

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: JAC62
To: Joint Audit and Standards Committee	Date of meeting: 19 October 2015

MID YEAR REPORT ON TREASURY MANAGEMENT 2015/16

1. Purpose of Report

- 1.1 The Code of Practice on Treasury Management requires local authorities to present a mid-year report on treasury management activity to those Members charged with scrutinising this area of activity. This report fulfils that requirement and sets out treasury management activity for the first half of 2015/16.

2. Recommendation to Council

- 2.1 That it be noted that Treasury Management activity for the first six months of 2015/16 was in accordance with the approved Treasury Management Strategy and that both Councils have complied with all Prudential Indicators for this period.

This recommendation is to each Full Council.

3. Financial implications

- 3.1 As outlined in this report.

4. Legal implications

- 4.1 There are no legal implications arising from this report.

5. Risk Management

- 5.1 This report is not directly linked with any of the Councils' Corporate / Significant Business Risks. Key Treasury Management risks are set out below:-

Risk description	Likelihood	Impact	Mitigation measures
Changes to the Bank of England base rate affecting borrowing / lending rates. The bank base rate is predicted to remain low throughout the year.	1 Rare or Never	2 Noticeable	Borrowing at fixed rates when rates are low. Regular review of long term versus short term rates.
Banks / building societies interest rate levels. These change to reflect economic conditions and affect lending rates.	2 Occasional	2 Noticeable	Daily treasury management activity includes looking at rates when investing surplus funds.

Risk description	Likelihood	Impact	Mitigation measures
Liquidity risk: access to cash.	2 Occasional	2 Noticeable	Investments in money market funds and call accounts can be accessed at short notice.

6. Consultations

- 6.1 Regular meetings have taken place with our Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

7. Equality Analysis

- 7.1 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

8. Shared Service / Partnership Implications

- 8.1 This is a joint report on activity. Both Councils' treasury management strategy and operations are handled by the integrated in-house finance team.

9. Links to Joint Strategic Plan

- 9.1 The treasury management policy includes authorisation to make investments with organisations such as the Churches, Charities and Local Authorities Property Fund (CCLA) and Funding Circle and will help support the Councils through their aims and objectives set out in the Joint Strategic Plan, including ensuring the long term financial sustainability of the Council.

10. Executive Summary

- 10.1 The Treasury Management Strategies for each Council for 2015/16 were approved at Full Council, on 24 February 2015 for Babergh (BDC) and 26 February 2015 for Mid Suffolk (MSDC). Amendments to the Treasury Management Strategy were approved at Full Council on 28 July 2015 for BDC and 30 July for MSDC. These amendments will enable the Councils to put in place the cash investments set out in the July reports to Council.

The reports can be accessed on:

<http://bdcdocuments.onesuffolk.net/assets/Uploads/Committees/Committee-Reports/Reports-2014-15/P100R.pdf>

<http://bdcdocuments.onesuffolk.net/assets/Uploads/Committees/Committee-Reports/Reports-2015-16/JAC54.pdf>

- 10.2 The Joint Treasury Management outturn report for 2014/15 was presented to Members at the Joint Audit and Standards Committee on 17 August 2015.

10.3 The Councils set their Prudential Indicators in February 2015 as part of the Treasury Management Strategy Statement. Appendix D shows the position on key Prudential Indicators for the first six months of 2015/16.

The Prudential Indicators aim to ensure that the capital investments of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

Both Councils can confirm that they have complied with all Prudential Indicators for 2015/16 to date.

10.4 Other key points relating to activity for the first half of the year are set out below:-

- The UK economy has continued to grow in the first six months of 2015/16 with output growing at 0.4% in Q1 and at 0.7% in Q2.
- The annual CPI inflation rate briefly turned negative in April before returning to 0.1%, 0.00% and 0.1% in May, June and July respectively.
- The MPC (Monetary Policy Committee) has made no change to the Bank Rate of 0.5.
- Investment of surplus funds - as market conditions and credit ratings have changed during the year, institutions that the Councils invest with and the period of the investments are reviewed.
- Credit risk scores were within the benchmark A- credit ratings.
- MSDC short-term debt reduced by £6m due to income exceeding expenditure in the first half of the year, which is the normal cash flow profile.
- No new long-term external borrowing.
- At the end of August, BDC invested £5m with the CCLA Local Authorities Property Fund. This is a collective investment scheme with monies being invested in a portfolio of properties.

10.5 In relation to borrowing, Babergh expects to have sufficient internal resources to fund its capital programme until March 2016. However, Mid Suffolk's estimated external borrowing requirement is up to £7.5m in 2015/16. This is to finance the capital programme in the year and to put in place the cash investments set out in the July reports to Council.

10.6 In terms of the investment of surplus funds, section 1.9 of Appendix C sets out the issues that are impacting on current and future activity:-

- All three credit rating agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Many institutions have seen upgrades to their credit ratings due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

10.7 In practice, the Councils do not have the size of deposit that interest the major banks and building societies so, on a daily basis, it is usually money market funds, short-term deposits and call accounts that are used to make short term investments.

11. Summary

11.1 This report meets the requirements of the CIPFA Code of Practice by providing Members with a summary report of the treasury management activity for the first half of 2014/15.

11.2 A prudent approach, in accordance with the approved strategy and the CIPFA Code of Practice, has continued in relation to investment activity, with priority being given to security and liquidity over yield.

11.3 Further information is provided in the Appendices A to E attached.

12. Appendices

Title	Loca
(a) Background, Economy and Outlook	Attached
(b) Debt Management	Attached
(c) Investment Activity	Attached
(d) Prudential Indicators	Attached
(e) Glossary	Attached

13. Background Documents

None.

Authorship:

Name: Katherine Steel
Position: Head of Corporate
Resources

Tel: (01473) 826649 / (01449) 724806
E-mail: katherine.steel@baberghmidsuffolk.gov.uk

Name: Caroline Pearce
Position: Financial Services Officer

Tel: (01473) 825840
E-mail: caroline.pearce@baberghmidsuffolk.gov.uk