce significantly. The cost of maintaining the existing stock to a lettable standard and the need to build new social housing in order to replace those lost through right to buy is adding further pressure each year.

1.8 The HRA 30 year business plan has identified that continuing to make the contribution to the debt repayment reserve at its current level is unsustainable when combined with the additional pressures on the HRA. It is therefore proposed to amend the treasury management strategy so that future contributions to the debt repayment reserve can be based on affordability rather than a fixed sum per annum.

1.9 Increasing the flexibility of the approach to HRA debt repayment will generate much needed additional resources for the HRA but will still allow contributions to be made to the debt repayment reserve as funds allow each year. It will also provide flexibility to make larger contributions to the debt repayment reserve at times when pressures on the HRA are less.

1.10 Repaying HRA debt more slowly will mean that interest costs will not decrease as quickly and some loans may need to be refinanced at maturity. Neither of these factors are expected to impact greatly on the HRA, especially in the short to medium term, as the benefit of reduced interest costs won't really have an impact until a large proportion of the self-financing debt is repaid and borrowing costs with PWLB remain affordable.

1.11 To reflect this it is proposed that 1.49-1.50 in the Treasury Management Strategy be amended to read:

1.49 *The Council completed the HRA self-financing settlement in March 2012 which resulted in an increase in housing debt of £94.386m. Within the HRA business plan and HRA budgets there is a sum set-aside to repay the outstanding debt, this amount is variable dependant on the level of available resources within the HRA each year.*

1.50 *For the period 2018/19 to 2021/22 no contribution will be made to the Debt Repayment Reserve. The amount that was going to be put into this Reserve will now be used in the capital programme to fund further B@home new build schemes.*

2 Conclusions and Reasons for Recommendation

2.1 The report details the treasury management activities for the period April to September 2018 in line with the CIPFA Treasury Management Code of Practice.

2.2 The Government has proposed removing the HRA debt cap to allow Councils more freedom to build social housing. This is a positive step but more detail is required to assess the impact of this for the Council.

2.3 It is proposed to amend the treasury management strategy to allow more flexibility regards HRA debt repayment contributions. This will release much needed funds into the HRA at the time they are needed whilst still making debt repayment contributions as funds allow. It will also allow larger contributions to be made at times when pressures on the HRA are lessor. Repaying HRA debt more slowly will mean that interest costs will not decrease as quickly and some loans may need to be refinanced at maturity. Neither of these factors are expected to impact greatly on the HRA, especially in the short to medium term, as the benefit of reduced interest costs won't really have an impact until a large proportion of the self-financing debt is repaid and borrowing costs with PWLB remain affordable.

3 Consultation and Equality Impact

3.1 There are no consultation and equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

4.1 It is considered good practice by the CIPFA Treasury Management Code of Practice that Council receive a half year monitoring report therefore there are no alternative options to consider.

4.2 To not change the debt repayment approach and continue to make annual fixed sum contributions.

5 Implications

5.1 Finance and Risk Implications

5.1.1 These are considered throughout the report.

5.2 Legal Implications including Data Protection

5.2.1 Having a Treasury Management Strategy in place complies with the requirements of the Local Government Act 2003 and updated advice and guidance from the Government and CIPFA.

5.3 Human Resources Implications

5.3.1 These are covered throughout the report.

6 Recommendations

6.1 That Council note the treasury management activities undertaken during the period April to September 2018 as outlined in Appendix 1.

6.2 That Council note the Government's proposal regarding removing the debt cap for local housing authorities.

6.3 That Council approve the amended Treasury Management Strategy (ref 1.49 to 1.50) allowing for more flexibility regards debt repayment contributions.

7 Decision Information

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: *BDC: Revenue - £75,000* ☐ *Capital - £150,000* ☐ *NEDDC: Revenue - £100,000* ☐ *Capital - £250,000* ☐ ☑ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	None directly
Links to Corporate Plan priorities or Policy Framework	All.

8 Document Information

<table>
<tr><th>Appendix No</th><th colspan="2">Title</th></tr>
<tr><td>1</td><td colspan="2">Treasury Management – Q2 Update</td></tr>
<tr><td colspan="3">Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</td></tr>
<tr><td colspan="3"></td></tr>
<tr><th colspan="2">Report Author</th><th>Contact Number</th></tr>
<tr><td colspan="2">Dawn Clarke – Head of Service, Finance & Resources
Claire Bamford – Principle Accountant</td><td>7658

2459</td></tr>
</table>