

EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

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| Title of Report: | Mid-Year Treasury Management Review Report 2016-17 |
| Meeting of: | Council |
| Date: | 5 th December 2016 |
| 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: | - |
| Essential Signatories: ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE Monitoring Officer Date Signature | |
| Head of Service and Chief Finance Officer Date Signature | |

EAST STAFFORDSHIRE BOROUGH COUNCIL

Report to Council

Date 5th December 2016

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| TITLE: | Mid-Year Treasury Management Review Report 2016-17 |
| PORTFOLIO: | Finance |
| HEAD OF SERVICE: | Sal Khan |
| CONTACT OFFICER: | Lisa Turner – Chief Accountant ext. No. 1399 |
| WARD(S) AFFECTED: | 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

3.1 An economic update

3.1.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence and weak growth is now expected for the remainder of 2016 and 2017. The Bank of England (BoE) meeting on August 4th addressed the expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Governor of the BoE also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

3.1.2 In the eurozone, the European Central Bank's release of 1.1trillion euros of quantitative easing has been extended to March 2017. This together with other initiatives have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%.

3.1.3 Many forecasters are commenting that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

3.1.4 The forecasts at the half year stage indicated that the base rate of interest would be reduced to near zero before the end of 2016, with rates not expected to return to 0.5% until 2019. More recently this has been revised, with expectations that the base rate will remain at 0.25% until 2019/20.

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

3.2.1 The TMSS was approved in February 2016 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 generally the approved strategy remains fit for purpose.

3.2.3 The current economic conditions within the UK, largely arising from the EU referendum decision, mean that it is possible that the UK's Sovereign rating will drop below the minimum level established within our strategy (AA from Fitch). Section 4.2.2 of the attached report recommends a small change to the strategy which would allow the Council to continue to invest in suitably rated UK counterparties should this occur.

3.3 The Council Investment portfolio for 2016/17

3.3.1 Investments stood at £25m as at 30th September 2016, with a daily average of £27.8m for the first six months of the year. Despite investment returns being at an historical low, the authority has outperformed benchmarks in the first half of 2016/17. Nevertheless, call account rates available in the market remain very low and as a result our investments include certificates of deposits with northern European banks 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 0.54% (0.67% 30th September 2015). This is slightly below the level set within the budget of 0.7%, at which time markets were expecting rates to start to rise.

3.4 The Council Borrowing Strategy and debt rescheduling for 2016/17

3.4.1 The Council's CFR (underlying need to borrow) is expected to be £18.1m as at 31st March 2017. External borrowing (including finance leases) is forecast to be £13m as at 31st March 2017. 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 Forecasts in relation to the capital financing requirement have changed since the strategy was approved. This is due to the classification of the new waste vehicles as finance leases and also the decision to repay £1.3m of debt as part of the Outturn for 2015/16.

3.4.3 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. As a result of the current economic conditions it is not anticipated that any borrowing will be undertaken during the remainder of the year. 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 2016/17

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. Whilst the reduction in interest rates is having a negative impact on investment returns, there is sufficient capacity within the overall capital financing budget to contain this pressure in the medium term.

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. Recommendations

- 10.1 To approve the proposed change to the approved strategy for 2016/17, as set out at paragraph 3.2.3.
- 10.2 To note the mid-year Treasury Management Report as set out in Appendix A.

11. Background papers

- 11.1 Treasury Management Strategy Statement 2016/17 – approved by full Council on 22nd February 2016.

12. Appendix

- 12.1 Mid- Year Treasury Management Report – Appendix A.