Subject:	**TREASURY MANAGEMENT QUARTER TWO REPORT 2021/22**
Meeting and Date:	**Governance Committee – 2 December 2021** **Cabinet – 6 December 2021**
Report of:	**Helen Lamb – Head of Finance and Investment**
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 September 2021.
Recommendation:	That the report is received.

1. Summary

1.1 The Council's investment return for the period to 30 September was 2.60% (annualised), which outperformed the benchmark[1] by 2.55%. The total interest and dividends income forecast to be received for the year is £1,560k as of 30 September, which is £190k 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.

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

2. Introduction and Background

2.1 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.

2.2 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.

2.3 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.

2.4 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

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 0.05 at the end of the quarter.

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.

3. Economic Background

3.1 The report attached (Appendix 1) contains information up to the end of September 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 September:

i. *The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.*
ii. *While Q 2 UK GDP expanded more quickly than initially thought, the pingdemic and more latterly supply disruption will leave Q 3 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.*
iii. *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[2] 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.*
iv. *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.*
v. *Government bond yields increased sharply following the September FOMC[3] 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.*
vi. *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.*

2 Monetary Policy Committee

3 Federal Open Market Committee

vii. *Arlingclose expects Bank Rate to rise in Q 2 2022 We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure Given the current outlook, we believe this could be a policy mistake.*

viii. *Investors have priced in multiple rises in Bank Rate to 1 by 2024 While we believe Bank Rate will rise, it is by a lesser extent than expected by markets.*

ix. *Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast.*

x. *The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later."*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of September 2021, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £58.8m, increasing to £62.5m at the end of October. 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.

4.2 As at 30th September 2021, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£8.8m at 30 September 2021).

4.3 Cashflow funds have since increased (to £12.5m at 31 October 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.

5. New Borrowing

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

6. Debt Rescheduling

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

7. Compliance with Treasury and Prudential Limits

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

8. Climate Change and Environmental Implications

8.1 There are no climate change or environmental implications.

9. Corporate Implications

9.1 Comment from the Section 151 Officer: Finance have produced this report and have no further comments to add. (DL)

9.2 Comment from the Solicitor to the Council:

9.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications, however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15/section/149

10. Appendices

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

Appendix 2 – Investment portfolio as at 30 September 2021

Appendix 3 – Borrowing portfolio as at 30 September 2021

Appendix 4 – Investment portfolio as at 31 October 2021

11. Background Papers

Medium Term Financial Plan 2021/22 – 2024/25

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