



**REPORT of  
DIRECTOR OF RESOURCES**

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to  
**STRATEGY AND RESOURCES COMMITTEE**  
**11 NOVEMBER 2021**

**2021 / 22 HALF YEARLY TREASURY MANAGEMENT UPDATE**

**1. PURPOSE OF THE REPORT**

- 1.1 To report on the Council's investment activity for the first half of 2021 / 22 in accordance with the Chartered Institute of Public Finance and Accountancy Treasury Management Code (CIPFA's TM Code) and the Council's Treasury Management Policy and Treasury Management Practices (TMPs).

**2. RECOMMENDATION**

That Members review the Treasury Management report for compliance purposes.

**3. SUMMARY OF KEY ISSUES**

**3.1 Background**

- 3.1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 3.1.2 The Council's Treasury Management Strategy for 2021 / 22 was presented to the Strategy and Resources Committee on 28 January 2021 and subsequently approved by the Council on 23 February 2021.
- 3.1.3 In 2021 / 22, the Council had an average of £28.0m invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
- 3.1.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by the Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by the Council on 23 February 2021.

**3.2 External Context**

- 3.2.1 The Council currently engages Arlingclose to provide treasury management consultancy and advice services. Attached at **APPENDIX 1** is information prepared by Arlingclose providing an overview of the external economic environment.

### 3.3 Local context

3.3.1 The Council is currently debt free and its capital expenditure plans do not currently indicate the need to borrow over the forecast period based on existing expenditure levels. However, as investment becomes necessary for Commercial Projects, additional funds will be required, and borrowing may then be needed. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget and Future Model.

### 3.4 Investment Activity (April 2020 – September 2021)

3.4.1 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment returns.

3.4.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April to September 2021, the level of investments held by the Council has seen an increase of £10.9m due to the timing of receiving Grants, Council Tax and NNDR ahead paying these out to beneficiaries and preceptors. Therefore, the total of investments held on 30 September 2021 of £31.7m. These are comprised as follows:

**Table 1 – Invested Funds**

	<b>Balance on 01/04/2021 £000s</b>	<b>Movement £000s</b>	<b>Balance on 30/09/2021 £000s</b>	<b>Average Credit Risk Score</b>	<b>Counter- party limit</b>	<b>Sector limit</b>
<b>Short term Investments</b>						
Banks and Building societies	2,819	400	3,219	5.3	£2m	Unlimited (Banks) / £5m (Building Societies)
Money Market Funds	3,000	9,000	12,000	3.8	£5m	£12m
Debt Management Account Deposit Facility	0	5,500	5,500	n/a	Unlimited	n/a
Fixed Term Deposits (LA's)	10,000	-4,000	6,000	4.6	£2m	Unlimited
<b>Long Term Investments</b>	5,000	-	5,000	n/a	£5m	£12m
<b>TOTAL</b>	<b>20,819</b>	<b>10,900</b>	<b>31,719</b>	<b>Ave 4.1</b>		

3.4.3 The Councils' £5m of externally managed pooled and property funds have generated a total return of £96k in 2021 / 22 to date. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly

reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five year period total returns will exceed cash interest rates. In light of their performance over the medium / long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

### 3.5 Performance – Budgeted Income and Outturn

3.5.1 Below are the average rates of returns obtained on the Authority's investments:

- Short Term investments - 0.05%;
- Investments in the Investec Diversified Income fund – 3.25%;
- Investment in the Property Fund – 3.81%.

3.5.2 The above returns average to 0.63%, this is in accordance with the assumed interest rate included within the 2021 / 22 Budget Setting Report.

The Authority's budgeted investment income for the year was set at £132,900. Projected income for the year is currently £192,700. This increase is due to maintaining a higher level of average balances invested than originally anticipated.

### 3.6 Compliance with Prudential Indicators and Treasury Management Strategy (APPENDIX 2)

3.6.1 The Prudential Indicators for 2021 / 22, which were set on 28 January 2021 as part of the Treasury Management Strategy Statement shown at **Table 1** have been complied with to date, except for some brief breached bank limits that occurred on the Council's current account, disclosed below.

**Table 2 – Counterparty Limit Breaches**

Date in Excess	Amount in Excess	Reason	Date Resolved	How Resolved
21/09/2021	£411,000	Net balance exceeded the £2m bank counterparty limit as BACS run went a day later	22/09/21	BACS run processed for £415k.
16/08/2021	£265,000	Net balance exceeded the £2m bank counterparty limit following grant payment from DWP	17/08/2021	£1m Investment to Deutsche Bank
02/08/21 to 04/08/21	£340,000 to £446,000	Net balance exceeded the £2m bank counterparty limit due to temporary lack of signatories available.	05/08/21	£1.5m DMO Investment once signatories available.
02/07/21 to 07/07/21	£9,000 to £139,000	Net balance exceeded the £2m bank counterparty limit as less paid out during that period than planned.	08/07/21	£149k payment to HMRC.
18/06/2021	£879,000	Net balance exceeded £2m bank	21/06/21	BACS run of £955k

Date in Excess	Amount in Excess	Reason	Date Resolved	How Resolved
		counterparty limit due to BACS run going out after the weekend.		processed.

3.6.2 The Section 151 Officer reports that all treasury management activities undertaken during the half year in review complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy, the above items excepted.

### 3.7 Outlook for the remainder of 2021/22 (provided by Arlingclose.)

3.7.1 While Q1 UK GDP (Gross Domestic Product) expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q2 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

3.7.2 Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC (Monetary Policy Committee) has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

3.7.3 The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

3.7.4 Government bond yields increased sharply following the September FOMC (Federal Open Market Committee) and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

3.7.5 The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

3.7.6 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

## 4. CONCLUSION

- 4.1 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary of the treasury management activity during the first half of 2021 / 22. As indicated in this report, only one of the prudential indicators has been briefly breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

## 5. IMPACT ON STRATEGIC THEMES

- 5.1 This report links to delivering good quality, cost effective and valued services in a transparent way.

## 6. IMPLICATIONS

- (i) **Impact on Customers** – None directly.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – This report is mainly about managing credit risk. A prudent approach continues to be taken in relation to investment activity with priority being given to security and liquidity over yield.
- (iv) **Impact on Resources (financial)** – Income is projected to exceed the Council's budgeted figure (£192,700) by £59,800 in 2021.
- (v) **Impact on Resources (human)** - None directly.
- (vi) **Impact on the Environment** – None.

Background Papers: None.

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