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| **Subject:** | **TREASURY MANAGEMENT YEAR END REPORT 2021/22** |
| **Meeting and Date:** | **Governance Committee – 29 September 2022**<br>**Cabinet – 7 November 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 March 2022. |
| **Recommendation:** | That the report is received. |

1. **Summary**

1.1 The Council's investment return for the period to 31 March was £1,444k, which is £229k less than the original budget estimate of £1,673k, giving a forecast annualised return of 3.04%. 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 March 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 March:*

I. *Monetary policymakers are pushing through with monetary tightening even as global recessionary risks rise, particularly in the EZ and UK.*

II. *The inflationary impact of the Ukraine invasion may be easing in some areas, but wholesale gas prices continue to be driven higher, with significant implications for UK inflation rates. The BoE now forecasts CPI inflation to exceed 13 with energy and fuel prices contributing half of that amount. With no resolution to the Ukraine conflict in sight and winter approaching, it is difficult to see these pressures easing.*

III. *High sustained inflation will lead to zero or negative GDP growth for Q 2 2022 onwards in the UK, due to negative real household disposable income growth Data suggest that households are curtailing spending in response to higher prices BoE sources, however, suggest that businesses remain confident of passing higher costs on. Further fiscal intervention is likely but could have inflationary implications.*

IV. *The UK labour market is tight and nominal wage growth is running above pre COVID levels. Higher wage growth will be a contributory factor to sustained above target inflation and is a key concern for the MPC. Real wage growth will however be unlikely for most workers. Weaker economic activity should eventually lead to lower demand for labour and reduce wage pressure.*

V. *The Bank of England has signalled a more forceful stance on inflation, due to apparent broader based inflationary effects and probably some concerns over the fiscal outlook, given the current Tory leadership contest. The MPC is also being pressured by hawkish US policy, which has weakened sterling. Its previous moderate approach balancing inflation and growth appears to have been put aside it is now seeking to aggressively dampen demand to offset the tight supply picture.*

VI. *Given the hawkish shift by the MPC, Arlingclose has raised its forecast for Bank Rate over the next few months. Rate cuts have been projected sooner in the medium term.*

VII. *Bond yields have recently eased from June’s highs as the weaker global outlook has been priced into economic projections. The US remains the main driver of global yields aggressive policy in the US, further strengthening the dollar, increases the inflation and recession risks for other countries and will lead to substantial volatility across financial markets. Quantitative tightening (adds a further level of uncertainty for the gilt yield outlook.*

VIII. *The MPC is particularly concerned about possible fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.*

IX. *The MPC will therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose expects Bank Rate to rise to 2.75% by December with a 50 bps rise in September, followed by 25 bps steps in November and December.*

X. *However, the economy will therefore slow more drastically, necessitating cuts in Bank Rate during the second half of 2023.*

XI. *Gilt yields will rise slightly from current levels due to rising inflation and central bank policy expectations, offset by weakening growth expectations. The medium term path for yields has flattened, as lower policy expectations are now priced in.*

XII. *The risks around the gilt yield forecasts are significantly on the upside over the short term. Over the medium term, the balance of risks is broadly balanced."*

4. **Annual Investment Strategy**

4.1 The investment portfolio, as at the end of March 2022, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £62.7m, decreasing to £61.1m at the end of May. 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 March 2022, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£12.7m at 31 March 2022), this was due to the Council receiving £13m of grants from DLUHC for additional Covid relief and Council Tax energy rebates.

4.3 Cashflow funds have since decreased (to £11.1m at 31 May 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 March 2022, there was no short-term borrowing as £11 million was repaid in the quarter and no further borrowing was required due receiving £13m of grants from DLUHC.

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 year end 2021/22

Appendix 2 – Investment portfolio as at 31 March 2022

Appendix 3 – Borrowing portfolio as at 31 March 2022

Appendix 4 – Investment portfolio as at 31 May 2022

## 10. Background Papers

Medium Term Financial Plan 2021/22 – 2024/25

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