PHD829
Ward(s): General

Winchester City Council

DRAFT PORTFOLIO HOLDER DECISION NOTICE

PROPOSED INDIVIDUAL DECISION BY THE PORTFOLIO HOLDER FOR FINANCE

TOPIC - COUNCILS RESPONSE TO FINANCE CONSULTATIONS

PROCEDURAL INFORMATION

The Access to Information Procedure Rules – Part 4, Section 22 of the Council's Constitution provides for a decision to be made by an individual member of Cabinet.

In accordance with the Procedure Rules, the Head of Legal Services (Interim), the Chief Executive and the Strategic Director: Resources are consulted together with Chairman and Vice Chairman of The Overview and Scrutiny Committee and any other relevant overview and scrutiny committee. In addition, all Members are notified.

If five or more Members from those informed so request, the Leader may require the matter to be referred to Cabinet for determination.

If you wish to make representation on this proposed Decision please contact the relevant Portfolio Holder and the following Democratic Services Officer by 5.00pm on 13th September 2018

Contact Officers:

Case Officer: Darren Kennedy, 01962 848464, dkennedy@winchester.gov.uk

Democratic Services Officer: Matthew Watson mwatson@winchester.gov.uk

SUMMARY

Government have launched a number of consultation papers before breaking for summer recess.

I. The 2019-20 Local Government Finance Settlement: Technical Consultation

The Ministry of Housing Communities and Local Government (MHCLG) has issued a technical consultation paper on the 2019-20 settlement. The deadline for responses is 18 September 2018.

https://www.gov.uk/government/consultations/local-government-finance-settlement-2019-to-2020-technical-consultation

II. 75% business rates retention pilots 2019 to 2020: prospectus

The deadline for bids is 25 September 2018 – this is subject to a separate report (CAB3078). The report sets out the proposal to be part of a Hampshire wide pilot submission to government.

https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus?utm_source=d0bec52f-cf2e-4c3d-bb1b-a883778a1368&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

III. Mitigating the impact of fair value movements on pooled investment funds on local authority budget setting

MHCLG has issued a consultation on mitigating the impact of fair value movements on pooled investment funds on local authority budget setting following the adoption of IFRS 9 in 2018/19. The deadline for responses is 28 September 2018.

https://www.gov.uk/government/consultations/local-authority-budget-setting-mitigating-the-impact-of-fair-value-movements-on-pooled-investment-funds

PROPOSED DECISION

Draft responses to the consultation can be found in Appendix A.

REASON FOR THE PROPOSED DECISION AND OTHER ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

It is important for Winchester to respond to consultations to ensure that local considerations can be taken on board before final decisions are made.

RESOURCE IMPLICATIONS:

There will be resource implications arising from these consultations. The medium term financial planning process contains scenario planning which aims to capture a range of possibilities at a high level.

Whilst the council cannot impact on the final conclusions directly, it is envisaged that by taking an active part in consultations, local concerns can be addressed as part of the review process.

DATA PROTECTION IMPACT ASSESSMENT *(If none, state “None required”)*

None Required

CONSULTATION UNDERTAKEN ON THE PROPOSED DECISION

Consultation upon the proposed decision has been undertaken with senior officers of the council prior to member consultation.

FURTHER ALTERNATIVE OPTIONS CONSIDERED AND REJECTED FOLLOWING PUBLICATION OF THE DRAFT PORTFOLIO HOLDER DECISION NOTICE

Not applicable

DECLARATION OF INTERESTS BY THE DECISION MAKER OR A MEMBER OR OFFICER CONSULTED

None

DISPENSATION GRANTED BY THE STANDARDS COMMITTEE

None

Approved by: (signature) **Date of Decision**

Councillor Guy Ashton – Portfolio Holder for Finance

APPENDICES:

Appendix A - Draft Local Government Finance Settlement Responses

Appendix B - Draft response to “mitigating the impact of fair value movements on pooled investment funds on local authority budget setting”

Appendix A

Draft Local Government Finance Settlement Responses

Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

Yes, we are supportive of the concept of a four year settlement and the essential stability this provides for medium term planning.

We are concerned about the significant risk of funding surrounding the review of the new homes bonus scheme. We would welcome early consultation around proposals commencing from 2020/21 and believe that the existing four year reward should be guaranteed until 2022/23; otherwise only one year of reward will be received relating to 2019/20. It is important that enough reward is provided for new homes, any further reduction to the total scheme funding (£0.9bn proposed for 19/20 reducing from £1.6 in in 16/17) would have a negative impact.

Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

We support the principles but believe the 3% or £5 shire district cap should be raised to 3% or £12 in line with the PCC. The £5 cap has now been in place a number of years and does not allow sufficient flexibility for lower taxing districts (such as Winchester) who have strived to keep taxes as low as possible.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

We fully support the removal of negative RSG in 2019/20. It was unfair that individual authorities would have suffered this burden prior to the new funding settlement from 2020/21.

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

Not applicable

Question 5: Do you have any comments on the impact of the proposals for the 2019-20 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

No comments

Appendix B

Draft response to "mitigating the impact of fair value movements on pooled investment funds on local authority budget setting"

Q1. Do you agree that local authorities should be allowed to reverse out the impact of fair value movements on pooled investment funds to unusable reserves? If not, why not and what alternative approach would you propose?

Yes.
Local authorities are required to manage their overall cash and investment portfolio ensuring security, liquidity, and yield; pooled funds may make up part of this overall strategy. By their nature, the capital value of pooled funds is subject to fluctuation. These types of investment are also expected to be held long-term.

In local government, the General Fund and its earmarked reserves represent the sums available to spend on an authority's service objectives. If the impact of fair values movements is recognised before they have crystallised then short term market conditions at the balance sheet date could distort the year end General Fund surplus/deficit with unrealised gains/losses which may lead an authority to spend those gains or make reductions to cover the losses. In other words, short-term movements on long-term investments may influence short-term decision making.

In addition, by not allowing reversal, there is a risk that this will influence authorities to divest themselves of such investments. This may have a detrimental impact on the value of pooled funds which are specific to the sector such as the CCLA property fund. Property is relatively illiquid and if authorities attempted to sell their holdings at the same time, it is likely to force the fund to either sell assets at below market value or to suspend withdrawals from the fund.

We recognise that these types of investments carry differing degrees of risk. However, the Treasury Management Code already requires authorities to make their own assessment of risk appetite and to have regard to security, liquidity and yield. Investment in pooled funds is a legitimate part of a well-managed and diversified investment portfolio. Allowing reversal of unrealised gain/losses recognises the unique nature of local government accounting and mitigates against the unintended consequences outlined above. We believe that the Treasury Management Strategy reporting requirements are sufficient for councils to set out the respective level of risk in each council's investment activity.

Q2. Do you agree that the statutory override should be time limited? If not, why not? If it is time limited, is a three year period appropriate?

No. The reasons outlined in response to Q1 to support a statutory override will still be applicable at the end of the three year period.

Q3. If you agree that local authorities should be allowed to reverse out the impact of fair value movements on pooled investment funds should this be limited to pooled property funds or apply to all pooled investment funds, and why?

It should be applied to all funds - property is one class of asset but the reasons for allowing reversal are applicable to all pooled funds.

Q4. Do you agree that local authorities should be required to disclose the net profit/loss reversed out of the general fund to mitigate the impact of the introduction of IFRS 9, as a separate line in the Unusable Reserves note? If not, please explain why not and detail the alternative approach you would prefer.

Yes. As noted in response to Q1, these types of investments do carry a different degree of risk to others and it is important that authorities manage such risk as part of their overall strategy. Separately disclosing the net profit/loss reversed ensures transparency and enables the users of the accounts to understand the risks and how the Council manages them.

Q5. Do you agree that the Government should not create a statutory override to protect local authorities from the impact of the move to an expected loss model to calculate impairments on loans and debt? If you disagree please explain why with case study examples if relevant.

Yes. Although moving to the expected loss model is likely to require more resource, particularly in the first year of implementation, the additional work required is not sufficient to be a reason in itself for an override.

Q6. Do you agree that the Government should not create a statutory override for any of the disclosure requirements introduced by the new standard?

Yes. See response to Q5 above.

Q7. Do you agree with the proposal to extend the Regulation allowing local authorities not to charge back-pay awards for equal pay claims for a further two years to 2020? If not, please explain why not.

No comment

Q8. Do you agree that the updated Regulations should take effect for the 2018-19 financial year and what would be the implications of not doing so?

Yes. It is vitally important that any override is introduced at the same time as IFRS 9 is adopted for a) the reasons outlined in response to Q1 above and b) there will be considerable work involved if overrides are introduced in a subsequent period as there will have been, in effect, two changes.