

FULL COUNCIL

19 JULY 2017

REPORT OF HEAD OF CENTRAL SERVICES

ANNUAL REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2016-17

1.0 PURPOSE

- 1.1 The Annual Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities in 2016-17. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code.
- 1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

2.0 RECOMMENDATIONS

- 2.1 The Treasury Management Annual Report for 2016-17 be approved and;**
- 2.2 The actual position on Prudential Indicators for 2016-17 is noted.**

3.0 KEY ISSUES

- 3.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. These documents in respect of the 2016/17 financial year were approved by Full Council as part of the budget setting process on 10 February 2016:-
 - 1. Borrowing and Investment Objectives.
 - 2. Capital Finance Objectives.
 - 3. Investment and Borrowing Strategies.
 - 4. Borrowing limits.
- 3.2 Updates are currently provided to Members on a quarterly basis through the Members Newsletter.
- 3.3 Recent changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the year end position for treasury activities and highlights compliance with the Council's policies previously approved by members. The Council has complied with the requirement of the Code to give prior scrutiny to all of the above treasury management reports by the Budget & Strategic Planning Working Group before they are reported to the Full Council.
- 3.4 During 2016-17 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach. The key prudential indicators for the year, with comparators, are as follows:

Prudential and treasury indicators	2015/16 Actual £m	2016/17 Original £m	2016/17 Actual £m
Capital expenditure	3.446	8.537	6.755
Capital Financing Requirement:			
• Non-HRA	0.138	0.126	0.126
• HRA	31.484	31.484	31.484
• Total	31.622	31.610	31.610
Gross borrowing / Debt	31.413	31.413	31.413
Investments	All investments- £17.65m are less than one year	All investments- £14.7m are less than one year	All investments- £20.5m are less than one year

No borrowing was undertaken for any further purpose and the Council's maximum actual borrowing position of £31.413m was within its Statutory Borrowing Limit and the Authorised Limit of £46m. At 31 March 2017, the Council's external debt was £31.413m (£31.413m at 31 March 2016) and its investments totalled £20.5m (£17.65m at 31 March 2016). The investment balances are higher in the main as a result of the underspend on the capital programme.

- 3.5 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.

The key areas to note are:

- a) The ratio of the financing costs to the net revenue stream has increased slightly in respect of Non HRA (-0.78% in 2016-17 compared to -1.21% in 2015-16) and decreased marginally in respect of HRA (13.67% in 2016-17 compared to 13.78% in 2015-16 as per Appendix A, page 8). You will notice that there has been little movement between the two years due to debt levels being stable.
- b) The gross borrowing except in the short term should not exceed the CFR and at the 31 March 2017 was below that figure, primarily a small amount of internal borrowing on the HRA. This is to ensure that borrowing levels are prudent and over the medium term the Council's external borrowing, net of investments, is only for a capital purpose.
- c) The overall investment rate was 0.70% when compared to 0.67% in 2015-16, this was mainly due to the lengthening of the portfolio out to twelve months and use of counterparties offering higher rates of investments in order to maximise returns within the boundaries of the investment strategy. As the average rate achieved was higher than budgeted and with the balances held being higher than budgeted this resulted in £23.5k of additional income.

- 3.6 The 2016-17 financial year has continued to be a testing and difficult economic environments in which to manage investments. It has featured a number of very significant changes in the performance of the UK as well as the global economy. This was not an easy backdrop in which to undertake treasury management activities, particularly investments but the Council has worked hard to maximise returns which has resulted in an increased average rate of return as outlined in para 3.5.

- 3.7 The investment portfolio has now changed to incorporate more diversification in terms of both counterparty and maturity. As interest rates are currently at low levels it is not a good time to be locking funds into very long term investments through standard bank deposits and therefore the lengthening of the portfolio out to twelve months is currently as far as is reasonable for these types of investments. In order to maximise investment returns the council made a number of changes to the strategy during the year which are summarised in section 4 of appendix A with the main change being the addition of property funds as an investment option.

During 2016/17 an internal audit of Treasury Management function was undertaken and the audit team were able to provide a substantial level assurance that all processes and controls were operating affectively across all areas of the audit. In addition to this no issues or areas of improvement were identified. This reflects the operational effectiveness and due diligence of officers in their role as custodians of public funds for Melton.

Officers have also updated the Treasury Management Practices (TMPs) which set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are operational practices which ensure roles, responsibilities and practices are clear and understood by officers. In line with good practice it is important these are kept up to date and reflect the current day to day operations

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The Annual Report provides details of all the Treasury Management activities undertaken during the year.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity.

7.0 COMMUNITY SAFETY

- 7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

- 8.1 There are no direct equality issues arising from this report.

9.0 RISKS

- 9.1 These are assessed as part of the Central Services Service Plan. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council.

10.0 CLIMATE CHANGE

- 10.1 There are no climate change issues arising from this report.

11.0 CONSULTATION

11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year. Members of the Budget & Strategic Planning Working Group reviewed this report at their meeting held on the 7th June 2017.

12.0 WARDS AFFECTED

12.1 To varying degrees, all wards are affected indirectly.

Contact Officer: Claire Burgess – Senior Management Accountant

Date: 07 June 2017

Appendices: Appendix A – Annual Report on Treasury Management & Prudential Indicators

Background Papers: Statement of Accounts
Final Accounts Working Papers

Reference: X: C'tees, Council & Sub-C'tees/Full Council/2016-17/19-07-17/ Treasury Management Annual Report 2016-17