

3REPORT TO: CABINET POLICY DEVELOPMENT WORKING GROUP

DATE: 25 NOVEMBER 2021

TITLE: TREASURY MANAGEMENT REVIEW

LEAD OFFICER: SIMON FREEMAN, DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF FINANCE (01279) 446228

RECOMMENDED that:

- A** The Working Group considers the report and the underpinning principles that support the Council's Treasury Management Strategy.
- B** That the Working Group refers any specific issues identified as a result of the review to Cabinet for consideration.

BACKGROUND

1. The Council operates within the framework of CIPFA's 'Prudential Code for Capital Finance in Local Authorities', the 'Treasury Management Code of Practice' (the Code) and, the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance. Under the Code the minimum reporting requirements are that Full Council receives the following reports:
 - An annual treasury strategy in advance of the year.
 - A mid-year treasury update report.
 - An annual review following the end of the year describing the activity compared to the strategy.
2. The 2022/23 Treasury Management Strategy Statement (TMSS) will be approved in January 2022 at the same time as the MTFs, General Fund Budget, HRA estimates and rent levels and the Capital Programme. The Strategy supports the financial activities by setting out the investment and borrowing policy and it ensures that the Councils cash holdings are safeguarded as far as possible from loss in the current economic climate.
3. The strategy also contains the Prudential indicators required under the Prudential Code which set limits and boundaries for the capital expenditure of the Council. The Capital programme and borrowing activity must be constrained within the limits set by the indicators. It is intended that these limits ensure the Council operates within financial boundaries which it can afford in the context of its wider financial strategies. The current 2021/22

strategy is attached to the report at Appendix 1

4. The 2021/22 mid-year treasury management update report will be presented to Cabinet at its December meeting and is currently being prepared for that agenda.
5. The annual report for 2020/21 has been produced in compliance with the Code and was reported to Cabinet in September 2021. The full report is attached as Appendix 2 to this report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies approved by the Council.

ISSUES/PROPOSALS

2020/21

6. As reported to Council in September, the Council complied with its Treasury Management Strategy Statement during 2020/21
7. The Council held significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves. During 2020/21 the Council's investment balances ranged between £11.16m and £41.99m. The return received by the Council on its investment portfolio ranged between 0.05% and 4.2%
8. Security of capital remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21.
9. During the financial year the Council continued to hold investments within the CCLA Property Fund and the Royal London Cash Plus Fund as a means of diversifying the portfolio and as a measure to move away from other investment tools.
10. The Annual report shows that this diversification continues to move away from the unsecured investments held with banks and building societies and has focus on replacing these investments with transactions with other local authorities wherever possible. This is a trend that has also continued in to the 2021/22 financial year although with most local authorities experiencing uncertainty and reduced capital expenditure the availability of local authority deposits has all but disappeared at the current time.
11. Counterparty credit quality was assessed and monitored with reference to

credit ratings (the Council's minimum long-term counterparty rating is A-across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

12. During 2020/21 the Council complied with the Prudential Indicators as set within the Council's Treasury Management Strategy Statement approved in February 2020. The indicators themselves are included as part of the Annual report attached.

2021/22

13. The Council remains compliant with its Prudential Indicators for 2021/22, set in February 2021 as part of the Council's Treasury Management Strategy Statement and has continued to move investments in to products that remove or limit the exposure to unsecured investments. This has increasingly included the use of short term deposits with the Debt Management Office (DMO) where short term rates on deposits have currently been negative. The council's investments have so far been for investment periods which avoid those negative rates.
14. Current uncertainties which have been heightened buy the ongoing national Covid pandemic, the exit from Europe and the ongoing low Bank of England base rate reduction since March 2020 continue to create difficult treasury dealing conditions. The market experts remain uncertain of the outcomes for long-term interest rates, exchange rates, budget cuts and bank defaults at the current time.
15. In response to this situation the Council has continued to proceed in its treasury activity with great caution and continues to maintain particular emphasis on its key priority of investment security. The Council has operated within the remit of the approved Treasury Management Strategy Statement (TMSS) and is utilising the lending list of approved institutions provided by the Council's treasury advisors, Arlingclose. This lending list is regularly updated (at least weekly) and amended by Arlingclose in response to changes in the status and ratings of institutions and in response to forecasts and events occurring within the markets. As a result the lending list has continued to experience a reduction in the options available for investing the Council's cashflow balances, as well as shortening of investment periods and investment limits.
16. The Council's overriding response to the current market conditions is to continue to ensure the security of investments above liquidity and yield. Officers aim to ensure that investments are made in the most cost efficient and effective manner. The current investments held by the Council as at 31 October 2021 are shown below –

Investment held with -	Value £' millions
Money Market Funds	17.000
Banks (Councils own bank)	3.055
CCLA Property	2.000
Royal London Cash Plus Fund	2.000
Total	24.055

17. Against this backdrop the approach has continued to follow an approach which utilises the Councils cash balances for the temporary cashflow of capital expenditure (Enterprise Zone projects, Housing schemes and financial loans to HTS Group) In adopting this approach the levels of cash investment are naturally reduced and help to manage the difficult day to day management of the Council's cash investments.
18. In order to further protect the Council's investment options, it may also be necessary to review some of the investment parameters within the TMSS (for example investment limits) if there are indications that future market events may constrict the lending list beyond what is manageable within the Council's treasury operations. This will feature as part of the 2022/23 Treasury Management Strategy Statement report to Cabinet later in the year.
19. Further information regarding the current TMSS assumptions are contained within the report at Appendix 1 and verbal updates on current activity and how it may influence the 2022/23 TMSS will be provided at the meeting.

IMPLICATIONS

Environment and Planning (includes Sustainability)

None Specific

Author: **Andrew Bramidge, Director of Strategic Growth and Regeneration**

Finance (Includes ICT and Property and Facilities)

As contained within the body of the report and appendices.

Author: **Simon Freeman, Deputy to the Chief Executive and Director of Finance**

Housing

None Specific.

Author: **Andrew Murray, Director of Housing**

Community Wellbeing

None Specific.

Author: **Jane Greer, Director of Communities and Environment**

Governance (includes HR)

None Specific.

Author: **Simon Hill, Director of Governance and Corporate Support**

Appendices

Appendix 1 – Capital and Treasury Report 2021

Appendix 2 – Annual Treasury Management Report 2020/21

Background Papers

None.