TO: GOVERNANCE AND AUDIT COMMITTEE
26 JANUARY 2022

TREASURY MANAGEMENT REPORT 2022/23 AND 2021/22 MID-YEAR REVIEW
(Director of Finance)

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer-term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft Treasury Statement reports for 2022/23 but that full implementation would be required for 2023/24.

1.5 It should also be noted that the Department of Levelling Up, Housing and Communities (DLUHC) is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. Consultation on these issues close in February 2022.

1.6 The Council will review and update its Capital Strategy once these reviews are concluded and the Codes are revised.

1.7 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.8 This report seeks to achieve both these requirements of updating Members on progress in 2021/22 and to review the Treasury Management Report for 2022/23.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report in Annex A for 2022/23 prior to its approval by Council.

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2021/22
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2021/22
- A review of compliance with Treasury and Prudential Limits for 2021/22

Economic Update

5.2 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. Economies continue to re-open, while governments have either commenced or are contemplating dialling down emergency fiscal support mechanisms.

5.3 For the UK, fiscal policy tightening has already been put in place. On the monetary policy front, matters are more complex, with price pressures on the rise and expected to remain elevated into 2022/23, while economic recoveries are seemingly losing momentum heading into the latter stages of 2021/22. Markets are unsettled, with asset prices coming under pressure following their largesse gains made in the formative stages of recovery. The forecast for Bank Rate now includes four increases, one in quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

5.4 Vaccines were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the Omicron mutation at the end of November changed the landscape again. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection,

as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations.

5.5 With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021 but now looks likely to be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid.

Treasury Management Strategy Statement Review

5.6 The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by the Council on 24th February 2021. There are no policy changes to the TMSS in 2021/22

Review of Investment and Debt Portfolio 2021/22

5.7 The Council held £42.238m of investments as at 31 December 2021 and the investment portfolio yield for the first nine months of the year is 0.04% against a benchmark (Local Authority 7-Day Rate) of 0.01%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	9,997	0.07
Black Rock	1 Day	9,997	0.02
Federated	1 Day	6,997	0.05
Federated Cash Plus	2 Day	3,000	0.15
Goldman Sachs	1 Day	9,997	0.01
Deutsche	1 Day	2,250	0.00
Total Investments		**42,238**	

5.8 The 2021/22 interest budget assumed that an average interest rate of 0.1% would be earned on the Council's investment portfolio. However as interest rates have been cut to historic lows and with the negative rates being offered in the market this target will not be achieved. However cash balances are higher as a result in the interruption caused due to the pandemic and as such the investment budget should still be achieved this year.

5.9 As at 31 December 2021 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	Amount £	Rate	Start Date	Maturity Date
NIL	0			
	0			

PWLB Loans

PWLB	Amount	Rate	Start Date	Maturity Date
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066

PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024
PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2021/22

5.10 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2021/22 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2022/23

5.11 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.12 The attached Treasury Management Report 2022/23 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 14 December 2021 and outlines the Council's Prudential Indicators for 2022/23 to 2024/25 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 23 February 2022.

6 Consultation and Other Considerations

Legal Advice

6.1 The Treasury Management Activities by local authorities is must have regard to the CIPFA Code of Practice.

Financial Advice

6.2 The financial implications are contained within the report.

Other Consultation Responses

6.3 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in January 2022.

Equalities Impact Assessment

6.3 None.

Climate Change Implications

6.4 The recommendations in Section 2 above will have no immediate impact on emissions of CO_2.

Background Papers
None

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