

FULL COUNCIL**16 DECEMBER 2015****REPORT OF HEAD OF CENTRAL SERVICES****MID YEAR REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND PRUDENTIAL INDICATORS 2015-16****1.0 PURPOSE OF REPORT**

- 1.1 Revisions to the regulatory framework of Treasury Management during 2009 introduced a requirement that the Council receive a mid year treasury review in addition to the annual report and strategy on treasury management. The CIPFA Treasury Management Panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the Audit Commission entitled 'Risk and Return' identifies the need for Local Authorities to report regularly to members in addition to the annual review
- 1.2 The report meets the above requirement and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure and the Councils prudential indicators (PI's). The treasury strategy and PI's were previously reported to Council on 4 February 2015. Revisions to future years are provided where required.

2.0 RECOMMENDATIONS

The Budget and Strategic Planning Working Group recommends to the Council that:

- 2.1 **The mid-year position on treasury activity for 2015-16 be noted;**
- 2.2 **The mid-year position on prudential indicators be noted and approved.**
- 2.3 **Reference to the changes to the credit methodology whereby certain ratings are not considered as key criteria in the choice of investment counterparties in the Treasury Management Strategy Statement be approved. (see 3.7 below)**

3.0 KEY ISSUES

- 3.1 The Treasury Management & Prudential Indicators mid-year report for 2015-16 is attached at Appendix A
- 3.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Department for Communities & Local Government (DCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise the treasury management services.
- 3.3 The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments relatively short term (ie less than one year) and with high quality counterparties. The downside of such a policy is that investment returns remain low.
- 3.4 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.
- 3.5 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

3.6 The report shows that all treasury benchmarks have, at 30 September 2015, been maintained within the prescribed limits.

3.7 The main rating agencies have through much of the financial crisis provided some institutions with a ratings uplift due to implied levels of sovereign support. During 2015 all three agencies have begun removing these uplifts with the timing of the process determined by regulatory progress at national level. This process has been part of a wider reassessment of methodologies by each rating agency. In addition new methodologies are now taking into account other factors, such as regulatory capital levels. A consequence of the new methodologies is that they have also lowered the importance of the Fitch Support and Viability ratings and the Moody's Financial Strength rating withdrawn. As a result of these rating changes the credit methodology will focus solely on the short and long term ratings of an institution. This change and further detail is outlined in Section 6 of Appendix A on investment Portfolios.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The mid-year and annual report provides details of all Treasury Management activities. The Councils budgeted gross investment return for 2015/16 is £127k, and the performance for the year end is forecast to extend the budget by at least £30k due to the higher level of balances and lengthening of the portfolio.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 The Local Government Act 2003 provides powers to invest and borrow as well as providing controls and limits on the activity.

7.0 COMMUNITY SAFETY

7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

8.1 There are no direct equality issues arising from this report.

9.0 RISKS

9.1 These are assessed as part of the Central Services Service Plan.

10.0 CLIMATE CHANGE

10.1 There are no climate change issues arising from this report.

11.0 CONSULTATION

11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year.

12.0 WARDS AFFECTED

12.1 To varying degrees, all wards are affected indirectly.

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Date: 21 October 2015
Appendices : Appendix A – Mid Year Report on Treasury Management & Prudential Indicators

Background Papers: Statement of Accounts
 Final Accounts Working Papers

Reference : X : Committees/Council/2015-16/16-12-15/RC –Treasury Management Mid Year Report 2015-16