BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Assistant Director – Corporate Resources	**Report Number: JAC90**
To: Joint Audit and Standards Committee	**Date of meeting: 14 November 2016**

MID YEAR REPORT ON TREASURY MANAGEMENT 2016/17

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 2016/17.

2. Recommendation

2.1 That it be noted that Treasury Management activity for the first six months of 2016/17 was in accordance with the approved Treasury Management Strategy, and that both Councils have complied with all Prudential Indicators for this period.

The Committee is asked to make a recommendation to both Councils on the above matter.

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, but it should be noted that changes in funding requirements, interest rates and other external factors can impact on the medium term financial strategy and future budgets (Risk 5f – failure of the Councils to become financially sustainable in response to funding changes). Key risks around treasury management, however, 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. Increased rates will result in higher interest costs and have an adverse impact on the budget	Unlikely	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. Lower rates result in lower interest and have an adverse impact on the budget	Unlikely	Noticeable	Daily treasury management activity includes looking at rates when investing surplus funds
Liquidity risk: access to cash. Lack of funds required for high level urgent payments resulting in exceeding overdraft or the bank's daylight exposure limit leading to additional costs incurred	Unlikely	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 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. Key Information

10.1 The Treasury Management Strategies for each Council for 2016/17 were approved at Full Councils in February 2016.

10.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the year.

10.3 The Joint Treasury Management outturn report for 2015/16 was presented to Members at the Joint Audit and Standards Committee on 20 June 2016.

10.4 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.

10.5 Appendix D shows the position on key Prudential Indicators for the first six months of 2016/17. Both Councils can confirm that they have complied with all Prudential Indicators for 2016/17 to date.

10.6 The following 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 2016/17 with output growing by 0.4% in Q1, 0.7% quarter on quarter and by 2.2% year on year.
- The result of the EU referendum has resulted in growth forecasts being downgraded as 2016 has progressed
- The MPC (Monetary Policy Committee) reduced the Bank Rate to 0.25% in August 2016
- 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 have been reviewed.
- Credit risk scores were within the benchmark A- credit ratings
- Mid Suffolk's short-term debt reduced by £1m 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
- Both Councils have invested over £400k each in small businesses via the Funding Circle; the majority with the national accounts and £2k each in the local accounts.

10.7 In relation to borrowing, Babergh expects to borrow up to £10m and Mid Suffolk up to £25m by 31 March 2017 to finance the capital programmes and to put in place any potential long term cash investments.

10.8 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:

- Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

10.9 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis.

11. Appendices

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

12. Background Documents

None.

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