CORPORATE COMMITTEE

28 NOVEMBER 2018

REPORT OF DIRECTOR FOR CORPORATE SERVICES

MID YEAR REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND PRUDENTIAL INDICATORS 2018-19

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 7 February 2018. Revisions to future years are provided where required.

2.0 RECOMMENDATIONS

The Corporate Committee recommends to The Council that:

2.1 The mid-year position on treasury activity for 2018-19 be noted;

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

3.0 **KEY ISSUES**

3.1 The Treasury Management & Prudential Indicators mid-year report for 2018-19 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 Treasury Management Practices

Officers have also refreshed the Treasury Management Practices (TMPs) in line with the revised CIPFA Guidelines (2017). The TMPs 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 and reflect any changes required due to updates in the statutory regulations and guidelines.

3.7 IFRS9

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments such as property funds which the Council has. In effect for Melton this would mean that any change in value in its property fund in any given year would need to be charged to the revenue account and would therefore impact on the net positon of the council. However, the government have now announced their intention to put in place a statutory override for an initial period of 5 years, which will ensure that there is no impact on the General Fund . If the council is to continue with such investments it will be necessary to monitor the potential impact of such fluctuations in value and identify solutions to mitigate the impact on the council's revenue budget once the override is removed so the council can continue to benefit form the higher returns such investments bring.

3.8 Capital Strategy

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. This needs to be considered alongside the Council's budget each year. Therefore, officers intend to bring an updated Capital Strategy as part of the 2019/20 budget setting process to meet the new requirements of the code

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 2018/19 is £182k, and the current year end is forecast to be in excess with a prediction that £252k will be achieved, a proportion of which is credited to the HRA. The increase in the forecast 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 (1.19%) 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	Barry Dryden, Interim Senior Management Accountant
Date:	13 November 2018
Appendices :	Appendix A – Mid Year Report on Treasury Management & Prudential Indicators
Background Papers:	Statement of Accounts Final Accounts Working Papers
Reference :	X : Committees/Corporate/2018-19/28-11-18/Treasury Management Mid-Year Report 2018-19