FULL COUNCIL

12 DECEMBER 2017

REPORT OF CORPORATE DIRECTOR

MID YEAR REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND PRUDENTIAL INDICATORS 2017-18

1.0 PURPOSE OF REPORT

1.1 Revisions to the regulatory framework of Treasury Management during 2009 introduced a requirement that the Council receive a mid year treasury review in addition to the annual report and strategy on treasury management. The CIPFA Treasury Management Panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the Audit Commission entitled 'Risk and Return' identifies the need for Local Authorities to report regularly to members in addition to the annual review

1.2 The report meets the above requirement and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure and the Councils prudential indicators (PI's). The treasury strategy and PI's were previously reported to Council on 8 February 2017. Revisions to future years are provided where required.

2.0 RECOMMENDATIONS

The Budget and Strategic Planning Working Group recommends to the Council that:

2.1 The mid-year position on treasury activity for 2017-18 be noted;

2.2 The mid-year position on prudential indicators be noted and approved;

2.3 Members note the changes to investment criteria under the MiFID II regulation changes and the recent consultation on changes to the Treasury Management CIPFA Codes.

3.0 KEY ISSUES

3.1 The Treasury Management & Prudential Indicators mid-year report for 2017-18 is attached at Appendix A.

3.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Department for Communities & Local Government (DCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise the Treasury Management services.

3.3 The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments relatively short term (ie less than one year) and with high quality counterparties. The downside of such a policy is that investment returns remain low.

3.4 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.

3.5 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

3.6 New regulations are being introduced as part of EU legislation relating to The Markets in Financial Instruments Directives (MiFID II) from 3rd January 2018 which impacts on investment intermediaries i.e. financial instruments that the Council places its investments through. Under the new regulations local authorities will be classified as de facto “retail” counterparties which means Councils would only be able to use investment vehicles such as term deposits but not pooled investment vehicles such as Money Market Funds or property funds which Melton currently uses.

However, there is an option to ask to opt up to “professional” status subject to meeting qualitative and quantitative criteria that would enable councils to continue investing in pooled investments funds. The Quantitative criteria is made up as follows:

1. A Local Authority has to have an investment portfolio of at least £10m.
And either;
2. 10 transactions per quarter in a relevant market in past 4 quarters
Or
3. At least 1yr experience in professional position in financial markets which requires knowledge of transactions or treasury services.

Based on the current level of balances and experience of Melton officers responsible for placing investments the Council is able to demonstrate it meets the criteria outlined above in order to enable it to continuing placing investments in accordance with Council’s treasury strategy.

Officers are currently working with the relevant investment institutions to complete the necessary ‘opting up’ forms in readiness for January 2018. However, it should be noted the ‘opting up’ process will need to be undertaken on an annual basis and if the Council’s total investments dropped below £10m then this could impact on the investment funds the Council could use and in turn the investment rates / income the Council could achieve.

3.7 The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November 2017.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers have responded to the consultation and are monitoring developments as they move forward. We will report back to members when the new codes have been agreed and update on the likely impact on this authority.

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 mid-year and annual report provides details of all Treasury Management activities. The Council’s budgeted gross investment return for 2017/18 is £67k, and current year end is forecast to be in excess with a prediction that £139k will be achieved. This is due to a combination of reserve balances being higher than predicted due to slippage on the HRA capital programme, working capital being higher in general and average rate of return (1.10%) being higher than predicted which mainly relates to the Councils investment in a property fund which is achieving a rate of return of circa 4%.

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 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 In order to minimise risk the TMSS ensures the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk, whilst also seeking to maximising returns.

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.

12.0 **WARDS AFFECTED**

12.1 To varying degrees, all wards are affected indirectly.

Contact Officer	Claire Burgess, Senior Management Accountant
Date:	8 November 2017
Appendices :	Appendix A – Mid Year Report on Treasury Management & Prudential Indicators
Background Papers:	Statement of Accounts Final Accounts Working Papers
Reference :	X : Committees/Council/2017-18/13-12-17/Treasury Management Mid-Year Report 2017-18