

**EAST STAFFORDSHIRE BOROUGH COUNCIL**

**REPORT COVER SHEET**

Title of Report:	<b>Mid-Year Treasury Management Review Report 2015-16</b>
Meeting of:	Council
Date:	7 <sup>th</sup> December 2015
Is this an Executive Decision:	NO
Is this a Key Decision:	NO
Is the report Confidential:	NO
If so, please state relevant paragraph from Schedule 12A LGA 1972:	-
<b>Essential Signatories:</b>	
<b>ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE</b>	
Monitoring Officer	
Date .....	Signature .....
Head of Service and Chief Finance Officer	
Date .....	Signature .....

**OPEN  
AGENDA**

**EAST STAFFORDSHIRE BOROUGH COUNCIL**

Report to Council

Date 7<sup>th</sup> December 2015

<b>TITLE:</b>	<b>Mid-Year Treasury Management Review Report 2015-16</b>	
<b>PORTFOLIO:</b>	Finance	
<b>HEAD OF SERVICE:</b>	Sal Khan	
<b>CONTACT OFFICER:</b>	Lisa Turner – Chief Accountant	ext. No. 1399
<b>WARD(S) AFFECTED:</b>	All	

**1. Purpose of the Report**

- 1.1 The Council has a duty to comply with the Treasury Management Code of Practice, published by the Chartered Institute of Public Finance and Accountancy. The code requires authorities to present a mid-year report on their treasury management activities. This report fulfils this requirement, providing an update against the Treasury Management Strategy Statement (TMSS), setting out current investment and borrowing portfolio's and outlining any other treasury related matters.

**2. Contribution to Corporate Priorities**

- 2.1 By minimising the cost to the Council of borrowing to finance its Capital Programme, whilst at the same time maximising the Council's income from the investment of surplus funds and maintaining the security and liquidity of those funds, this provides underlying support to all corporate priorities.

### **3. Mid-Year Treasury Management Report – Executive Summary**

#### **3.1 An economic update**

- 3.1.1 The UK economy has shown strong growth throughout 2013 and 2014 and it appears likely that the growth rate for 2015 is likely to be a leading rate in the G7 countries. Forecast growth rates are around 2-3% over the next three years, which is likely to be driven by consumer demand as the squeeze on disposable incomes has reversed with wage inflation higher at the same time as the level of inflation has fallen to (or near to) zero.
- 3.1.2 In the eurozone the European Central Bank released 1.1trillion euros of quantitative easing, which is due to run to September 2016. This already appears to be having a positive effect, with an improvement in economic growth.
- 3.1.3 There is much volatility in interest rate forecasts as news ebbs and flows in negative and positive ways. The latest forecasts assume an increase in the base rate in the second quarter of 2016.

#### **3.2 A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy**

- 3.2.1 The TMSS was approved in February 2015 and establishes the Council's investment priorities as being the security of capital, liquidity and the achievement of the optimum returns commensurate with the proper levels of security and liquidity.
- 3.2.2 Borrowing and investments have been in line with the approved strategy and there have been no deviations. Despite the continued difficult economic conditions the approved strategy remains fit for purpose.
- 3.2.3 The Council's credit worthiness methodology is underpinned by the ratings issued by the main rating agencies. Following the financial crises some institutions were provided with "uplifts" due to implied levels of support from their respective Governments. In response to evolving regulatory regime all three agencies have began the process of removing these uplifts. This does not reflect any changes in the underlying status of the institutions, merely a reassessment of their methodologies in response to the regulatory changes. To date this has not had any direct impact on our activities.

#### **3.3 The Council Investment portfolio for 2015/16**

- 3.3.1 Investments stood at £21.6m as at 30th September 2015, with a daily average of £22.9m for the first six months of the year. Despite investment returns being at an historical low, the authority has outperformed the benchmark in the first half of 2015/16. Nevertheless, call account rates available in the market have once again declined over the last 12 months, as a direct result our investments now include certificates of deposits with the part nationalised RBS and six month

Treasury Bills held with the UK Government. Both of these instruments offer significant counterparty strength and rates preferable to those available with call account deposits. Average returns for the first six months stand at 0.67% (0.7% 30th September 2014). This was level was largely anticipated when the budget was set.

### 3.4 The Council Borrowing Strategy and debt rescheduling for 2015/16

- 3.4.1 The Council's CFR (underlying need to borrow) is expected to be £18.5m as at 31st March 2016. External borrowing (including finance leases) is forecast to be £11.8m as at 31st March 2016. The balance between the CFR and actual borrowing is internal borrowing – i.e. the temporary use of internal balances (mainly reserves) for cash flow purposes only.
- 3.4.2 As set out within the Treasury Management Strategy, the Council is currently operating a significant “under-borrowed” position, which is significantly more cost effective in the current economic climate. Nevertheless, interest rates and economic forecasts will be monitored closely over the forthcoming months and any decisions made in order to reduce the under-borrowed position will be reported as part of the annual report.

### 3.5 An update on Treasury and Prudential limits for 2015/16

- 3.5.1 During the first half of year the council has operated within the treasury limits and prudential indicators set out within the TMSS..

## **4. Financial Considerations**

- 4.1 The report is solely related to financial matters. There are no direct budgetary issues within the report.

## **5. Risk Assessment and Management**

- 5.1 The main risks associated with this report and the Council achieving its objectives are the same as those contained within the Treasury Management Strategy Statement, these are monitored and managed by the finance team throughout the year.

## **6. Legal Considerations**

This section has been approved by the following member of the Legal Team: (Angela Wakefield).

- 6.1 The Local Government Act 2003 requires local authorities “to have regard” to the Prudential Code for capital finance. This report supports this requirement.

**7. Equality and Health**

7.1 Equality impacts: The subject of this Report is not a policy, strategy, function or service that is new or being revised. An equality and health impact assessment is not required.

**8. Human Rights**

8.1 There are no Human Rights issues arising from this Report.

**9. Sustainability (including climate change & change adaptation measures)**

9.1 There are no related issues within this report.

**10. Recommendation**

10.1 To note the mid-year Treasury Management Report as set out in Appendix A.

**11. Background papers**

11.1 Treasury Management Strategy Statement 2015/16 – approved by full Council on 23<sup>rd</sup> February 2015.

**12. Appendix**

12.1 Mid- Year Treasury Management Report – Appendix A.