COUNCIL: 18 October 2017

Report of: Borough Treasurer

Contact for further information: Mr M Kostrzewski (Extn.5374)
(E:mail: Mike.Kost@westlancs.gov.uk)
Mr J Smith (Extn.5093)
(E-mail: Jonas.Smith@westlancs.gov.uk)

SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING 2017-18

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To set out details of Treasury Management operations in the year to date and to report on the Prudential Indicators for 2017/18, where available.

2.0 RECOMMENDATION

2.1 That the Prudential Indicators and Treasury Management activity in the year to date be noted.

3.0 BACKGROUND

3.1 The Council has adopted the CIPFA Treasury Management Code of Practice in Local Authorities. One condition of the Code is that a report must be made twice yearly to the Council on the activities of the Treasury Management function including the exercise of Treasury Management powers delegated to the Borough Treasurer.

3.2 The CIPFA Prudential Code for Capital Finance sets out a range of prudential indicators to assess whether an authority's financial position is prudent, affordable and sustainable. It is best practice that performance on these indicators is reported to Members on a regular basis.

4.0 PRUDENTIAL INDICATORS

4.1 One of the Council's main strengths is its healthy financial position, and the Council has consistently received reports from its external auditors stating that the Council has a strong financial standing. This position is confirmed in this latest set of prudential performance indicators that are set out in the Appendix.

4.2 Table 1 in the Appendix details the estimated and the projected outturn in relation to the principle of affordability contained within The Prudential Code for the current financial year. The first indicator shows that the GRA has a low ratio of financing costs compared to net revenue stream. The HRA position has changed markedly since the introduction of self-financing in March 2012. The borrowing undertaken of some £88.212m attracts annual interest payments of £3.057m, which represents 12.65% of revenue, after allowing for some investment income.

4.3 Table 2 in the Appendix details the Prudential Indicator in relation to capital expenditure, which fall under the principle of prudence. The estimate with slippage, revisions and amendments, was reported at Cabinet on 12th September 2017. This report shows that expenditure is not being committed above budget targets

4.4 There is also a requirement to report upon the Capital Financing Requirement of the Council. This indicator details the authority's underlying need to borrow for a capital purpose. At the end of the financial year 2016/17 the capital financing requirement stood at £101.727m. Due to its nature this indicator can only be reported upon when the non current asset accounts are closed, and the figure for the 2017/18 financial year will not be available until Summer 2018.

4.5 With regard to the Treasury Management Prudential Indicators two of these relate to approved borrowing limits namely, the authorised limit for external debt and the operational boundary. Council agreed these limits at, £112.0m and £108.1m respectively at its meeting on 22nd February 2017, and we are currently well within these limits. Table 3 in the Appendix details the borrowing structure and interest payments associated with our debt.

5.0 INVESTMENTS

5.1 The Treasury Management function within Local Government still remains very subdued, with a clear priority to protect money invested as opposed to trying to obtain the highest returns. There have been on average fewer funds available for investment during the current year compared to last year. The average amount of funds invested for the first 5 months of 2017/2018 was £15.9m compared to £17.3m after the same period in 2016/2017.

5.2 The Base Rate started the year and remains at 0.25%. Our financial advisors, Capita have forecast that the base rate will remain at this level until the end of March 2019. It is therefore anticipated that this year, we will earn less interest than in 2016/17. The other main factor in the anticipated reduction in investment income is as mentioned in paragraph 5.1, i.e. an average £1.4m less out on investment compared to last year. Additionally, the average interest rate earned on investments to date this year has decreased from 0.509% in 2016/17 to 0.213%.

5.3 The Council's strict investment criteria combined with the current state of the financial markets means that there are only a limited number of counter parties that we can invest in. These criteria mean that the Council will only invest with other Local Authorities or with UK based Banks or Building Societies with an excellent credit rating. The maximum period for investments is also limited to 3 months. While these criteria limit the interest rates that can be achieved they do ensure that public funds are safeguarded.

5.4 The following table provides details on investment activity during the first 5 months of this year and last year.

	End of Aug 2017/18	End of Aug 2016/17
Investment levels		
Average Funds invested	£15.9 million	£17.3 million
External Investment Interest earned	£21,521	£42,967
Turnover	£29.75 million	£19.5 million
Number of individual investments	15	12
Average Rate earned on all investments	0.236%	0.509%
Number & type of organisations invested in		
Local Authorities	0	0
Building Societies	3	3
Banks	3	3

5.5 As part of the ongoing work to achieve Best Value in Treasury Management, we continually monitor our performance against a benchmark figure of the average 3-month LIBID interest rate. The position at the end of August is that we have exceeded this target, achieving an average rate of interest earned of 0.213%, on all investments, against the benchmark average of 0.18%.

5.6 Each year our treasury management advisors (Capita) undertake a review of our treasury management activities and this is set to take place in October of this year.

5.7 There is still a situation of safety first and precaution in the banking and monetary sector. However, Members should note that investments are only made in very secure financial institutions with excellent credit ratings and we have continued with the policy of limiting investments to a maximum length of three months. We liaise closely with money market brokers and our treasury advisors in order to anticipate the investment landscape ahead, so that we are in a good position to safeguard our investments.

6.0 TREASURY MANAGEMENT FRAMEWORK

6.1 There have not been any significant changes made to the treasury management framework in the year to date. It is standard practice that credit rating and other financial information are fully assessed before investments are made to ensure their security.

6.2 No changes have been made to the criteria used for deciding upon counterparties for investment purposes since last reported. Nor has the maximum amount and loan period for investing with a single organisation changed. In addition no changes have been made to the list of Brokers used for investment purposes.

7.0 DEVELOPMENTS

7.1 CIPFA have issued consultations on proposed changes to the Code of Practice on Treasury Management and the Prudential Code. The closing date for this process is the end of September 2017. There are a number of proposals put forward and the results of the consultation and final implications will be reported in due course.

7.2 The Markets in Financial Instruments Directive, which is an EU Directive commonly referred to as MIFID ii. is coming in to force in the UK from January 2018. It is framework European Legislation with the objective of improving financial markets and investor protection. It is tightening current arrangements that were introduced in 2007 although it is considered that this will have limited impact on the Council.

8.0 SUSTAINABILITY IMPLICATIONS

8.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

9.0 RISK ASSESSMENT

9.1 The formal reporting to Council of Prudential Indicators and Treasury Management performance is part of the overall framework set out in Codes of Practice to ensure that the risks associated with this area are effectively controlled. Given the Council’s strict investment criteria the risk of loss of investment funds is low, however given that the sums invested can be very large, treasury management activities are included in the Council’s Key Risk Register.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date	Document	File Ref
2003	CIPFA Prudential Code for Capital Finance	Accountancy Office
2010	CIPFA Revised Treasury Management Code of Practice	Accountancy Office

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Appendix A – Prudential Indicators