Subject:	**TREASURY MANAGEMENT QUARTER TWO REPORT 2022/23**
Meeting and Date:	**Governance Committee – 1 December 2022** **Cabinet – 5 December 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 September 2022.
Recommendation:	That the report is received.

1. **Summary**

1.1 The Council's investment return for the period to 30 September was £1,711k (annualised), which is £71k more than the original budget estimate of £1,640k, giving a forecast average annualised return of 3.19% on circa £50m total investments. With current market volatility it means the long-term investments are showing an unrealised capital loss of £4.2m however there is a government statutory override that means this does not impact the Council's budget. The funds have been focusing on generating increased income return which has impacted the capital invested. The increase in Bank of England base rate has meant that any funds held in the money market funds have also had an improved income return.

1.2 No new long-term borrowing has been taken out in the period but as short-term loan of £2m was required on the 30 September for strategic cash flow purposes.

1.3 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 2 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 September 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 September:

i. *UK interest rate expectations have eased following the explosive mini budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.*

ii. *Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates, and tighten economies into recession.*

iii. *The new Chancellor dismantled the mini budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.*

iv. *The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.*

v. *Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.*

vi. *Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.*

vii. *However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.*

viii. *The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.*

ix. *Following the exceptional 75bp rise in November, we believe the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.*

x. *The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate. Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.*

xi. *Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.*

4. **Annual Investment Strategy**

4.1 The investment portfolio, as at the end of September 2022, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £50.9m, decreasing to £50.7m at the end of October. The decrease reflects normal cashflow fluctuations.

4.2 As at 30 September 2022, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were lower than anticipated (£0.9m at 30 September 2022), this was due to paying the £2.3m HRA loan repayment and repaying £2.2m restart grant to BEIS.

4.3 Cashflow funds have since decreased (to £0.7m at 31 October 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 September 2022, there was £2m of short-term borrowing required. The loan is for one month at a fixed rate of 1.93%.

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 Environmental, Social and Governance: There is currently no universally agreed and accepted set of ESG definitions and metrics, however it is a requirement of the CIPFA code that future Treasury Management Strategies includes ESG considerations.

8.2 Typical ESG considerations are shown below –

- Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

- Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

- Governance: Management structure, governance structure, group structure, financial transparency.

8.3 The ESG statements of the Council's strategic pooled fund investments can be found at the following links-

- Aegon https://www.aegon.com/responsible-business/

- CCLA https://www.ccla.co.uk/our-approach/how-we-approach-stewardship-and-ethics

- Ninety One https://ninetyone.com/en/united-kingdom/how-we-think/investing-for-a-world-of-change/sustainable-investing

- Columbia Threadneedle https://www.columbiathreadneedle.co.uk/en/intm/about-us/responsible-investment/

- Payden & Rygel https://www.payden.com/ESG.aspx

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: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

9.3 Comment from the Equalities Officer: This report relating to the treasury management for quarter two 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 Two 2022/23

Appendix 2 – Investment portfolio as at 30 September 2022

Appendix 3 – Borrowing portfolio as at 30 September 2022

Appendix 4 – Investment portfolio as at 31 October 2022

11. **Background Papers**

Medium Term Financial Plan 2021/22 – 2024/25

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