Council Report
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Capital and Investment outturn report 2018-19

Executive Summary

This annual outturn report includes capital expenditure, non-treasury investments and treasury management performance for 2018-19.

Capital programme
In total, expenditure on the General Fund capital programme was £37.7 million. This was less than the revised budget by £99.6 million. Details of the revised estimate and actual expenditure in the year for each scheme are given in **Appendix 3**.

The budget for Minimum Revenue Provision (MRP) was £1.2 million and the outturn was £795,190. This was due to slippage in the capital programme in 2017-18.

Non-treasury investments
The Council's investment property portfolio stood at £161 million at the end of the year. Our rental income was £9 million, and our income return 6.3% against the benchmark of 4.8%.

Treasury management
The Council's cash balances have built up over a number of years, and reflect our strong balance sheet, with considerable revenue and capital reserves. Officers carry out the treasury function within the parameters set by the Council each year in the Capital and Investment Strategy. As at 31 March 2019, the Council held £97.3 million in investments, £20 million of short-term borrowing so net debt of £116 million.

We borrowed short-term from other local authorities for cash flow purposes and ensure there is no cost of carry on this. We did not take out any additional long-term borrowing during the year. The Council had £212.9 million borrowing at 31 March 2019, of which £20 million was short-term borrowing for cash purposes.

This report (section 8) confirms that the Council complied with its prudential indicators, treasury management policy statement and treasury management practices (TMPs) for

2018-19. The policy statement is included and approved annually as part of the Capital and Investment Strategy, and the TMPs are approved under delegated authority.

The treasury management performance over the last year, compared to estimate, is summarised in the table below. The report highlights the factors affecting this performance throughout the report, and in **Appendix 1**.

	Estimate %	Actual %	Estimate (£000)	Actual (£000)
General fund Capital Financing Requirement (CFR)			360,074	106,939
Housing Revenue Account CFR			197,024	197,024
Total CFR			**557,098**	**303,963**
Return on investments	1.61	1.42	1,506	2,014
Interest paid on external debt		2.45	6,032	5,368
Total net interest paid			**7,538**	**7,382**

There was slippage in the capital programme, which resulted in a lower CFR than estimated (more information in **Appendix 1**, section 3).

Interest paid on debt was lower than budget, due to less long-term borrowing taken out on the general fund because of slippage in the capital programme.

The yield returned on investments was lower than estimated, but the interest received was higher due to more cash being available to invest in the year – a direct result of the capital programme slippage. Officers have been reporting higher interest receivable and payable and a lower charge for MRP during the year as part of the budget monitoring when reported to councillors during the year.

Detailed information on the return on investments, and interest paid on external debt can be found in section 7 of this report.

This report has been considered by the Corporate Governance and Standards Committee and the Executive at their respective meetings held on 13 and 18 June 2019. They were both happy to endorse the recommendation below

Recommendation to Council

(1) That the treasury management annual report for 2018-19 be noted.

(2) That the actual prudential indicators reported for 2018-19, as detailed in **Appendix 1** to this report, be approved.

Reason for Recommendation:
To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1. Purpose of Report

1.1 The Local Government Act 2003 states that the Council has a legal obligation to have regard to both the CIPFA code of practice on treasury management and the Ministry of Housing, Communities, and Local Government (MHCLG) investment guidance.

1.2 The CIPFA treasury management code of practice and the MHCLG investment guidance requires public sector authorities to produce an annual capital strategy (incorporating capital expenditure, non-treasury investments and treasury management activity.

1.3 This report covers the outturn of the elements of the strategy and the requirement to report on the prudential and treasury indicators for the year. The position of the Council's investment property portfolio is also presented along with progress on the capital programme.

1.4 The Council borrows and invests 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. This report covers treasury activity and the associated monitoring and control of risks. The Council holds a substantial amount of investment property and has a large capital programme, all of which have risk.

1.5 Treasury management is a highly complex, technical and regulated aspect of local government finance. We have included a glossary of technical terms (**Appendix 10**), to aid the reading of this report.

2. Strategic Priorities

2.1 Treasury management and capital expenditure are key functions in enabling the Council to achieve financial excellence and value for money. It underpins the achievement of all the Corporate Plan 2018-2023 themes.

2.2 This report details the activities of the treasury management function and the effects of the decisions taken in the year in relation to the best use of its resources. It also presents the outturn position for the year of the capital programme, and the performance on non-treasury investments.

3. Background

3.1 Treasury management is defined by CIPFA as:

"the management of the council's investments, borrowing and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

3.2 The Council has overall responsibility for treasury management. Treasury management contains a number of risks. The effective identification and management of those risks are integral to the council's treasury management objectives, as is ensuring that borrowing activity is prudent, affordable and sustainable.

3.3 The Council has a statutory requirement, under the Local Government Act 2003, to adopt the CIPFA Prudential Code and produce prudential indicators.

3.4 The objectives of the prudential code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable, and the treasury management decisions are taken in accordance with good professional practice.

3.5 The Council has a large capital programme and a large investment property portfolio on its balance sheet. These, together with treasury management, are the management of the Council's cash and assets.

3.6 The Council operates its treasury management function in compliance with this Code and the statutory requirements.

3.7 This annual report, and the appendices attached to it, set out:

- a summary of the economic factors affecting the approved strategy and counterparty updated (sections 4 and 5 with details in **Appendix 5**)
- a summary of the approved strategy for 2018-19 (section 6)
- a summary of the treasury management activity for 2018-19 (section 7 with detail in **Appendix 1**)
- compliance with the treasury and prudential indicators (section 8 with detail in **Appendix 1**)
- non-treasury investments (section 9)
- capital programme (section 10)
- risks and performance (section 11)
- Minimum Revenue Provision (MRP) (section 12)
- details of external service providers (section 13)
- details of training (section 14)

4. Economic Environment

4.1 This section includes the key points of the economic environment for 2018-19, to show the treasury management activity in context. **Appendix 5** contains more detail.

- US Federal Reserve continued to increase
- US and China tensions
- EU showing signs of rapid slowdown in economic growth resulting in the International Monetary Fund downgrading its global growth forecasts
- Brexit failed to pass in Parliament, EU granted an extension to the deadline, resulting in volatility in Gilt Yields due to the economic and political uncertainty in UK and Europe

- Year-on-year CPI rise
- Real earnings growth up by 1.4% (after adjusted for inflation)
- Unemployment fell to 3.9% in January 2019
- Annual GDP growth at 1.4% which is below trend
- Bank of England base rate increased by 0.25% to 0.75% in August 2018
- Bank ring-fencing came into force
- UK AA sovereign long-term rating put on Rating Watch Negative due to Brexit uncertainty

4.2 The key points relevant to investment property are:

- Tenant demand for retail space falling sharply, contrasting with growth in the industrial sector
- Industrial is the only sector displaying positive rental and capital value expectations in the near term
- The supply of property on the market for sale at headline level was steady
- Brexit uncertainty is having an impact

5. Regulatory Changes

5.1 A new accounting standard - IFRS9 – financial instruments was implemented on 1 April 2018. This means that the Council needs to account for its investments differently, as categories and treatments have changed. There is currently no impact on the Council bottom line as the Government has issued a 5-year mandatory statutory override to stop any losses or gains received in year (in particular on pooled funds) being accounted for in year. These can continue to be held in a balance sheet reserve.

6. Approved strategy and budgets for 2018-19 – a summary

6.1 Council approved the Capital and Investment strategy for 2018-19 in February 2018.

6.2 The strategy showed an underlying need to borrow in 2018-19 for the General Fund (GF) capital programme of £70.8 million.

6.3 The strategy set out how we would manage our cash. It allowed for internally managed investments for managing cash flow and externally managed and longer-term investments for our core cash (cash not required in the short or medium term). See **Appendix 9** for background.

6.4 It highlighted the need to continue to diversify our investment portfolio to reduce credit risk. The approved strategy set the minimum long-term credit rating of A- (or equivalent) for investments in counterparties to be determined as ‘high credit’ using the lowest denominator principal for the three main credit rating agencies.

6.5 Investment property risks were examined in the strategy.

7. Treasury management activity in 2018-19

7.1 The treasury position at 31 March 2019, compared to the previous year is:

		31 March 2018 (£'000)	Average Rate	31 March 2019 (£'000)	Average Rate
Fixed Rate Debt	PWLB	148,125	3.22%	147,895	3.22%
	Market	0	0.00%	0	0.00%
Variable Rate Debt	PWLB	45,000	0.66%	45,000	0.92%
	Market	0	0.00%	0	0.00%
Long-term	LAs	5,000	1.29%	0	0.00%
Temporary borrowing	LAs	43,500	0.42%	20,000	0.66%
Total Debt		**241,625**	**2.23%**	**212,895**	**2.45%**
Fixed Investments		(91,132)	0.94%	(54,650)	1.09%
Variable Investments		(22,260)	0.58%	(30,729)	0.90%
Externally managed		(20,245)	3.30%	(11,945)	3.26%
Total Investments		**(133,637)**	**1.23%**	**(97,325)**	**1.42%**
Net Debt / (Investments)		**107,988**		**115,570**	

7.2 PWLB is the Public Works Loans Board and is a statutory body operating as an executive of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.

7.3 The above table shows investments have decreased by £36.3 million and loans by £28.7 million. Therefore, net debt has increased by £7.6 million. Short-term borrowing has decreased, as we have used more of our investments to fund cash flow requirements in the year. We sold two of our externally managed funds and half of another with the aim of reinvesting in 2019-20 to have more diversification and a higher yield.

7.4 We budgeted a return of 1.63% for the year and achieved 1.42%.

7.5 The Council's budgeted investment income was £1.625 million, and actual interest was £1.986 million (£361,000 higher). We had been projecting higher interest receipts throughout the financial year. This is because we had more cash available to invest than we had budgeted, and we hold some longer higher yielding secure investments. We made a small loss on our external funds overall of £44,000 due to the write off of some of the value of the funding circle investment – this is in relation to bad debts and under the rules of IFRS9 we felt it was prudent to make the adjustment in 2018-19.

7.6 Our budgeted debt interest payable was £6.032 million. £5.14 million relates to the HRA. The outturn was £5.37 million (£5.1 million for the HRA). We assumed we would borrow long-term for the GF capital programme in the budget but slippage in the schemes meant that we did not need to and therefore realised a saving in the debt interest payable against budget.

7.7 All our external funds are distributing funds, and they achieved an overall weighted average return of 3.3%, split as:

Fund	Balance at 31 March £000	Average return	Type of fund
M&G	1,394,844	3.20%	Equity focussed
Schroders	855,750	7.58%	Equity focussed with at least 80% on FTSE all share companies
Funding Circle	508,170	6.22%	Investments in SMEs up to a max of £2,000
UBS	2,312,027	3.99%	Multi asset
CCLA	6,874,665	4.37%	Property

7.8 Movements in pooled funds in the year:

- we sold our investments in City Financials because it had not been performing well and we decided to redeem the investment (£88,000 loss).
- we sold 50% of our exposure in M&G to help mitigate the loss of the redemption of City Financials, as the fund had generated a capital gain (£210,000 gain).
- we also sold Payden & Rygel because we felt we could generate a higher yield than the fund was returning, if we diversified the investment.

7.9 Our external fund portfolio is diverse and we invest in a range of products and markets. The capital value of the funds can go up as well as down. Across all funds still held at the end of the year, there was a capital loss of £53,000 and a total capital gain of £222,000.

7.10 The Council also invested more in our subsidiaries and now holds £2.36 million of equity investment in Guildford Holdings Ltd and £4.61 million in North Downs Housing Ltd.

7.11 The Council agreed an interest rate of base rate plus 5% (currently 5.70%) on the investment in North Downs Housing Ltd. This is higher than the treasury investments held as it reflects the risk associated with holding such investments. We budgeted a return of £119,000 and earnt £184,000, which is due to the increase in the Bank of England base rate in the year.

7.12 The equity investment in Guildford Holdings will be subject to a dividend if a profit is achieved.

Capital programme

7.13 The actual underlying need to borrow for the year, and the amount of internal borrowing actually taken, for the GF capital programme was £25.57 million, which is lower than budgeted of £99.6 million because of slippage in the capital programme. We will continue to support service managers with the scheduling of schemes in the capital programme to ensure it is kept up to date when project timescales change.

7.14 The Council must charge a Minimum Revenue Provision (MRP) on its internal borrowing, which is setting aside cash from council tax to repay the internal borrowing. MRP charged to the revenue account for the year was £795,189, against an original budget of £1.2 million.

7.15 Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £303.963 million (£106.9 million relates to the GF).

Benchmarking and performance indicators

7.16 The Council is a member of the CIPFA treasury management benchmarking club.

7.17 Arlingclose also provide benchmarking data across their clients ("client universe"). It highlights the effect of changes in our investment portfolio and compares the basis of size of investment, length of investment and the amount of credit risk taken.

7.18 The benchmarking shows a snapshot of our average running yield on all investments, also split between internally managed and externally managed. The latest benchmarking data (at 31 March 2019), shows our average rate of investments for our total portfolio as being 1.28% against the client universe of 1.08%. The table shows that we have outperformed our internally managed investments of the client universe by quite some margin.

Benchmark	Guildford	Client Universe
Internally managed return	1.31%	0.85%
Externally managed (return only)	3.88%	3.78%
Total Portfolio	1.61%	1.45%
% of investments subject to bail in	26%	55%
No. of counterparties/funds	31	13

7.19 The difference in our return as part of the benchmarking (1.61%) and our own return (1.42%) is due to a different calculation in the way Arlingclose put the benchmarking return together.

7.20 The table above shows how far the Council has come to mitigate bail in risk – closing the year at 26% of investments subject to bail in. This percentage will change during the course of the year depending on the level of cash we have and what we are invested in.

7.21 One of our key areas in our treasury strategy has been to increase diversification in the portfolio. The number of counterparties and funds we are investing in are far higher than the client universe and shows that we have achieved our aim. Again, this level of diversification will change at different points in the year.

7.22 We set our own performance indicators:

Indicator	Target	Actual	Variance
Cashflow investment returns above base rate	0.41%	0.29%	-0.12%
Long-term investment returns above base rate	0.73%	0.52%	-0.21%
Externally managaged funds above base rate	2.86%	2.21%	-0.65%
Combined funds above base rate	1.08%	0.66%	-0.42%
% of daily balances within the range +/- £50,000	70.00%	75.07%	5.07%
The daily current account bal to be +/- £50,000	+/-£50,000	£1,420	

7.23 Overall performance was slightly below target in most areas.

7.24 The Council's daily bank balance target was +/- £50,000 for 70% of days. The average balance in the year was £1,420 and 75.07% of days were +/- £50,000, so we were well within our target.

8. Non-treasury investments

8.1 **Appendix 2** sets out the Council investment property fund portfolio report for 2018-19. The key points are summarised below.

8.2 The current portfolio is:

Sector	No. of assets	Sub category	No. of assets
Office	8		
Industrial	129		
Retail	10	Shops Shopping centres Supermarkets	6 2 1
Leisure	6	Restaurants Nightclubs	5 1
Other Commercial	11	Educational Theatre Barn Petrol station Sui Generis Car Park Water treatment works	3 1 2 1 1 1 1
TOTAL	**159**		

8.3 Fund statistics are:

Rental income (£)					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	2,679,571	1,831,900	1,750,254	885,636	7,147,361
2016/17	3,057,302	1,858,638	1,447,672	1,062,137	7,425,749
2017/18	3,493,405	3,186,048	1,426,317	1,080,786	9,186,556
2018/19	3,619,808	3,038,548	1,459,048	1,129,361	9,246,765
Capital value (£)					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	39,077,755	19,227,500	34,270,000	11,233,500	103,808,755
2016/17	42,922,450	25,915,000	25,908,500	15,963,500	110,709,450
2017/18	51,509,000	49,574,000	26,065,000	17,471,500	144,619,500
2018/19	66,970,000	49,159,000	26,097,000	18,843,000	161,069,000
Income return (net of costs)					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	8.0%	7.5%	5.6%	7.5%	6.8%
2016/17	7.1%	7.2%	5.6%	6.7%	6.7%
2017/18	8.0%	7.4%	5.2%	5.8%	6.6%
2018/19	6.8%	6.6%	5.9%	5.8%	6.3%
Benchmark return					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	6.1%	4.7%	5.4%	4.7%	5.2%
2016/17	5.4%	4.1%	5.0%	5.5%	4.8%
2017/18	4.9%	4.1%	5.1%	5.3%	4.8%
2018/19	4.4%	4.0%	5.1%	5.0%	4.6%

8.4 The performance shows that our portfolio has performed better than our benchmark.

9. General Fund Capital programme

9.1 **Appendix 3** sets out the actual expenditure on capital schemes, compared to the updated estimates, together with reasons for variances. Overall, we spent £61.9 million (62%) less on capital schemes than we originally estimated and £10.7 million (22%) less than the revised estimate, the schemes with more than £1 million variance to budget relate to ICT, Internal Estate road, although there are significant variations on other approved schemes under £1 million, as detailed in the appendix.

9.2 The table below summarises our capital expenditure and variances in the year:

	Revised estimate (£m)	Actual (£m)	Variance (£m)
GF Non-housing approved programme	43.4	35.2	(8.2)
GF Non-housing provisional programme	0.04	0.014	(0.026)
GF Schemes financed from reserves	4.538	2.371	(2.167)
GF Projects financed from s106 receipts	0.356	0.50	0.144
Total	**48.334**	**38.085**	**(10.249)**

9.3 We significantly re profiled schemes during the year, and under spent by £6.3 million on the revised estimate.

10. Compliance with treasury and prudential indicators

10.1 The CIPFA prudential code and treasury management code of practices require local authorities to set treasury and prudential indicators.

10.2 The objectives of the Prudential Code, and the indicators calculated in accordance with it, provide a framework for local authority capital finance that will ensure

- capital expenditure plans are affordable
- all external borrowing and other long-term liabilities are within prudent and sustainable limits
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the council is accountable by providing a clear transparent framework

10.3 The prudential code requires the Council to set a number of prudential indicators for the following and two subsequent financial years, and to monitor against the approved indicators during the year. We can revise these indicators during the year but need full Council approval.

10.4 Officers can confirm that the Council has complied with its prudential indicators for 2018-19, (see **Appendix 1** for the outturn figures), its treasury management policy statement and its treasury management practices.

10.5 Section 6 outlines the approved treasury management strategy. We have adhered to the strategy by:

- financing of capital expenditure from government grants, usable capital resources, revenue contributions and cash flow balances rather than from external borrowing

- taking a prudent approach in relation to the investment activity in the year, with priority given to security and liquidity over yield
- maintaining adequate diversification between counterparties
- forecasting and managing cash flow to preserve the necessary degree of liquidity

11. Risk and performance

11.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 The Council has complied with all the relevant statutory and regulatory requirements, which limit the level of risk associated with its treasury management activities. In particular, its adoption and implementation of both the prudential code and treasury management code of practice means our capital expenditure is prudent, affordable and sustainable, and our treasury practices demonstrate a low risk approach.

11.3 Short-term interest rates and likely movements in these rates, along with our projected cash balances, determine our anticipated investment return. These returns can be volatile and whilst, loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

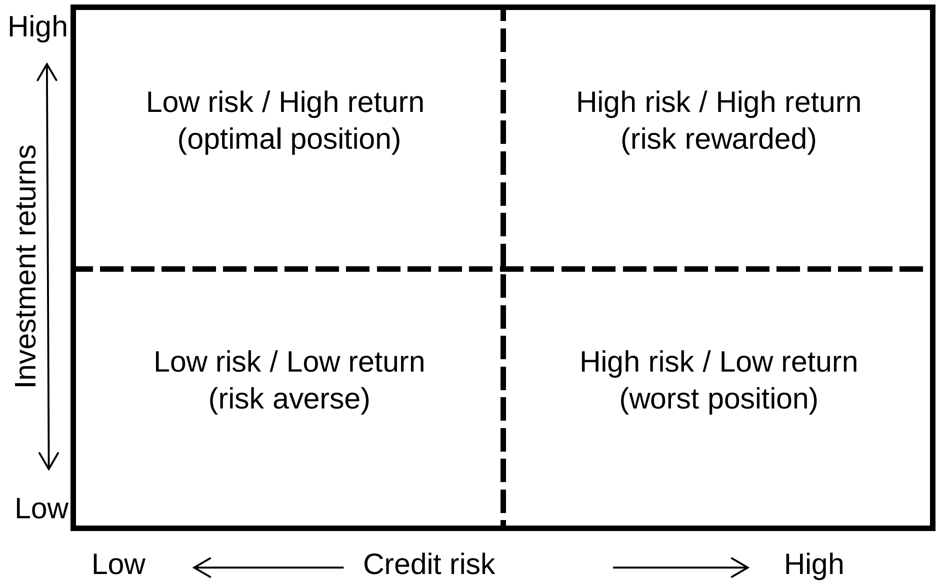
11.4 If the Council were to lose any of its investments, the GF will carry the loss, even if the cash lost is HRA cash. Therefore, to compensate the GF for this, we apply a credit risk adjustment to the rate of interest we apply on the HRA balances and reserves and SPA reserves. Therefore, a lower interest rate is applied than the weighted average investment return for the year.

11.5 The Council invests in externally managed funds. These are more volatile than cash investments, but can come with a higher return. Officers continually review our funds to ensure they still have a place in the portfolio. We view most of our funds over a three to five year time horizon to take account of their potential volatility – they are not designed to be short-term investments, despite being able to get the money from them quickly.

Credit developments and credit risk management during the year

11.6 Security of our investments is our key objective when making treasury decisions. We therefore manage credit risk through the limits and parameters we set in our annual treasury management strategy. One quantifiable measure of credit quality we use is to allocate a score to long-term credit ratings. **Appendix 8** explains the scoring in more detail.

11.7 This is a graphical representation used in the Arlingclose benchmarking.



11.8 Typically, we should aim to be in the top left corner of the chart where we get a higher return for lower risk. In the actual benchmarking, for average rate versus credit risk (value weighted) we were above the average of all clients and were in the top left box towards the middle vertical line. For time weighted, we are well within the top left box (see **Appendix 6** for the two charts).

11.9 We set our definition of high credit quality as a minimum long-term credit rating of A-, which attracts a score of 7. The lower the score, the higher the credit quality of the investment portfolio.

11.10 The table below shows that at each quarter date, the weighted average score of our investment portfolio, on a value weighted and a time weighted basis is well within our definition of high credit quality, ending the year at 3.86 (AA-) and 2.63 (AA).

Date	Value Weighted Avg Credit Risk Score	Value Weighted Avg Credit Rating	Time Weighted Avg Credit Risk Score	Time Weighted Avg Credit Rating	Average Life (days)
31-03-18	3.86	AA -	2.63	AA	302
30-06-18	3.73	AA-	2.30	AA	299
30-09-18	3.67	AA-	2.63	AA	350
31-12-18	3.81	AA-	2.50	AA	341
31-03-19	4.02	AA-	3.01	AA	328

11.11 We have maintained security throughout the year within the portfolio. We also have a lower risk score on both elements than the Arlingclose client universe (4.20/AA- and 4.02/AA-). We do, however, have a much longer duration (ours is 328 days compared to the universe of 29 days) and this is due to us having a large portion of investments of covered bonds in the portfolio, which can be sold on the secondary market if required. The longer duration is with AAA rated covered bonds so this has enhanced the security of the portfolio.

12. Minimum Revenue Provision (MRP)

12.1 The Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2003 (SI No 414) place a duty on local authorities to make a prudent provision for debt redemption. Making an MRP reduces the Capital Financing Requirement (CFR) and leaves cash available to replenish reserves used for internal borrowing or making external debt repayments. There are three options for applying MRP available to us:

- asset life method
- depreciation method
- any other prudent method

12.2 Any other prudent method means we can decide on the most appropriate method depending on the capital expenditure.

12.3 The latest MRP policy was approved by Council in February 2018, and stated that:

- the Council will use the asset life method as its main method, but will use annuity for investment property
- in relation to expenditure on development, we may use the annuity method starting in the year after the asset becomes operational
- where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained, and will not charge MRP during construction, refurbishment or redevelopment
- where expenditure is incurred pending receipt of an alternative source of finance we will not charge MRP
- we will use 75-years for freehold land purchased for development purposes, and any new buildings or similar structures on that land
- where loans are made to other bodies for their capital expenditure, no MRP will be charged
- we will apply a 100-year life for investments in shares classed as capital expenditure

12.4 The unfinanced capital expenditure in 2018-19 of £25.56 million related mainly to property purchases and redevelopment projects.

13. External service providers

13.1 The Council reappointed Arlingclose as our treasury management advisors in March 2015. The contract is for a period of 7 years. The Council is clear what services it expects and what services Arlingclose will provide under the contract.

13.2 The Council is clear that overall responsibility for treasury management remains with the Council.

14. Training

14.1 CIPFA's revised treasury management code of practice suggest that best practice is achieved by all councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receiving appropriate training relevant to their needs and that they should fully understand their roles and responsibilities.

14.2 The MHCLG's revised investment guidance also recommends that a process is in place for reviewing and addressing the needs of the Council's treasury management staff for training in investment management.

14.3 Following the revised CIPFA code of practice and the stated requirement that a specified body be responsible for the implementation and regular monitoring of the treasury management policies, we use the Corporate Governance and Standards Committee to scrutinise the treasury management activity of the Council.

14.4 Training on treasury management will be given to new councillors and in particular the group leaders and members of the Corporate Governance and Standards Committee.

14.5 Corporate Governance and Standards Committee reviews the annual report in June each year.

14.6 Officer training is undertaken on a regular basis, by attending workshops held by Arlingclose, and seminars or conferences held by other bodies, such as CIPFA. On the job training and knowledge sharing are undertaken when required. Those involved in treasury management are either a fully qualified accountant, or AAT qualified. The main post holder responsible for the treasury management function holds the 'Certificate in International Treasury Management for Public Finance' qualification, which is a joint qualification between the ACT (Association of Corporate Treasurers) and CIPFA.

14.7 Certain officers of the Council are deemed professional by the financial industry and therefore demonstrate the level of skill and expertise in the treasury function to ensure the Council retains professional status under the MiFID II regulations.

15. Consultations

15.1 Officers have consulted with the Lead Councillor for Finance about the contents of this report.

16. Executive Advisory Board comment

16.1 Treasury management reports are under the remit of Corporate Governance and Standards committee and are not required to be presented to an EAB.

17. Equality and Diversity Implications

17.1 There are no equality and diversity implications

18. Financial Implications

18.1 The detailed financial implications are summarised above and in **Appendix 1**.

19. Legal Implications

19.1 A variety of professional codes, statutes and guidance regulate the Council's treasury management activities. These are:

- the Local Government Act 2003 ("the Act") provides the powers to borrow and invest. It also imposes controls and limits on these activities
- the Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. The HRA debt cap is the only restriction that applied in 2017-18
- statutory instrument 3146 (2003 ("The SI"), as amended, develops the controls and powers within the Act
- the SI requires the council to undertake any borrowing with regard to the prudential code. The prudential code requires indicators to be set – some of which are limits – for a minimum of three forthcoming years
- the SI also requires the council to operate the treasury management function with regard to the CIPFA treasury management code of practice
- under the terms of the Act, the Government issued "investment guidance" to structure and regulate the council's investment activities. The emphasis of the guidance is on the security and liquidity of investments.

20. Human Resource Implications

20.1 There are no human resource implications arising from this report other than the training discussed in section 15, which is already in place.

21. Summary of Options

21.1 We could have invested in lower credit quality investments, but this would have increased our risk exposure.

21.2 We could have borrowed longer-term for our capital programme, but would have suffered a cost of carry due to the slippage in the programme.

22. Conclusion

22.1 The Council has complied with the objectives of the CIPFA treasury management code of practice by maintaining the security and liquidity of its investment portfolio.

22.2 We maintained the security of our investment portfolio, and did not borrow long-term in advance of need.

22.3 We have also complied with the requirements of the prudential code by setting, monitoring and staying within the prudential indicators set, except the variable limit on net investments due to higher investment balances than when the indicator was set.

23. Background Papers

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes (2018 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2018 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities (2018 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2018 edition)
- Treasury management annual strategy report 2018-19

24. Appendices

Appendix 1: Treasury management activity, treasury and prudential indicators 2018-19
Appendix 2: Investment property fund portfolio report 2018-19
Appendix 3: capital programme
Appendix 4: schedule of investments at 31 March 2019
Appendix 5: economic background – a commentary from Arlingclose
Appendix 6: benchmarking graphs
Appendix 7: credit score analysis
Appendix 8: credit rating equivalents and definitions
Appendix 9: background to externally managed funds
Appendix 10: glossary