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| **Subject:** | **TREASURY MANAGEMENT QUARTER ONE REPORT 2022/23** |
| **Meeting and Date:** | **Governance Committee – 29 September 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 quarter ended 30 June 2022. |
| **Recommendation:** | That the report is received. |

1. **Summary**

1.1 The Council's investment return for the period to 30 June was £1,709k, which is £69k more than the original budget estimate of £1,640k, giving a forecast annualised return of 2.89%. The long-term investments have been focusing on generating income rather than capital growth. The increase in the Bank of England base rate has seen an improved return on cash flow funds held in the money market accounts.

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 2022/23 Treasury Management Strategy (TMS) on 2rd March 2022 as part of the 2022/23 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 June 2022; 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. *UK GDP grew at a lower than expected 0.2% month on month, lower than the 0.3% expected by most analysts. This pointed to a weaker than expected economy and was reflected by under performance in industrial performance which shrank in July, and Manufacturing production which saw only growth of 0.1%.*

II. *Although the headline unemployment rate remained strong, falling to 3.6% from 3.8%, the increase in those in employment grew by only 40,000 people, compared to an expected 128,000. This implies that the numbers of "economically inactive" people, those who are neither looking for a job or in employment continues to rise. The "Great Resignation" seemingly continuing to work its way through the economy.*

III. *The same data release showed average earnings were up 5.2% year on year for July, which may sound strong in the context of years of sluggish wage growth, but in the context of the eyewatering CPI figure of 9.9%, and RPI of 12.2% (both year on year), even with wage growth, in real terms workers continued to get poorer, whilst simultaneously keeping the spectre of wage – price inflation on the cards.*

IV. *There seems to be no end in sight for inflation, as PPI, or Producer Price Index which measures the cost of input prices for the producers of goods came in at 20.5%, a level that producers simply can't fully absorb and will have to pass on to consumers. This impoverishing of households was reflected in Friday's retail sales for August figures which printed declines across the board, the headline rate of sales declining by 5.4% year on year, and 1.6% month on month, fuelling the beliefs of some commentators that we are already in a recession.*

V. *There are two major events, the delayed MPC meeting and it's interest rate decision and new Chancellor Kwasi Kwarteng's "fiscal event" or mini-budget due mid-September.*

VI. *Both Sterling markets and Arlingclose are forecasting that we will see a 0.5% rise in Bank of England base rate as the MPC attempts to fight inflation, putting to one side its impact on the recovery. With this baked in, most BoE watchers will be heading straight to the minutes to understand the vote and* *see if more increases are likely in the short term, especially in the context of the fiscal approach that the new chancellor will take.*

VII. *The mini budget that follows the MPC will have its focus on supporting households by introducing a cap on energy costs, but this is likely to have a knock-on impact on both inflation and interest rates. By capping energy costs, consumer price inflation will be dramatically reduced compared to current expectations, however, it is likely to increase the duration of inflation, by supporting household spending. Equally, this reduction in the peak but lengthening of the wave, is likely to impact the response of the MPC. Furthermore, the cap will need to be paid for, likely adding something the region of £150 Billion to the country's debt, an increase in supply to that level is likely to feed through to gilt yields, one way or another.*

VIII. *As well as an increase of 0.5% month on month, CPI increased by 9.9% over the course of the previous 12 months to August 2022, down from 10.1% in July. From April 2020, the beginning of the first COVID-19 lockdown, until March 2021, the annual rate was less than 1.2%. Then, it increased significantly until July 2022 before dipping somewhat in August 2022. The National Statistic series, which started in January 2006, had never seen an annual inflation rate higher than that of July 2022.*

IX. *ONS stated that the main contributions to high monthly rates in August 2022 came from food and non-alcoholic beverages, while a significant amount of the downward adjustment came from motor fuel prices declining. The biggest factors driving up the monthly rates in August 2021 were transportation, leisure, and culture.*

X. *The decrease in the price of motor fuels between July and August was the primary factor in the month-on-month inflation rate in August 2022 lowering.*

## 4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of June 2022, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £53.5m, increasing to £56.1m 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.

4.2 As at 30 June 2022, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were lower than anticipated (£3.5m at 30 June 2022), this was due to the Council repaying £7.9m of NNDR and Council tax rebates.

4.3 Cashflow funds have since decreased (to £6.1m at 31 August 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 June 2022, there was no short-term borrowing required.

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 22/23

Appendix 2 – Investment portfolio as at 30 June 2022

Appendix 3 – Borrowing portfolio as at 30 June 2022

Appendix 4 – Investment portfolio as at 31 August 2022

10. **Background Papers**

Medium Term Financial Plan 2022/23 – 2025/26

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