Subject:	**TREASURY MANAGEMENT QUARTER ONE REPORT 2021/22**
Meeting and Date:	**Governance Committee – 30 September 2021**
Report of:	**Helen Lamb – Head of Finance and Housing**
Portfolio Holder:	**Councillor Christopher Vinson – Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the year ended 30 June 2021.
Recommendation:	That the report is received.

1. **Summary**

1.1 The Council's investment return for the period to 30 June was 2.18% (annualised), which outperformed the benchmark[1] by 2.16%. The total interest and dividends income forecast to be received for the year is £1,503k as of 30 June, which is £247k less than the original budget estimate of £1,750k. The long-term investments have been generating a reasonable income return considering the impact of the global pandemic.

2. The Council remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period.

3. **Introduction and Background**

3.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

3.2 Council adopted the 2021/22 Treasury Management Strategy (TMS) on 3rd March 2021 as part of the 2021/22 Budget and Medium-Term Financial Plan.

3.3 To comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.

3.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.07 at the end of the quarter.

4. **Economic Background**

4.1 The report attached (Appendix 1) contains information up to the end of June 2021; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

"Main points since June:

I. *The medium term global economic recovery has continued with the reopening of economies and most look set to grow at a decent pace. Recovery in world demand has been more highly concentrated in goods than in services. The UK has continued to benefit from its initial rapid vaccine rollout, which appears to have weakened the link between infections and hospitalisations.*

II. *The re opening the UK economy will result in improved GDP in Q2 and Q3 although the pingdemic in June and July will have restrained activity a little and exacerbated labour shortages. The more upbeat assessment is that GDP will return to its pre Covid peak by the end of calendar 2021 but will be predicated on the extent and speed with which households and businesses normalise their spending and activity during the remainder of the year.*

III. *Inflation rose to 2.5% in June. Alongside the increase in commodity and energy prices, supply and transportation bottlenecks and the boost in prices from the lifting of restrictions, the MPC has acknowledged the potential of CPI rising to around 4 in Q 4 2021. However, the transitory factors affecting inflation including the low base effect of 2020 are expected to unwind over time expectations for medium term inflation are not elevated.*

IV. *There is uncertainty over the size and pace of change in the labour market as companies to adjust their staffing levels and new hires to post Covid demand and working arrangements. The number of furloughed jobs has declined and the scheme ends in September.*

V. *Government bond yields declined after rising earlier in the year as the prospect of imminent higher policy rates receded- the Delta variant increased concerns that the pandemic will dampen confidence and weigh on growth for longer than previously expected. Some upward pressure on gilt yields could remain in the short term due to the variability of data.*

VI. *Policymakers have begun signalling their intention of higher policy rates, albeit,not just yet. At its August meeting, the MPC indicated that some modest tightening of monetary policy over the 3 year forecast period was likely to be necessary to mitigate inflation risks.*

VII. *Arlingclose expects Bank Rate to remain at the current 0.10% level. We believe the risk of movement in the immediate term remains low, although the risks over the MPC's 3 year horizon have increased and are leaning to the upside.*

VIII. *Gilt yields have fallen recently, but volatility is likely given the uncertainties over the economic outlook and central bank asset purchase programmes.*

IX. *Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.*

X. Downside risks remain the risk of further virus mutations including the Delta variant could destabilise the recovery. Downside risks also arise from potential future vaccine shortages as the demand for vaccines increases.

5. Annual Investment Strategy

5.1 The investment portfolio, as at the end of June 2021, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £58.5m, increasing to £58.7m at the end of August. The increase reflects normal cashflow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

5.2 As at 30th June 2021, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£8.4m at 30 June 2021).

5.3 Cashflow funds have since increased (to £8.7m at 31 August 2021) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

6. New Borrowing

6.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2021, the Council had £11 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

7. Debt Rescheduling

7.1 At this time, it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

8. Compliance with Treasury and Prudential Limits

8.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

9. Appendices

Appendix 1 – Arlingclose Treasury Management Report for quarter one 2021/22

Appendix 2 – Investment portfolio as at 30 June 2021

Appendix 3 – Borrowing portfolio as at 30 June 2021

Appendix 4 – Investment portfolio as at 31 August 2021

10. Background Papers

Medium Term Financial Plan 2021/22 – 2024/25

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