EPPING FOREST DISTRICT COUNCIL
COMMITTEE MINUTES

Committee:	Finance and Performance Management Cabinet Committee	**Date:**	Thursday, 13 September 2018
Place:	Council Chamber - Civic Offices	**Time:**	7.00 - 8.15 pm
Members Present:	Councillors A Lion, S Stavrou, C Whitbread, H Kane and S Kane		
Other Councillors:	Councillors B Vaz		
Apologies:	G Mohindra and J Philip		
Officers Present:	P Maddock (Assistant Director (Accountancy)), D Macnab (Acting Chief Executive), S Hill (Service Director (Governance & Member Services)), D Bailey (Head of Transformation), G. Nicholas (Senior Project Improvement Officer), M Chwiedz (Senior Project Manager), G Woodhall (Senior Project Manager), R Perrin (Senior Democratic Services Officer) and P Seager (Chairman's Secretary)		

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20. Webcasting Introduction

The Chairman reminded everyone present that the meeting would be broadcast live to the Internet and that the Council had adopted a protocol for the webcasting of its meetings.

21. Substitute Members

The Cabinet Committee noted that Councillor S Kane would substitute for Councillor J Philip and Councillor H Kane would substitute for Councillor G Mohindra at this meeting.

22. Appointment of Chairman

In the absence of the Chairman, the Leader requested nominations for this role, for this meeting.

RESOLVED:

That Councillor C Whitbread be elected as Chairman for the duration of the meeting.

23. Declarations of Interest

There were no declarations of interest pursuant to the Council's Code of member Conduct.

24. Minutes

RESOLVED:

That the minutes held on 26 July 2018 be taken as read and signed by the Chairman as a correct record.

25. Any Other Business

That, as agreed by the Chairman of the Cabinet Committee and in accordance with Section 100B(4)(b) of the local Government Act 1972, the following items of urgent business be considered following the publication of the agenda;

- Corporate Plan 2018-2023 – Benefits Maps, Performance Indicator

26. Corporate Plan 2018-2023 - Benefits Maps, Performance Indicator

The Head of Transformation, D Bailey presented a report regarding the Corporate Plan 2018-2023 – Benefits Maps, Performance Indicator Set and Targets following a request from this Cabinet Committee for further discussions between Joint Cabinet and Management Board.

The Head of Transformation advised that the new Corporate Plan ran from 2018/19 to 2022/23, which laid out the journey that the Council would take to transform the organisation to be 'Ready for the future'. The plan linked the key external drivers influencing Council services, with a set of corporate aims and objectives, grouped under three corporate ambitions. The success of the new Corporate Plan would be assessed through the achievement of a set of benefits, focussed on what the Council achieved for customers. These benefits in turn were evidenced through a set of performance indicators, with each indicator having a target and red and/or amber tolerance thresholds. The Corporate Specification for each year detailed how the Corporate Plan was being delivered through operational objectives and linked to annual business plans, projects and programmes from the Transformation Programme.

Resolved:

(1) That the Corporate Plan benefits maps and performance indicator set be agreed; and

(2) That the proposed targets and tolerance thresholds for the performance indicator set be agreed.

Reasons for Decisions:

The Council had ambitious plans for the future and a clear corporate plan was essential. The Corporate Plan sets out a clear and cohesive view from strategic drivers, through aims and objectives, to benefits which measure real improvements for customers. This plan would enable the Council to focus on what was most important to our stakeholders – what 'good' looks like. The Corporate Plan includes a set of benefits maps which show how the success of the plan would be measured, and collectively indicate how well the Council was delivering the benefits to our customers. These arrangements demonstrate how the Council secures the management of change and continuous improvement, having regard for economy, efficiency and effectiveness. A set of performance indicators and benefits measures were agreed each year, with targets.

The Corporate Plan 2018-2023 was adopted by Council in December 2017. It was agreed that the four Select Committees (Communities, Governance, Neighbourhoods and Resources) be consulted on the draft benefits maps and performance indicator

set. This consultation ensured that the benefits maps had both the style and the content which the Select Committees found most useful in undertaking their scrutiny of Council performance. The Head of Transformation advised that the final benefits maps and performance indicator set profiles were to be agreed by the Finance and Performance Management Cabinet Committee, in consultation with the Head of Transformation.

Other Options Considered and Rejected:

The Committee could, in consultation with the Head of Transformation, agree that specific components of the proposed performance indicator set, targets and/or benefits maps be further reviewed, amended or removed, or new components be considered and included (Report to Cabinet, 7 December 2017).

The Committee could ask for specific components of the Corporate Plan be further reviewed, amended or removed, or new components be considered and included, as authorised by the Leader of the Council in consultation with the Chief Executive (Report to Council, 21 December 2017).

27. Corporate Plan 2018-2023 Performance Report Q1

The Head of Transformation, D Bailey presented the outturn position for Quarter 1 2018/19, in relation to the achievements of the Corporate Plan for 2018/2023.

The Corporate Plan 2018-2023 was the authority's key strategic planning document which laid out the journey the Council would take to transform the organisation to be 'Ready for the Future'. The plan linked the key external drivers influencing Council services, with a set of corporate aims and objectives, grouped under three corporate ambitions. A Corporate Specification for each year, which were previously called the Key Action Plan detailed how the Corporate Plan was being delivered through operational objectives, with these in turn linked to annual Service business plans. The success of the Corporate Plan was assessed through the achievement of a set of benefits, each measured through one or more performance indicator, focussed on what the Council achieves for customers. Management Board, Cabinet and the Scrutiny Select Committees had the overview and scrutiny roles to drive improvement in performance and ensure corrective action was taken where necessary.

The Head of Transformation advised that at Quarter 1 - 2018/19, the within the three Corporate ambitions, Stronger Communities had two Performance Indicators below target, Stronger Places had one Performance Indicator below target and Stronger Council had one Performance Indicators within the amber warning.

Further details were given on these Performance Indicators, as follows;

Stronger Communities

- M2.1 Number of safeguarding concerns. This was a new measurement with possible seasonal variations and the baseline had been set with a 1% increase on the cumulative 2018/18 statistics. A truer reflection may be realised later in the year for any corrective actions.
- M2.2 Number of days to process benefit claims. The performance had not been on target due to a lack of resources and long term sickness which was expected to improve in the next quarter.

Stronger Places

- M3.1 Number of Community Champions and Volunteers. The first quarter had been used to establish the project and the Voluntary Action Epping Forest (VAEF) were currently finding out where volunteers had been placed and pushing the recruitment process for community leaders and volunteers.

Stronger Council

- M10.2 Annual Council Tax Collection. The target had been missed by 0.01%.

The Cabinet Committee were concerned about the lay out of the information supplied and asked that Performance Indicators which missed their targets, be supplied as a separate document to clearly set out areas of concern. Furthermore clarification was sought on how these Performance Indicators would get back on target. The Senior Project Manager's advised that they consulted with the Project Managers and Project Sponsors to ensure action was being taken.

Resolved:

(1) That the outturn position for Quarter 1 2018/19, in relation to the achievement of the Corporate Plan for 2018-2023 ne noted.

Reasons for Decisions:

This combined report brings together the performance of the Council against the Corporate Plan and gave 'clear line of sight' for performance across the Council via the new benefits maps and performance indicator set. The benefits maps provided an opportunity for the Council to focus attention on how specific areas for improvement would be addressed, and how opportunities would be exploited and better outcomes delivered. It was important that relevant performance management processes were in place to review and monitor performance against performance indicators to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of slippage or under performance.

Other Options Considered and Rejected:

No other options were appropriate in this respect. Failure to monitor and review performance and to consider corrective action where necessary could have negative implications for judgements made about the Council's progress, and might mean that opportunities for improvement were lost.

The Committee could, in consultation with the Head of Transformation, agree that specific components of the proposed performance indicator set, targets and/or benefits maps be further reviewed, amended or removed, or new components be considered and included (Report to Cabinet, 7 December 2017).

The Committee could ask for specific components of the Corporate Plan be further reviewed, amended or removed, or new components be considered and included, as authorised by the Leader of the Council in consultation with the Chief Executive (Report to Council, 21 December 2017).

28. Transformation Programme - Project Dossier

The Head of Transformation, D Bailey reported that the Project Dossier attached to the agenda updated the Cabinet Committee on the progress made by all active High

and Medium complexity programmes and projects within the Transformation Programme, including the current project lifecycle stage, the current project status, and the level of completion of the project (expressed as a percentage). The programme was a collection of related projects, which delivered outcomes and benefits directly connected to a strategic objective. The project dossier had been produced on 31 August 2018 to be incorporated within the agenda, although live information could be retrieved via Pentana, which was accessible to both Members and Officers.

The Cabinet Committee expressed concern that some of the projects appeared to be 100% complete, yet were still appearing or that the latest note did not reflected the status. Furthermore, the Senior Project Managers should contact the Project Managers for progress reports on the morning of the Cabinet Committee to enable them to given up to date information.

The Service Director, Governance and Members Services advised that there may have been some issues with the Project Managers changing due to the new structure and Leadership Team, shortly implemented.

Resolved:

That the updated Project Dossier for the Transformation Programme be noted.

Reasons for Decision:

To update the Cabinet Committee on the progress made by all of the High and Medium complexity programmes and projects within the Transformation Programme, as contained within the attached Project Dossier.

Other Options for Action:

None, as this was an update report.

29. Risk Management - Corporate Risk Register

The Assistant Director (Accountancy) presented a report regarding the Council Corporate Risk Register.

The Corporate Risk Register had been considered by the Risk Management Group on 13 August 2018 and Management Board on 15 August 2018. The reviews identified updates for the current risks and removal of one risk as follows;

(a) Risk 1 Local Plan

The Risk Vulnerability had been updated to advise the Local Plan submission deadline of the 24 January 2019. Failure to submit the Local Plan to the Secretary of State for Independent Examination would result in the Council having to use the standard methodology for the assessment of housing need. The risk Trigger had also been updated to advise that the Council was awaiting the decision on an application from the claimants to the Court of Appeal to seek leave to appeal the High Court decision, which dismissed the claim for judicial review. This was holding up the submission of the Local Plan Submission Version (LPSV) for independent examination.

(b) Risk 2 Strategic Sites

The Effectiveness of Controls/Actions had been updated. Epping Forest Shopping Park had been removed from the list of strategic sites, as letting of all units neared completion and the site was now operational.

(c) Risk 8 Partnerships

The risk which was scored C3 (Medium Likelihood/Minor Impact) had been removed from the Corporate Risk Register. Both the Risk Management Group and Management Board believed that the risk could now be managed at Directorate level.

(d) Risk 9 Safeguarding

The Required Further Management Action had been updated to advise the Safeguarding Strategy and Action Plan was to be reviewed during 2018/19.

The Cabinet Committee raised concerns regarding the effect of online shopping on the high street and asked what actions were being put in place to safe guard the Council. The Acting Chief Executive, D Macnab advised that there had been significant changes in customer behaviour but that businesses were adapting and the Council had a more commercial stock with a waiting list for premises. The Assistant Director (Accountancy) P Maddock also advised that the Corporate Governance Group had a 'watch list' for risks that could affect the Council and this could be added.

Resolved:

(1) That the updated Risk Vulnerability and Trigger for Risk 1 be updated;

(2) That the updated Effectiveness of Controls/Actions for Risk 2 be updated;

(3) That Risk 8 be removed from the Corporate Risk Register; and

(4) That the Required Further Management Action for Risk be updated;

Recommended:

(6) That the amended Corporate Risk Register be recommended to Cabinet for approval.

Reasons for Decision:

It was essential that the Corporate Risk Register was regularly reviewed and kept up to date.

Other Options Considered and Rejected:

Members may suggest new risks for inclusion or changes to the scoring of existing risks.

30. Quarterly Financial Monitoring

The Assistant Director (Accountancy) presented the first quarterly monitoring on key areas of income and expenditure for 2018/19, which covered the period from 1 April 2018 to 30 June 2018. The report provided details of the revenue budgets, the Continuing Services Budget and District Development Fund as well as the capital budgets which included the Major Capital schemes. They were presented based on

the directorate responsible for delivering the services to which the budgets related and was intended to be prepared in the new directorate structure for the second quarter monitoring report.

A few points of particular interest were highlighted as follows;

- The salaries schedule shows an underspend of £170,000 or 2.8% compared to the first quarter last year which was an underspend was 2.5%.
- Investment interest was slightly above the target due mainly to the Council holding more cash than was expected. The increase in Interest rates would also have a positive effect going forward though not that significant.
- The Development Control income had been well above expectations with fees and charges £274,000 higher than budgeted although pre-application charges were £5,000 lower than expected. There had been a number of larger schemes coming through and the figures had reached the level expected at month 6.
- Building Control income was £22,000 lower than budgeted due to some administrative issues. The opening position on the ring-fenced account had a surplus of £111,000 after a £4,000 deficit last year. The account was budgeted to show an in year deficit of £87,000 and a review of the position on the account would be undertaken.
- Public Hire licence income was above expectation and other licensing was below expectations. Although a significant number of renewals were due in the autumn which should bring licensing income back into line.
- Income from MOT's carried out by Fleet Operations was below expectations by around £9,000. The account was budgeted to show a deficit of around £33,000 which was around half the original deficit for the previous year.
- Car Parking income was on target, though there would be some income relating to the first quarter that would be received in month 4.
- Local Land Charge income was £4,000 below expectations; however it was a little early in the year to be sure whether this trend would continue.
- Expenditure and income relating to Bed and Breakfast placements had reduced in recent months with invoicing being a little slow from bed and breakfast accommodation providers but also the Housing Benefit caseload had been reasonably static. There were a number of initiatives in place to stem the increase in bed and breakfast usage and evidence suggested that these were having a positive effect.
- There had been no recycling credit income in the first quarter. The County Council were often slow to agree figures in the early part of the year but things tended to catch up by month 6, which occurred last year.
- The waste contract expenditure was in line with expectations but the leisure management contract shows a reduction in income due to some unexpected pension related expenditure. Therefore the full expected saving would now be achieved later than expected.
- The Housing Repairs Fund showed an underspend of £38,000, which related mainly to planned maintenance works. There was also a small variance on HRA Special Services which related to utility costs
- Proposals regarding the Business Rates Retention Scheme advised that 75% of Business Rates would be retained within the local government sector and this would take effect from the financial year 2020/21. Discussions were currently being held with other Essex Authorities to determine whether a bid to Central Government should be made to become a 75% retention pilot for 2019/20.
- For 2018/19 the funding retained by the authority after allowing for the Collection Fund deficit from 2017/18 and the estimated various grants given to compensate the authority for the various reliefs was £4,350,000. This exceeded the government baseline of £3,210,000 by some £1,140,000 and actual position for 2018/19 would not be determined until May 2019.

- Cash collection total was £10,431,815 and payments out were £8,281,279, which meant that the Council was holding £2,150,536 of cash and so the Council's overall cash position was benefitting from the effective collection of non-domestic rates.
- There were four projects included on the Major Capital Schemes schedule relating to the House Building packages 2 and 3, the new Hillhouse Leisure Centre and refurbishment works at Loughton Leisure Centre.

The Acting Chief Executive, D Macnab advised that although income from MOT's carried out by Fleet Operations had a £33,000 deficit, this had not reflected the true position as the service was used to maintain the fleet and reduced the overall deficit.

Resolved:

That the revenue and capital financial monitoring report for the first quarter of 2018/19 be noted.

Reasons for Decision:

To note the first quarter financial monitoring report for 2018/19.

Other Options Considered and Rejected:

No other options available.

31. Annual Outturn Report on the Treasury Management 2017/18

The Assistant Director (Accountancy) presented the Annual Outturn report on the Treasury Management and Prudential Indicators for 2017/18.

The Assistant Director (Accountancy) reported that the annual treasury report was a requirement of the Council's reporting procedures. It covered the treasury activity for 2017/18, and the actual Prudential Indicators for 2017/18. During the year the Council had financed all of its capital activity through capital receipts, capital grants, internal borrowing from other revenue reserves and revenue contributions. There had been no additional external borrowing in the year to add to the £185.456m taken out previously through the Public Works Loan Board (PWLB) to finance the payment in relation to the self-financing of the HRA. The Council achieved its targets for its treasury and prudential indicators and would be considered by the Audit and Governance Committee on 24 September 2018.

Resolved:

(1) That the Treasury Management Outturn Report for 2017/18 be noted; and
(2) That the Outturn for the Prudential Indicators shown within the appendices attached be noted.

Reasons for Decision:

The report was presented for noting as scrutiny was provided by the Audit and Governance Committee who make recommendations on amending the documents, if necessary.

Other Options Considered and Rejected:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

CHAIRMAN

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Treasury Management Outturn Report 2017/18

Introduction

In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

The Authority's treasury management strategy for 2017/18 was approved at a meeting on 21 February 2017. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic commentary

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central

Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would will be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

Money Market Fund regulation: The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Credit Rating developments

The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Other developments:

In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

Local Authority Regulatory Changes

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

A capital strategy is in the process of being produced and will be available for Member approval at the

same time as the updated Treasury Management Strategy in February 2019.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported.

MHCLG Investment Guidance and Minimum Revenue Provision (MRP): In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3 January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

On 31st March 2018, the Authority had net borrowing of £162.9m arising from its revenue and capital income and expenditure, an increase on 2017 of £21.1m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m	2017/18 Movement £m	31.3.18 Actual £m
General Fund CFR	31.0	22.1	53.1
HRA CFR	154.0	0.0	154.0
Total CFR	**185.0**	**22.1**	**207.1**
Less: Internal Borrowing	0.0	-22.1	-22.1
Borrowing CFR	**185.0**	**0.0**	**185.0**
Less: Usable reserves	-43.9	1.7	-42.2
Less: Working capital	-2.0	1.9	-0.1
Net worth	**139.1**	**3.6**	**143.2**

Table 2: Treasury Management Summary

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %
Long-term borrowing	185.5	0.0	185.5	2.97
Total borrowing	**185.5**	**0.0**	**185.5**	
Long-term investments	2.4	-0.8	1.6	4.18
Short-term investments	25.0	-17.0	8.0	0.46
Cash and cash equivalents	16.3	-3.3	13.0	0.28
Total investments	**43.7**	**-21.1**	**22.6**	
Net borrowing	**141.8**	**-21.1**	**162.9**	

Note: the figures in the tables are from the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

Net borrowing has increased due to falls in usable reserves and working capital. As investment balances are being used to fund the capital programme no additional borrowing was required.

The Authority's current strategy is to maintain a minimum investment balance of £10m with a view to borrowing to fund the rest of the house building programme probably later in 2018. The treasury management position as at 31 March 2018 and the year-on-year change in show in table 2 above.

Borrowing Activity

Table 3: Borrowing Position

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %	31.3.18 WAM* years
Public Works Loan Board	185.5	0.0	185.5	2.97	18.97

*Weighted average maturity

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In furtherance of these objectives, no new borrowing was undertaken in 2017/18 as the capital programme has been funded using available internal resources. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

Investment Activity

The Authority holds significant invested funds, representing balances and reserves held. During 2016/17, the Authority's investment balances have been falling due to funding the capital programme. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position (Treasury Investments)

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %	31.3.18 WAM* days
Loan to Waste Collection Contractor	2.4	-0.7	1.7	4.2	39.8
Banks & building societies (unsecured)	16.3	-9.3	7.0	0.5	3.4
Government (incl. local authorities)	15.0	-10.0	5.0	0.4	18.2
Money Market Funds	10.0	0.0	10.0	0.4	1.0
Total investments	**43.7**	**-20.0**	**23.7**		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has kept investment balances short term in line with the cash flow so as to enable funds to be available when required by operational and capital requirements.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	3.97	AA-	60%	47	0.99%
30.06.2017	3.98	AA-	66%	45	0.89%
30.09.2017	4.31	AA-	64%	40	0.89%
31.12.2017	4.23	AA-	61%	41	0.92%
31.03.2018	4.03	AA-	55%	35	1.05%
All LAs	**4.12**	**AA-**	**61%**	**98**	**1.37%**

*Weighted average maturity

The table above shows how the Council is performing with its investments, and as can be seen performance is commensurate with other Local Authorities, with the exception of the Rate of Return. This is due to this Council keeping investments shorter, 47 days invested against other Local Authorities 137 days, which gives rise to lower interest rates received.

The Council set itself targets of 7 or below for the credit score and A- or higher for the credit rating and the table above shows both these targets were achieved.

Financial Implications

The outturn for debt interest paid in 2017/18 was £5.5 million on an average debt portfolio of £185.5 million against a budgeted £5.5 million on an average debt portfolio of £185.5 million at an average interest rate of 2.97%.

The outturn for investment income received in 2017/18 was £100,895 on an average debt portfolio of £22.6 million against a budgeted £102,890 on an average investment portfolio of £26 million at an average interest rate of 0.39%.

Other Non-Treasury Holdings and Activity

Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Authority holds £1.58m of investments in the Waste Collection and Street Cleansing contractor's vehicles. This would enable the Council to have first call on the vehicles if the contractor was to enter receivership and enable it to carry on the services without further costs being incurred. The value represents a decrease of £0.8m on the previous year due to repayments being made by the contractor.

A register of assets purchased with the loans is maintained on the asset management system and reviewed annually as part of the Authority's performance reporting arrangements.

These non-treasury investments generated £99,000 of investment income for the Authority after taking account of direct costs, representing a rate of return of 4.2%. This is higher than the return earned on treasury investments but reflects the additional risks to the Authority of holding such investments.

Performance Report

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £'000	Budget £'000	Over/ (under)	Actual %	Benchmark %
Temporary Loan Interest	58.8	68.7	9.9	0.39%	0.38%
Money Market Funds Interest	42.1	34.2	(7.9)	0.32%	0.19%
Loan to Contractor	99.0	99.0	0.0	5.00%	5.00%
Total investments	**100.9**	**102.9**	**2.0**		
Fixed Rate Interest	5,348.3	5,348.3	0.0	3.48%	3.48%
Variable Rate Interest	161.4	175.7	(14.3)	0.50%	0.48%
Total debt	**5,509.7**	**5,524.0**	**(14.3)**		
GRAND TOTAL	**5,408.8**	**5,421.1**	**(12.3)**	n/a	n/a

Compliance Report

The Assistant Director of Resources is pleased to report that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2017/18 Maximum £m	31.3.18 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	185.5	185.5	240.0	250.0	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and is not counted as a compliance failure.

Table 8: Investment Limits

	2017/18 Maximum	31.3.18 Actual	Complied
Any single organisation, except the UK Central Government	£5m (each)	£5m (Lloyds and Santander)	✓
UK Central Government	Unlimited	Nil	✓
Local Authorities	£25m (in total)	£15m	✓
Any group of organisations under the same ownership	£5m (per group)	£5m (Lloyds)	✓
Any group of pooled funds under the same management	£10m (per manager)	Nil	✓

Negotiable instruments held in a broker's nominee account	£15m (per broker)	£6m BGC Partners	✓
Foreign countries	£5m (per Country)	Nil	✓
Registered Providers	£10m (in total)	Nil	✓
Unsecured investments with Building Societies	£5m (in total)	£1m	✓
Loans to unrated corporates	£5m	Nil	✓
Money Market Funds	£20m (in total)	£19m	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.18 Actual	**2017/18 Target**	**Complied**
Portfolio average credit rating	A-	A-	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.3.18 Actual	**2017/18 Target**	**Complied**
Total cash available within 3 months	£15m	£15m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	31.3.18 Actual	**2017/18 Limit**	**Complied**
Upper limit on fixed interest rate exposure	82.86%	100%	✓
Upper limit on variable interest rate exposure	17.14%	75%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.18 Actual	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	0%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	0%	100%	0%	✓
5 years and within 10 years	0%	100%	0%	✓
10 years and above	100%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	**2018/19**	**2019/20**
Actual principal invested beyond year end	Nil	Nil	Nil
Limit on principal invested beyond year end	£15m	£5m	£5m
Complied	✓	✓	✓