REPORT of
DIRECTOR OF RESOURCES

to
STRATEGY AND RESOURCES COMMITTEE
10 NOVEMBER 2022

2022 / 23 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 2022 / 23 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 receive 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 2022 / 23 was presented to the Strategy and Resources Committee on 6 January 2022 and subsequently approved by the Council on 24 February 2022.

3.1.3 During 2022 / 23, the Council has had an average of £34.0m 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 full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils Capital Strategy, complying with CIPFA's requirement, was approved by the Council on 24 February 2022.

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 2022 – September 2022)**

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 2022, the level of investments held by the Council has seen an increase of £2.8m due to the timing of receiving Grants, Council Tax and National Non-Domestic Rates (NNDR) ahead of paying these out to beneficiaries and preceptors. Therefore, the total of investments held on 30 September 2022 of £35.2m. These are comprised as follows:

Table 1 – Invested Funds

	Balance on 01/04/2022 £000s	**Movement £000s**	**Balance on 30/09/2022 £000s**	**Average Credit Risk Score**	**Counter-party limit**	**Sector limit**
Short term Investments						
Banks and Building societies	5,932	-715	5,217	5.2	Operational £3m, Investing £2m	Unlimited (Banks) / £5m (Building Societies)
Money Market Funds	10,500	-3,500	7,000	5.0	£5m	£20m
Debt Management Account Deposit Facility	0	2,000	2,000	2.7	Unlimited	n/a
Fixed Term Deposits (LA's)	14,000	2,000	16,000	5.0	£2m	Unlimited
Long Term Investments	5,000	-	5,000	n/a	£5m	£12m
TOTAL	**35,432**	**2,785**	**35,217**	**Ave 4.9**		

3.4.3 The Councils' £5m of externally managed pooled and property funds have generated a total return of £94k in 2022 / 23 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 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.

3.5 **Performance – Budgeted Income and Outturn**

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

- Short Term investments - 0.44%;
- Investments in the Ninety One (Investec) Diversified Income Fund – 3.82%;
- Investment in the CCLA (Churches, Charities and Local Authorities) – Lamit Property Fund– 3.68%.

3.5.2 The above returns average to 0.90%, this is in accordance with the assumed interest rate included within the 2021 / 22 Budget Setting Report.

3.5.3 The Authority's budgeted investment income for the year was set at £214,100. Projected income for the year is currently £318,395. This increase is due to rising interest rates.

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

3.6.1 The Prudential Indicators for 2022 / 23, which were set on 24 February 2022 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
19/07/2022	£714,000	Net balance exceeded the £3m bank counterparty limit when two investments matured on that day.	20/07/2022	£2m Investment to Guildford Council
01/07/2022	£1,993,000	Net balance exceeded the £3m bank counterparty when bulk Council Tax received.	04/07/2022	£3m Investment to Federated Money Market Fund (MMF)
08/06/2022	£3,383,000	Net balance exceeded the £3m bank counterparty due to an unexpected receipt.	09/06/2022	£3,962,005 paid to the Department for Levelling Up, Housing and Communities (DLUHC.)
18/05/2022	£2,472,000	Net balance exceeded the £3m bank counterparty due to the extra approval procedures	19/05/2022	£3,811,683 paid to Essex County Council (ECC) re. NNDR.

Date in Excess	Amount in Excess	Reason	Date Resolved	How Resolved
		adopted for payments.		
06/04/2022	£265,000	Net balance exceeded £3m due to the maturity of Nationwide Building Society.	07/04/2022	£2m re-invested to Nationwide.

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 2022 / 23 (provided by Arlingclose.)**

3.7.1 Monetary policymakers are behind the curve having only raised rates by 50bps (basis points) in September. This was before the “Mini-Budget”, poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

3.7.2 There is now an increased possibility of a special Bank of England Monetary Policy Committee (MPC) meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

3.7.3 Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

3.7.4 The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

3.7.5 UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for Consumer Price Index (CPI), whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

3.7.6 The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

3.7.7 Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government’s shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government’s plans are perceived to be fiscally responsible.

3.7.8 The housing market impact of increases in the Base Rate could act as a “circuit breaker” which stops rates rising much beyond 5.0%, but this remains an uncertainty.

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 2022 / 23. 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 CORPORATE GOALS

5.1 This report links to the Corporate Goal of 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 (£214,100) by £104,295 in 2022 / 23.

(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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