CORPORATE COMMITTEE

9 JULY 2018

REPORT OF DIRECTOR FOR CORPORATE SERVICES

ANNUAL REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2017-18

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 2017-18. 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 2017-18 be approved for submission to the Council and;

2.2 The actual position on Prudential Indicators for 2017-18 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 2017/18 financial year were approved by Full Council as part of the budget setting process on 8 February 2017:-

1. Borrowing and Investment Objectives.
2. Capital Finance Objectives.
3. Investment and Borrowing Strategies.
4. Borrowing limits.

3.2 Updates have been provided to Members on a quarterly basis through the Members Newsletter of which the format is currently being reviewed.

3.3 Continued 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. Moving forward this committee will undertake the scrutiny function following the recent governance review.

3.4 During 2017-18 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	2016/17 Actual £m	2017/18 Original £m	2017/18 Actual £m
Capital expenditure	6.755	7.010	4.012
Capital Financing Requirement: • Non-HRA • HRA • Total	 0.126 31.484 31.610	 0.113 31.484 31.597	 0.113 31.484 31.597
Gross borrowing / Debt	31.413	31.413	31.413
Investments	Investments of £20.5m are for less than one year	Investments of £9m are for less than one year. £2m was also anticipated to be allocated in a property fund which is longer than 1 year	Investments of £18.1m are for less than one year. The property fund of £2m is longer than 1 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 2018, the Council's external debt was £31.413m (£31.413m at 31 March 2017) and its investments totalled £20.1m (£20.5m at 31 March 2017).

The anticipated level of investments in 2017/18 was forecast in the February 2017 following which the level of investments have been higher than predicted due to an underspend on the both the capital programme in 2016/17 and 2017/18. Also, during the course of the year the cash balances have been higher.

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 reduced in respect of the General Fund (-2.74% in 2017-18 compared to -0.78% in 2016-17) and decreased marginally in respect of HRA (13.23% in 2017-18 compared to 13.67% in 2016-17 as per Appendix A). You will notice that there has been little movement between the two years on the HRA due to debt levels being stable. On the general fund there are no financing costs (i.e. no debt) therefore whilst there have been movements between the two years it is still a negative position overall.

b) The gross borrowing except in the short term should not exceed the CFR and at the 31 March 2018 was below that figure, primarily due to 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 1.00% when compared to 0.70% in 2016-17, this was mainly due to investment in the property fund which achieved an average return during the year of 4.865% and income of £82k. As the average rate achieved was higher than budgeted and with the balances held being higher than budgeted this resulted in £189k of additional income against the original budget (£43k against predicted year end position).

3.6 The 2017-18 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 previous year of which the main change being the addition of property funds as an investment option. The Council placed £2m into a CCLA property fund which has generated positive returns for the Council as outlined in para 3.5 (c).

3.8 Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was 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 was 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. Therefore, officers intend to bring an updated Capital Strategy to members during 2018/19 to meet the new requirements of the code

3.9 Markets in Financial Instruments Directive (MiFID II)

New regulations were 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 was 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 was 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 at the time and experience of Melton officers responsible for placing investments the Council was able to demonstrate it meet the criteria outlined above in order to enable it to continuing placing investments in accordance with Council's treasury strategy.

Officers duly completed all the necessary 'opting up' forms, 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.

3.10 Housing Company

The Council is in the process of developing a Collaborative Housing Development Company with other district Councils across Leicestershire with the initial objectives to develop housing for mixture tenure and maximise affordable housing delivery. If this progresses then the Council may be required to put some funding into this that may be sourced through external borrowing. Any additional income generated will be used to support the Councils Medium Term Financial Plan and would feature as a key element of the Budget Management Strategy as a way of generating income to help address the budget deficit over the medium term.

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 Corporate Services Risk Register. 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.

12.0 **WARDS AFFECTED**

12.1 To varying degrees, all wards are affected indirectly.

Contact Officer:	Natasha Allsopp – Senior Management Accountant
Date:	12 June 2018
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/Corporate Committee/2018-19/09-07-2018/ Treasury Management Annual Report 2017-18