

**EAST STAFFORDSHIRE BOROUGH COUNCIL**

**REPORT COVER SHEET**

Title of Report:	<b>Mid-Year Treasury Management Review Report 2017-18</b>
Meeting of:	Scrutiny (Audit and Value for Money Council Services) Committee
Date:	21 <sup>st</sup> November 2017
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 Audit Committee

Date 21<sup>st</sup> November 2017

<b>TITLE:</b>	<b>Mid-Year Treasury Management Review Report 2017-18</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 portfolios 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 It was a surprise that the UK economy demonstrated strong growth in 2016, however growth in 2017 has been disappointingly weak, in fact the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports.

3.1.2 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that the Bank Rate will need to rise. This was reflected in the MPC decision in November to increase the Bank Rate to 0.5%. The big question is whether this will be a one off increase or the start of a slow, but regular, increase in the Bank Rate. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

3.1.3 Further updates on the economy are set out within section 3 of the attached report.

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

3.2.1 The TMSS was approved in February 2017 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.

#### **3.3 The Council Investment portfolio for 2017/18**

3.3.1 Investments stood at £28m as at 30th September 2017, with a daily average of £29m for the first six months of the year. Despite investment returns being at an historical low, the authority outperformed benchmarks in the first half of 2017/18. Call account rates have continued to fall over the last 12 months, therefore our portfolio contains a diversified mix including certificates of deposits and fixed deposits. 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 0.43% (0.54% 30th September 2016). This is slightly above the level set within the budget of 0.33% and also performance benchmarks.

3.3.2 The treasury strategy for 2017/18 provided scope to diversify our investment portfolio into property funds. Property funds offer enhanced rates over the long term, but are more volatile in the short term. It has been agreed to defer any investments of this type due to a combination of uncertainty around proposed accounting changes for investments such as this and the potential impact of Brexit on the economy and potentially on property values. These issues will be monitored closely and the position reviewed periodically.

#### 3.4 The Council Borrowing Strategy and debt rescheduling for 2017/18

3.4.1 The Council's CFR (underlying need to borrow) is expected to be £16.9m as at 31st March 2018. External borrowing (including finance leases) is forecast to be £13.8m as at 31st March 2018. 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 an “under-borrowed” position, which is 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.

3.4.3 The existing strategy incorporates the voluntary repayment of debt in order to reduce the underlying need to borrow. This results in savings to the revenue budget from reduce statutory debt repayment charges (Minimum Revenue Provision).

#### 3.5 An update on Treasury and Prudential limits for 2017/18

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**

*This section has been approved by the following member of the Finance Team: (Lisa Turner).*

4.1 The report is solely related to financial matters.

### 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 consider the mid-year Treasury Management Report as set out in Appendix A and make comments and observations to full Council as the Committee sees fit.

**11. Background papers**

11.1 Treasury Management Strategy Statement 2017/18 – approved by full Council on 27th February 2017.

**12. Appendix**

12.1 Mid- Year Treasury Management Report – Appendix A.