| 25 October 2017 | ITEM: 11 |
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| **Council** | |
| **Investment and Treasury Management Strategy** | |
| **Wards and communities affected:** All | **Key Decision:** Key |
| **Report of:** Councillor Shane Hebb, Portfolio Holder for Finance | |
| **Report of Assistant Director: n/a** | |
| **Accountable Director:** Sean Clark, Director of Finance and IT | |
| **This report is** public | |


**Executive Summary**

Council's across the country continue to have to find new ways to live within their means whilst maintaining good quality public services. This position has created a direction of travel for local authorities who need to consider how to achieve financial sustainability in order to protect services to residents and businesses.

The Council works in a cross party manner through the Council Spending Review to consider the financial planning of the organisation, an approach which was positively endorsed through an Independent Peer Review conducted in June 2017.

Consideration has been given to a range of approaches to deliver future balanced budgets which continue to ensure all services continue to be provided to meet the needs of residents. This approach includes income generation, commercial activity and approach, managing demand appropriately and effectively whilst continuing to see to transform the way the council does business.

After cross party discussion and agreement, a report was presented to Cabinet at its meeting on 11 October 2017 which agreed an investment strategy approach based on the application of six key principles that are set out in the main body of this report. This report now seeks Council approval of this investment strategy approach and the subsequent related amendments to the Treasury Management Indicators.


**1 Recommendation(s)**

1.1 **That Council agrees the revised Treasury Management Indicators as set out in Appendix 1; and**

1.2 **That Council agrees that cash investment decisions that fall under a capital definition be treated as capital expenditure and the Treasury Management Indicators amended as necessary.**

## 2 Introduction and Background

2.1 All councils have a statutory duty to ensure that the council is financially sound and delivers a balanced budget on an annual basis. Members will be aware that the council has in comparable terms with other authorities,, less in the way of reserves to support expenditure and so face an annual challenge to both reduce expenditure and increase income. This is despite the planned incremental increases to the General Fund Balance passed at Full Council on 22 February 2017.

2.2 The MTFS presented to Full Council on 22 February 2017 showed pressures of £20.2m between 2018/19 and 2020/21 that, after Transformation Board identified savings, reduced to a net three year pressure of £16.6m. The assumptions have now been updated to reflect current information and these figures are now revised to £20.8m and £14.9m respectively. Key changes impacting on the changed position include:

a) Improved forecasts for council tax and business rates totalling £1.8m;

b) An improved position on inflation and other increases of £1.4m;

c) Additional growth included to meet Children's and Environmental Services pressures; and

d) The inclusion of service review savings over the three years.

2.3 The council adopted the Council Spending Review (CSR) approach last year that concentrated on meeting the budget pressures through:

a) Increased income – this can be through the trading of core services through to investments from the treasury or property function;

b) More or same for less – focussing on better value from contracts and wider procurement, reducing spend on agency staff and more efficient processes; and

c) Reducing the growth pressures in demand led services – such as concentrating on early intervention.

2.4 This is underpinned by a detailed review of all services, Service Review Process, and is delivered through a number of officer Boards that ultimately brings proposals through an informal meeting of the three group leaders and their deputies to Overview and Scrutiny Committees and the Cabinet.

2.5 This approach was subjected to a Finance Peer Review, carried out by the East of England Local Government Association (EELGA) in June 2017. The review concluded that the CSR approach was in line with other local authorities that are under no overall control and recommended some improvements to the process but to effectively continue.

2.6 One recommendation from the review that is especially relevant to this report was to continue seeking investment opportunities.

2.7 External Audit also published their Value for Money Conclusion in September 2017 that focuses on the council's financial standing and its approach to budget setting. The conclusion was positive while also highlighting a need to consider further the level of General Fund Balance.

**3 Issues, Options and Analysis of Options**

3.1 Whilst considering options, it is important to remember that Thurrock Council has the third lowest net budget of all English Unitary Authorities, whilst having to deliver a large suite of services that Districts do not. This implies that most of the council services are already being delivered at a lower cost than the majority of other councils.

3.2 Whilst every effort is continually made to reduce the net cost of services, it is clear that the budget pressures as reported earlier in this report cannot be met from this approach alone without significant impact on front line services, with a clear risk of not being able to maintain statutory services.

3.3 As such, the council has, in recent years, also delivered savings and increased income through its Treasury Function. These have included:

a) Debt restructuring;

b) Challenges to the Minimum Revenue Provision;

c) Gloriana; and

d) Cash investments in ventures such as CCLA and Solar.

3.4 Together, these are currently benefitting the council by £11.7m per annum.

3.5 Whilst progressing the budget setting for the life of this MTFS, it is clear that a mix of service reviews, cross cutting reductions, general income increases and investments will be required. Though all equally important, investments have the greater ability to make significant income with the minimum of impact on service provision and so supporting an investment approach is recommended. This approach has been considered and supported by the three group leaders and their deputies and this report now seeks formal support.

3.6 There obviously needs to be control over this approach and this is set out within the Treasury Management Strategy, last agreed at the Full Council meeting on 22 February 2017. In addition, the following principles are recommended:

a) The agreement to invest does not supersede existing work streams such as the service review process, asset utilisation, etc;

b) Council should consider a diversified investment approach. This could include further cash investments, (developing the Gloriana offer and ownership of income generating assets, especially where these support strategic objectives);

c) Investments should favour short-term borrowing by the council;

d) Appropriate due diligence, including the assessment of borrowing risk, must take place before new significant investments are made;

e) Accountability and governance to the Executive / wider council must be a critical component of “open” investments and an overview of any investment in excess of £10m and for longer than one year be presented to the three group leaders and their deputies before any firm commitment; and

f) There has to be firm differentiation between investments which have an implied municipal duty, and investments made in private sector markets. Where the latter, appropriate expertise must be procured so to ensure that the council does not obscure its role and manage entities outside of its expertise.

3.7 To achieve this in a timescale that both starts to deliver in 2018/19 but also gives greater certainty at the budget setting meeting in February 2018, it is necessary to make appropriate increases to the Treasury Management Strategy. A revised set of Treasury Management Indicators are set out in Appendix 1 and set the parameters for how much the council can borrow and invest.

3.8 Cash investment opportunities are normally balance sheet transactions but, depending on the opportunity, may need to be classified as capital expenditure. This report also seeks the authority to enter into these investments if applicable, subject to the principles set out earlier in the report, with implied changes to the capital programme and Treasury Management Indicators.

3.9 Whilst not being able to set out exactly what investments would be entered into at this stage, they would take the form of loans or equity purchases following similar investments in CCLA, the advance to Rockfire Capital to support their acquisition of a solar farm and loans to other bodies such as the Royal Opera House.

3.10 Whilst this report seeks approvals for further cash type investments, the overall investment approach does include two further categories which could be explored:

- The need to acquire or build revenue generating assets, especially where this meets regeneration or economic needs; and
- Bringing more sites forward for development through Gloriana.

3.11 These types of investments require significant lead in time but it will be important to gain approval at the earliest opportunity to realise income in the life of the MTFS and will be subject to further reports.

3.12 If the council does not wish to follow this approach, the alternative is to reduce expenditure and increase income through other means. Whilst this is still within the MTFS plans and, indeed, meets the first principle in this paper, it is difficult to see how this can be done to such an extent that will not significantly impact on the delivery of frontline services.

## 4 Reasons for Recommendation

4.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets the foundations for entering into investments that will make a significant contribution towards financial self-sufficiency.

## 5 Consultation (including Overview and Scrutiny, if applicable)

5.1 The budget planning governance structure includes involvement and consultation with Officers, Portfolio Holders and Members. The process includes the Council Spending Review Panel, made up of cross-party Group Leaders and Deputies who will meet regularly during the budget planning period and ahead of key decision points.

## 6 Impact on corporate policies, priorities, performance and community impact

6.1 The implementation of previous savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

6.2 An investment approach is the only viable option to increase income significantly reducing the need to impact adversely on frontline services.

## 7 Implications

### 7.1 Financial

Implications verified by: **Sean Clark**

**Director of Finance and IT**

Members and officers have a legal responsibility to ensure that the Council can contain spend within its available resources and this report sets out an approach to help achieve this over the coming years.

The report sets out remaining budget gaps over the period 2018/19 – 2020/21 but already assumes efficiency reductions within the full range of services that the council provides. The report sets out an investment approach as a key contributor to the Council managing these pressures and achieving financial self-sustainability.

Members should be aware that all investment decisions do come with risk. The s151 Officer takes advice from advisers and carries out relevant due diligence before entering into any investment and this is further reinforced in the fourth and fifth principles set out in this report.

7.2 **Legal**

Implications verified by: **David Lawson**

**Monitoring Officer and Deputy Head of Legal Services**

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

7.3 **Diversity and Equality**

Implications verified by: **Becky Price**

**Community Development and Equalities**

There are no specific diversity and equalities implications as part of this report.

7.4 **Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)**

This report sets out an approach that will go a significant way in meeting the requirement for financial sustainability.

**8 Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

There are a number of working papers that support the assumptions in the MTFS and they are held within Corporate Finance.

**9 Appendices to the report**

Appendix 1 – Treasury Management Indicators

**Report Author:**

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Finance and IT