Subject:	**TREASURY MANAGEMENT QUARTER THREE REPORT 2021/22**
Meeting and Date:	**Governance Committee – 17 March 2022**
Report of:	**Helen Lamb – Head of Finance and Investment**
Portfolio Holder:	**Councillor Christopher Vinson – Portfolio Holder for Finance, Governance, Digital and Climate Change**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the year ended 31 December 2021.
Recommendation:	That the report is received.

1. Summary

1.1 The Council's investment return for the period to 31 December was £1,074k. The total interest and dividends income forecast to be received for the full year is £1,475k, which is £198k less than the original budget estimate of £1,673k, giving a forecast annualised return of 3.08%. 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 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 December 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 December:

I. *The post COVID global economy has entered a higher inflationary phase, driven by a combination of resurgent demand and supply bottlenecks in goods and energy markets. Geopolitics are also playing a role, driving energy prices upwards which are being passed onto consumers. Tighter labour markets due to reduced participation rates have prompted concerns about wage driven inflation, leading central banks to tighten policy to ensure inflation expectations remain anchored.*

II. *Global inflation is riding high. While some indicators suggest supply bottlenecks in goods markets are easing, oil and gas prices have risen significantly and threaten a more sustained level of uncomfortably high inflation than previously expected. In the UK, Ofgem has confirmed a significant rise in retail energy prices, which will maintain relatively high CPI rates throughout 2022.*

III. *Supply constraints are also evident in the labour market. Underlying wage growth is running above pre COVID levels despite employment being lower now than in early 2020. Evidence suggests that labour pools have diminished. Higher wage growth will be a contributory factor to sustained above target inflation this year.*

IV. *The lower severity of Omicron means that the economic impact should be limited. The UK economy had a weak Q4 2021 due to the virus, but growth is likely to bounce back in Q1 2022.*

V. *However, higher inflation will dampen demand. In the UK, households face a difficult outlook. Fiscal and monetary headwinds alongside a sharp reduction in real income growth will weigh on disposable income, ultimately leading to slower growth.*

VI. *The Bank of England will tighten policy further over the next few months to ensure that aggregate demand slows to reduce business pricing power and labour wage bargaining power. Markets have priced in a significant rise in Bank Rate, but we believe the MPC will be more cautious given the medium-term outlook, assessing the impact of the first round of rises rather than following the market higher.*

VII. *Bond yields have risen sharply to accommodate tighter monetary policy, including the runoff of central bank bond portfolios. The interplay between slowing growth and falling inflation, and tightening policy, will likely keep yields relatively flat."*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of December 2021, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £71.3m, decreasing to £67.9m at the end of January. The decrease 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 31st December 2021, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£21.3m at 31 December 2021), this was due to the Council receiving a £7.7m grant from DEFRA for Port Health.

4.3 Cashflow funds have since decreased (to £17.9m at 31 January 2022) 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 December 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. Appendices

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

Appendix 2 – Investment portfolio as at 31 December 2021

Appendix 3 – Borrowing portfolio as at 31 December 2021

Appendix 4 – Investment portfolio as at 31 January 2022

10. Background Papers

Medium Term Financial Plan 2021/22 – 2024/25

Contact Officer: Dani Loxton, extension 2285