Melton Borough Council
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Cabinet

15 July 2020

Report of: Councillor Ronnie de Burle - Portfolio Holder for Corporate Finance and Resources

Treasury Management Annual Report 2019/20

Corporate Priority:	OG3 Becoming a more agile & commercial Council; securing our financial future
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 The report provides a summary of the Treasury activities in 2019-20. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code.

2 Recommendations

That Cabinet:

2.1 approves the Treasury Management Annual Report for 2019-20 for submission to the Council

2.2 note the actual position on Prudential Indicators for 2019-20

3 Reason for Recommendations

3.1 It is important that Cabinet are aware of the Council's Treasury Management performance to ensure they can make informed decisions that protect the Council's financial assets while taking regard of financial stability and potential returns.

3.2 The Annual Treasury Report is a requirement of the Council's reporting procedures

3.3 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.

4 Background

4.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. The following documents in respect of the 2019/20 financial year were approved by the Council as part of the budget setting process on 13 February 2019:-

- Borrowing and Investment Objectives
- Capital Finance Objectives
- Investment and Borrowing Strategies
- Borrowing Limits

4.2 Updates have been provided to Members during the year through the Members Newsletter.

4.3 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 this meeting before they are reported to the Council.

4.4 During 2019-20 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	2018/19 Actual £m	2019/20 Original £m	2019/20 Actual £m
Capital expenditure	3.478	3.724	3.168
Capital Financing Requirement: • Non-HRA • HRA • Total	 0.101 31.484 31.585	 0.089 31.484 31.573	 0.089 31.484 31.573
Gross borrowing / Debt	31.413	31.413	31.413

Prudential and treasury indicators	2018/19 Actual £m	2019/20 Original £m	2019/20 Actual £m
Investments: Less than 1 year Longer than1 year	 £18.7m £2.0m (Property Fund)	 £18.1m £2.0m (Property Fund)	 £18.5m £2.0m (Property Fund)

4.4.1 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 2020, the Council's external debt was £31.413m (£31.413m at 31 March 2019) and its investments totalled £20.1m (£20.7m at 31 March 2019).

4.4.2 The anticipated level of investments in 2019/20 was forecast at £20.1m in February 2019. Since this forecast the level of investments have been higher than predicted due to an underspend on the capital programme in 2019/20.

4.5 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.

4.5.1 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 2019-20 compared to -3.74% in 2018-19) and increased marginally in respect of HRA (31.96% in 2019-20 compared to 30.49% in 2018-19 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 31 March 2020 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 1.25% compared to 1.20% in 2018-19.

d) With both the level of balances available for investment and rate of return being higher than budgeted, this has resulted in £138k of additional income against the original budget. This is across both the General Fund and HRA.

4.6 The 2019-20 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 2019. 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 4.5.

4.7 The investment portfolio has continued to incorporate more diversification in terms of both counterparty and maturity. As interest rates are currently at low levels given the impact of COVID-19 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.

4.8 **Impact of Covid-19**

The onset of Covid-19 began to have an impact towards the end of 2019/20, resulting in the following:

- The Bank of England reduced the Bank Rate to 0.1% with a corresponding impact on short term investment rates.
- The Council's property Fund investment has shown a fall in valuation of around 5% at the start of 2020/21
- In March 2019 the counterparty limit for MMF investments was increased to £6m to allow management of £11.7m business grant funding provided by Government.
- The implementation of IFRS 16 bringing currently off balance sheet leased assets on to the balance sheet, has been delayed for one year to 2020/21.

4.9 **Implementation of IFRS9**

4.9.1 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.

4.9.2 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.

4.9.3 In 2019/20 there was a reduction in the valuation of the property fund of £74,000 but at present this is just a notional loss. The fund value could reduce further over the course of 2020/21 but in the long term the fund managers expect the fund value to return to previous levels as the economy recoveries from COVID-19. Moving forward the Council has previously approved the establishment of a reserve in order to help offset any potential deficits that might arise in future in advance of the statutory override being removed. The 2020/21 budget includes a budget provision of £60k as part of the managed contributions in the medium term to build up a reserve fund to be called on in the future if required.

5 Main Considerations

5.1 Considerations have been addressed in paragraph 4 to this report.

6 Options Considered

6.1 No other options considered. If the report was not provided councillors would not be aware of ongoing developments and therefore would not be able to represent their residents effectively.

7 Consultation

7.1 Consultation has been undertaken with the portfolio holder regarding the positon for the 2019-20 financial year.

8 Next Steps – Implementation and Communication

8.1 This report will be submitted to the Council meeting on 22nd July 2020.

9 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.

9.2 The impact of COVID-19 continues to be felt with interest rates and associated investment returns reducing. It is still early in the financial year and whilst officers are continuing to maximise returns there is likely to be a shortfall against the investment income budget which will add to the growing financial pressure the Council is facing during this national crisis.

Financial Implications reviewed by: Director for Corporate Services

10 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.

Legal Implications reviewed by: Director for Governance and Regulatory Services

11 Equality and Safeguarding Implications

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

12 Community Safety Implications

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

13 Environmental and Climate Change Implications

13.1 No implications have been identified.

14 Other Implications (where significant)

14.1 No other implications have been identified

15 Risk & Mitigation

These are assessed as part of the Corporate Services Risk Register.

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2020-21 as result of COVID-19 and associated reduction in interest rates	High	Marginal	Medium Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council. A fund has been established to mitigate any losses in the property fund.	Low	Marginal	Low Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High		1		
	4 Significant				
	3 Low		2		
	2 Very Low				
	1 Almost impossible				

16 Background Papers.

16.1 Treasury Management Strategy Statement 2019/20

17 Appendices

17.1 Appendix A – Annual Treasury Management Review 2019/20

Report Author:	**David Scott**, Corporate Services Manager
Report Author Contact Details:	01664 504448 dscott@melton.gov.uk
Chief Officer Responsible:	**Dawn Garton**, Director for Corporate Services
Chief Officer Contact Details:	01664 502444 DGarton@melton.gov.uk