Melton Borough Council

Council

17 July 2019

Report of:	Leader of the Council

ANNUAL REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2018-19

1.0	Corporate Priority:	Decision Type:
1.1	OG3 Becoming a more agile and commercial Council; securing our financial future	Non Key Decision

2.0	Summary:
2.1	The Annual Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities in 2018-19. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code
2.2	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.

3.0	Recommendations
3.1	**The Treasury Management Annual Report including the Prudential Indicators for 2018-19 is approved.**

4.0	Reason for Recommendation:
4.1	The Treasury Management Code requires the Council to provide an annual report on Treasury Management activities to the Council. Is a requirement that this report is approved by Council following scrutiny by the Cabinet.
4.2	To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators.

5.0	Alternate Options Considered
5.1	No alternatives were considered for this report as a decision is not required.

6.0	Report Detail
6.1	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

2018/19 financial year were approved by the Council as part of the budget setting process on 8 February 2018:-

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

6.2 Updates have been provided to Members on a quarterly basis through the Members' Bulletin. The way it is communicated through this is currently being reviewed to make it more user-friendly.

6.3 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 bringing them to this meeting before they are reported to the Council for approval.

6.4 During 2018-19 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	**2017/18 Actual £m**	**2018/19 Original £m**	**2018/19 Actual £m**
Capital expenditure	4.012	8.367	3.478
Capital Financing Requirement: • Non-HRA • HRA • Total	 0.113 31.484 31.597	 0.101 31.484 31.585	 0.101 31.484 31.585
Gross borrowing / Debt	31.413	31.413	31.413
Investments: Less than 1 year Longer than1 year	 £18.1m £2.0m (Property Fund)	 £10.2m £2.0m (Property Fund)	 £18.7m £2.0m (Property Fund)

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 2019, the Council's external debt was £31.413m (£31.413m at 31 March 2018) and its investments totalled £20.7m (£20.1m at 31 March 2018).

The anticipated level of investments in 2018/19 was forecast at £12.2m in February 2018. Since this forecast the level of investments have been higher than predicted due to an underspend on the capital programme in 2017/18 and 2018/19 and higher levels of reserves.

6.5 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 (-3.80% in 2018-19 compared to -2.74% in 2017-18) and increased marginally in respect of HRA (30.49% in 2018-19 compared to 30.44% in 2017-18 as per Appendix A), due to a reduction in income. 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 the change between years is due to increased investment returns.

b) The gross borrowing, except in the short term, should not exceed the CFR. This is to ensure that borrowing levels are prudent and, over the medium term, the Council's external borrowing, net of investments, is only utilised for a capital purpose. As at the 31 March 2019 gross borrowing was below the CFR, primarily due to a small amount of internal borrowing on the HRA.

c) The overall investment rate of return was 1.32% compared to 1.00% in 2017-18.

d) With both the level of balances available for investment and rate of return being higher than budgeted, this has resulted in £142k of additional income against the original budget (£102k against predicted year end position) This is across both the General Fund and HRA.

6.6 The 2018-19 financial year has continued to be a testing and difficult economic environment in which to manage investments with investment returns continuing to remain low. Despite disappointing GDP growth figures earlier in the year, there was a gentle rise in investment returns in advance of an increase in the Bank Rate in August. Any subsequent increases in investment rates have since been offset due to concerns regarding Brexit. 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 6.5.

6.7 The investment portfolio has continued 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 portfolio does not extend beyond twelve months. However, in order to maximise investment returns the Council continues to hold £2m in a CCLA property fund which has generated positive returns for the Council.

6.8 Implementation of IFRS9

The implementation of IFRS9 has resulted in a change in the treatment of the £2m investment in the CCLA property fund, such that fluctuations in the value of the fund now impact on the Surplus or Deficit on the Provision of Services.

Following consultation, the MHLG have introduced a mandatory statutory override to mitigate any effect on the General Fund. However, this override has been limited to 5 years to allow councils time to adjust their portfolio of investments, if that is felt necessary. Consideration is being given as to how any variation could be mitigated on the revenue account.

Moving forward the Council will need to decide whether to establish a reserve from any surpluses generated in year from the property fund in order to help offset any potential deficits that might arise in future in advance of the statutory override being removed.

7.0 Consultation and Feedback (including Scrutiny Committee)

7.1 Consultation has been undertaken with the Portfolio Holder regarding the positon for the 2018-19 financial year and Cabinet has reviewed this at their meeting on the 9th July 2019.

8.0 Next Steps

8.1 None

9.0 Financial Implications

9.1 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.

10.0 Legal and Governance Implications:

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

11.0 Equality and Safeguarding Implications:

11.1 There are no direct equality or safeguarding issues arising from this report.

12.0 Community Safety Implications:

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

13.0 Other Implications (HR, Data Protection, Climate Change, etc)

13.1 No other implications have been identified

14.0 Risk & Mitigation:

14.1 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.

Background Papers:

Treasury Management Strategy Statement 2018/19
Statement of Accounts 2018/19

Appendices

Report Timeline:

Equalities Check & Challenge

SLT Sign off

Previously Considered by Cabinet 9.7.19

Director Approval 5.7.19

Chief Finance Officer Sign Off 5.7.19

Monitoring Officer Sign Off

Chief Executive Sign Off

Exempt Reports

n/a

Date of Review to make public

n/a

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