



**REPORT of  
DIRECTOR OF RESOURCES**

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to  
**STRATEGY AND RESOURCES COMMITTEE**  
**6 OCTOBER 2022**

**TREASURY OUTTURN 2021 / 22**

**1. PURPOSE OF THE REPORT**

- 1.1 To report on the Council's investment activity for the financial year 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 Outturn report for compliance purposes.

**3. SUMMARY OF KEY ISSUES**

- 3.1 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).
- 3.2 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.
- 3.3 During 2021 / 22, the Council had an average of £30.4m invested and was 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.
- 3.4 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 24 February 2022.
- 3.5 **External Context**
- 3.5.1 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.

### 3.6 Local context

- 3.6.1 The Council is currently debt-free and its capital expenditure did not include borrowing during 2021 / 22. 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 any revenue budget gaps.
- 3.6.2 The consultation titled “Future Lending Terms”, which closed in July 2020, invited local authorities and key stakeholders to contribute to developing a system whereby Public Works Loan Board (PWLB) loans can be made available at improved margins to support qualifying projects. Proposals include:
- (i) allowing authorities that are not involved in “debt for yield” activity to borrow at lower rates,
  - (ii) stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing and regeneration, and
  - (iii) the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.
- 3.6.3 The outcome of the consultation resulted in guidance being circulated by HM Treasury in August 2021 bringing the above proposals into force and being implemented for all PWLB loans from 26 November 2020.

### 3.7 Investment Activity (April 2021 – March 2022)

- 3.7.1 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.
- 3.7.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April 2021 to March 2022, the level of investments held by the Council has seen an increase of £14,460,000 with a total of investments held on 31 March 2022 of £35,279,000.
- 3.7.3 These are comprised of:

	<b>Balance on 31/03/2021 £000</b>	<b>Movement £000</b>	<b>Balance on 31/03/2022 £000</b>
<b>Short term Investments</b>			
Banks and Building societies	2,819	2,960	5,779
Money Market Funds	3,000	7,500	10,500
Certificates of Deposit	0	0	0
Local Authorities	10,000	4,000	14,000

	<b>Balance on 31/03/2021 £000</b>	<b>Movement £000</b>	<b>Balance on 31/03/2022 £000</b>
<b>Long Term Investments</b>	5,000*	0	5,000*
<b>TOTAL</b>	<b>20,819</b>	<b>14,460</b>	<b>35,279</b>

\*The 31/3/2022 Balance Sheet figure for long-term investments is recorded at fair value, £5,176.

3.7.4 Over a relatively short period, following the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate. This reaction was a result of the lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. The Council has £3m invested in the CCLA (Churches, Charities and Local Authorities) Local Authorities Property Fund and £2m in the Ninety One (previously Investec) Diversified Income Fund, which is a multi-asset fund. The falls in the capital values of the underlying assets were reflected in 31 March 2022 valuations of both funds.

3.7.5 The Council is using the alternative Fair Value through Profit and Loss (FVPL) accounting and must defer the funds' fair value gains and losses to the Financial Instruments Adjustment Account (which is an unusable reserve until 2023 / 24) and reflected in the movement in reserves statement.

3.7.6 The Council's £5m of externally managed pooled and property funds generated a total income return of £177,000 during 2021 / 22. Because 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 the light of their performance over the medium / long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

### 3.7.7 Coronavirus:

3.7.7.1 During 2021 / 22 Government imposed restrictions were still in place to although they were gradually phased out. The ongoing reduction in income to the Council, businesses and other organisations, meant the Government continued issuing grant payments for Maldon District Council (MDC) to distribute in support of these organisations.

3.7.7.2 For example, £6.1m of grants were received by MDC during 2021 / 22 for businesses coping with restrictions and restarting as restrictions were lifted. These funds were stored with Money Market Funds and Local Authorities then transferred to businesses throughout the following few months. Various other grants followed for distribution of financial assistance to businesses, residents, and the Council itself to mitigate financial hardship encountered due to Government restrictions.

## 3.8 **Performance – Budgeted Income and Outturn**

3.8.1 Below are the average income returns obtained on the Authority's investments:

- Short Term investments - 0.09%;
- Investments in the Ninety One Diversified Income fund – 3.48%;

- Investment in the Property Fund – 3.58%;
- All investments – 0.67%.

3.8.2 The Authority's budgeted investment income for the year was £132,900. The actual investment income for the year was £200,400. This income overachievement was due to interest rates beginning to recover as the effects of the pandemic began to ease throughout the financial year.

### 3.9 Compliance with Prudential Indicators and Treasury Management Strategy

3.9.1 All Prudential Indicators for 2021 / 22, have been complied with to date, except for some breached bank limits that occurred on the Council's current account, disclosed below.

**Table 2 – Counterparty Limit Breaches**

<b>Date in Excess</b>	<b>Amount in Excess</b>	<b>Reason</b>	<b>Date Resolved</b>	<b>How Resolved</b>
01/10/2021	£4,105,000	Net balance exceeded the £2m bank counterparty limit after large Council Tax receipts which were not reinvested until next working day.	04/10/21	£2m invested in Nationwide Building Society and £2.5m invested in Debt Management Office (DMO).
01/11/2021	£3,145,000	Net balance exceeded the £2m bank counterparty limit after large Council Tax receipts which were not reinvested until 02/11.	02/11/2021	£2.5m invested in Federated money market fund & £2.0m invested in DMO.
16/11/2021 to 18/11/2021	£13,000 to £130,000	Net balance exceeded the £2m bank counterparty limit after no payments arranged until later in the week.	19/11/21	£132k Pensions payment.
01/12/2021	£4,552,000	Net balance exceeded the £2m bank counterparty limit after large Council Tax receipts which were not reinvested until 02/12.	02/12/2021	£1m invested in Federated money market fund & £4m invested in DMO.
08/12/21 to 09/12/21	£124,000	Net balance exceeded the £2m bank counterparty limit after no payments arranged this week.	10/12/21	£2m invested in DMO
15/12/21	£250,000	Net balance exceeded the £2m bank counterparty limit after no payments arranged this week.	16/12/21	£1m invested in money market fund
04/01/2022 to 05/01/2022	£4,467,000 to £2,145,000	Net balance exceeded the £2m bank counterparty limit after large Council Tax	06/01/22	£4.5m invested in MMF's & £1m invested in DMO.

Date in Excess	Amount in Excess	Reason	Date Resolved	How Resolved
		receipts which were not reinvested until 06/01.		
11/01/2022	£570,000	Net balance exceeded the £2m bank counterparty limit after low amount in payments arranged this week.	12/01/22	£2m invested in DMO.
04/02/2022	£74,000	Net balance exceeded the £2m bank counterparty limit after low amount in payments arranged this week.	07/02/22	£1m invested in money market fund.
15/02/2022	£337,000	Net balance exceeded the £2m bank counterparty limit after low amount in payments arranged this week.	16/02/22	£1m invested in money market fund.
01/03/2022	£548,000	Net balance exceeded the £2m bank counterparty limit after Council Tax receipts which were not reinvested until 02/03	02/03/22	£1.5m invested in money market fund.
10/03/2022	260,000	Net balance exceeded the £2m bank counterparty limit after £0.9m in unanticipated grants were received.	11/03/22	£1.5m invested in money market fund.
17/03/2022 to 18/03/2022	£4,000 to £221,000	Net balance exceeded the £2m bank counterparty limit after £0.6m in unanticipated grants were received.	21/03/22	Payments made of £1.8m.
30/03/2022	£1,537,000	Net balance exceeded the £2m bank counterparty limit after investment returned and not reinvested until the next day.	31/03/22	£2m invested in money market fund.

3.9.2 To reduce the occurrence of these breaches in 2022 / 23 the finance team has added additional bank account checks and bank balance alerts so that money can be moved in a more timely way to ensure compliance. The Council has also approved higher Counterparty limits for the bank account (from £2m to £3m) and Money Market Funds (£12m to £20m) effective from 1 April 2022 to make compliance more manageable.

3.9.3 **APPENDIX 2** reports on the Council's compliance with Prudential Indicators.

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

### 3.10 Outlook for 2022 / 23 (Summary of advice from Arlingclose.)

- The global economy has entered a higher inflationary phase, driven by a combination of resurgent demand and supply bottlenecks in goods and energy markets. Tighter labour markets have prompted concerns about wage-driven inflation, leading central banks to tighten policy to ensure inflation expectations remain anchored.
- The invasion of Ukraine is exacerbating the commodity price pressures facing businesses and consumers and will push inflation above prior expectations. The sanctions on Russia have prompted a rise in various commodity prices.

In the UK, the Ofgem price cap has risen around 50% in April and a further rise is due in October. *(We now know that the UK energy regulator has increased the energy price cap by 80%.)*

- The labour market appears tight despite steady employment levels due to a smaller available labour pool. Wage growth is running above pre-COVID levels and will be a contributory factor to sustained above-target inflation this year, although real wage growth (i.e. wage growth minus inflation) is unlikely for most workers and this will weigh on consumers' disposable income, ultimately leading to slower growth and even recessionary fears.

3.10.1 The Monetary Policy Committee (MPC) will raise Bank Rate further to dampen aggregate demand and reduce the risk of sustained higher inflation. Markets have priced in a significant rise in Bank Rate, but Arlingclose believes the MPC will be more cautious given the soft medium-term outlook.

## 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 for the financial year of 2021 / 22. As indicated in this report, none of the Prudential Indicators have been 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 The report links to the Maldon District Council's Strategic Theme of Effective use of Financial Resources.

## 6. IMPLICATIONS

- Impact on Customers** – None directly.
- Impact on Equalities** – None identified.
- 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.
- Impact on Resources (financial)** – Income exceeded the Council's budgeted figure (£132,900) by £67,500 in 2021 / 22.

- (v) **Impact on Resources (human)** - None directly.
- (vi) **Impact on the Environment** – None.
- (vii) **Impact on Strengthening Communities** – None.

Background Papers: None.

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