Subject:	**TREASURY MANAGEMENT QUARTER THREE REPORT 2022/23**
Meeting and Date:	**Governance Committee – 16 March 2023**
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 31 December 2022.
Recommendation:	That the report is received.

1. **Summary**

1.1 The Council's investment return for the period to 31 December was £1,718k (annualised), which is £78k more than the original budget estimate of £1,640k, giving a forecast average annualised return of 3.25% on circa £50m total investments. With current market volatility it means the long-term investments are showing an unrealised capital loss of £4.4m 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 short-term loans of £10m were required on the 31 December 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 December 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 December:

i. *In February 2023, the Bank of England's Monetary Policy Committee voted by a majority of 7-2 to increase the official Bank Rate by 0.50 percentage points, to 4.0%. Two members preferred to maintain Bank Rate at 3.5%.*

ii. *The minutes, the Monetary Policy Report and the subsequent press conference pointed to the MPC being close to the end of this policy tightening cycle. While the upside risks to inflation were stressed by the Governor, the inflation projection central case indicated CPI falling below target in the medium term, leading the market to bring forward rate cut expectations, possibly not the outcome policymakers were looking for. With wage growth and services inflation remaining high, monetary policymakers will no doubt be wary of cutting rates too soon.*

iii. *While there will remain hawkish elements on the Committee, Arlingclose believes that there will only be one further rise to 4.25% in March. The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until services inflation and wage growth eases. We see rate cuts in the first quarter of 2024 to a low of 3% by 2025, although the timing and extent of rate cuts remains highly uncertain.*

iv. *Arlingclose therefore expects Gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods. Gilt yields face pressures to both sides. While there are growing fears of a global decline in economic activity and an expectation of falling inflation rates, these downward effects on gilt yields will be partly offset by hawkish-leaning central bankers, BoE bond sales and high government borrowing.*

v. *CPI was 10.1% year on year for January 2023, a slight decrease from 10.5% in December and from the peak of 11.1% in October (the highest since October 1981). While the overall CPI rate dropped below expectations, it was the core and services inflation rates that was no doubt the headline news for the MPC. The core rate eased to 5.8% year-on-year, and even more encouragingly, the services rate dropped from 6.8% to 6.0%.*

vi. *The UK unemployment rate increased to 3.7% in the three months to December 2022, in line with market consensus. This data release points towards some loosening in the labour market, but not enough to offset the picture of a demand/supply imbalance causing higher underlying wage growth.*"

4. **Annual Investment Strategy**

4.1 The investment portfolio, as at the end of December 2022, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £54.48m, decreasing to £52.64m at the end of January 2023. The decrease reflects normal cashflow fluctuations.

4.2 As at 31 December 2022, the Council's investment portfolio totalled £50m (see Appendix 2) and cashflow funds were £4.4m.

4.3 Cashflow funds have since decreased (to £2.6m at 31 January 2023) 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 2022, there was £10m of short-term borrowings required. The loans were for two months at a fixed rate of 2.92% & 3.8%.

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. **Appendices**

Appendix 1 – Arlingclose Treasury Management Report for Quarter Three 2022/23

Appendix 2 – Investment portfolio as at 31 December 2022

Appendix 3 – Borrowing portfolio as at 31 December 2022

10. **Background Papers**

Medium Term Financial Plan 2022/23 – 2025/26

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