

**EAST STAFFORDSHIRE BOROUGH COUNCIL**

**REPORT COVER SHEET**

Title of Report:	<b>Mid-Year Treasury Management Review Report 2019-20</b>
Meeting of:	Scrutiny (Audit and Value for Money Council Services) Committee
Date:	19th November 2019
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 Scrutiny (Audit and Value for Money Council Services) Committee

Date 19<sup>th</sup> November 2020

<b>TITLE:</b>	<b>Mid-Year Treasury Management Review Report 2020-21</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 associated with capital spending, 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 Due to the pandemic UK GDP fell by 23% in the first half of the year which is one of the largest falls in output of any developed nation. However this is only to be expected as the UK economy is heavily skewed towards consumer facing services. Unemployment is forecast to peak in quarter 4 2020 at 7.5% and CPI inflation is expected to rise above the target rate of 2% by quarter 3 2022. There is little expectation that the bank rate will be raised during the next couple of years, although there remains a risk of negative rates for 2021/22.

3.1.2 Overall economic recovery is expected to be elongated and prolonged and there are likely to be some painful and longer term adjustments e.g. office space, travel on planes, trains and buses may never recover to their former levels. On a positive note, there has been huge growth in digital services. Further information on the economy is 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 2020 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. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. It is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility, are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31<sup>st</sup> March 2023, investment returns are expected to remain low.

**3.2.3 Despite the continued difficult economic conditions the approved strategy remains fit for purpose with one small amendment/clarification outline at paragraph 3.5.2 below.**

#### **3.3 The Council Investment portfolio for 2020/21**

3.3.1 Investments stood at £42.1m as at 30th September 2020, with a daily average of £48.2m for the first six months of the year. Despite investment returns being at an historical low, the authority exceeded both the base rate and the average 6 month LIBID in the first half of 2020/21. Average returns for the first six months stood at 0.32% (0.82% 30th September 2019). This is below the level set within the budget of 0.65%, which is as a result of the emergency bank rate cuts due to the Covid-19 pandemic.

3.3.2 The investment portfolio includes certificates of deposits and call accounts held with a number of UK banks, as well as UK Government Treasury Bills as well as a deposit account and AAA rated money market funds. These instruments offer significant counterparty strength as well as diversification of the portfolio.

#### 3.4 The Council Borrowing Strategy and debt rescheduling for 2020/21

3.4.1 The latest forecasts indicate that the Council's Capital Financing Requirement (CFR) or underlying need to borrow is expected to be higher than when the budget was set. This primarily relates to the latest information in relation to the timing of capital receipts which are partially being utilised to repay debt and deliver savings to the revenue budget.

#### 3.5 An update on Treasury and Prudential limits for 2020/21

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.

3.5.2 The report proposes an amendment/clarification to the Treasury Management Strategy Statement to establish an intra-local authority lending counterparty limit at a maximum of £5m. This is outlined in more detail with paragraph 4.6 of the report.

### 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: (Linda Durham).

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, incorporating a proposed amendment/clarification to the Treasury Management Strategy for 2020/21 and make comments and observations to full Council as the Committee sees fit.

**11. Background papers**

11.1 Treasury Management Strategy Statement 2020/21 – approved by full Council on 24th February 2020.

**12. Appendix**

12.1 Mid- Year Treasury Management Report – Appendix A.