TREASURY MANAGEMENT ACTIVITY REPORT 2020/21 (1st Jan 2022 – 31st March 2022) 20th April 2022 AUDIT COMMITTEE	Classification: Public
Ward(s) affected None	
Group Director Ian Williams, Group Director Finance & Corporate Resources	

1. Introduction

This report provides Members of the Audit Committee with an update on treasury management activities over the period January to March 2022.

2. Recommendation(s)

There are no specific recommendations arising out of the report and the committee should note the contents.

3. Background

This report is the fourth of the treasury reports relating to the financial year 2021/22 for the Audit Committee. It sets out the background for treasury management activity from January 2022 to March 2022 and the action taken during this period.

4.1 Policy Context

Ensuring that the Treasury Management function is governed effectively means that it is essential for those charged with governance to review the operations of treasury management on a regular basis. This report forms part of the regular reporting cycle for the Audit Committee, which includes reviewing the Annual Treasury Management Strategy, and enables the Committee to monitor treasury activity throughout the financial year.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report

4.3 Sustainability

There are no sustainability issues arising from this report

4.4 Consultations

No consultations have taken place in respect of this report.

4.5 Risk Assessment

There are no risks arising from this report as it sets out past events. Clearly though, the treasury management function is a significant area of potential risk for the Council if the function is not properly carried out and monitored by those charged with responsibility for oversight of treasury management. Regular reporting on treasury management ensures that the Committee is kept informed.

5. Comments of the Group Director, Finance and Corporate Resources

There are no direct financial consequences arising from this report as it reflects the performance from January to March 2022. Whilst investment interest is not currently used to underpin the Council's base revenue budget, as in some other authorities, it does impact on the ability to fund additional discretionary expenditure and capital programmes. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations.

Officers continue to pay close attention to cash flow given the current ongoing situation relating to Covid-19 and the impact of the cyber attack making sure there is enough liquid cash in order to cover the inevitable impact of additional expenditure and loss of income in the short to medium term.

In light of Russia's invasion of Ukraine, no direct exposure to Russian or Belarusian assets has been identified within the MMFs and cash plus funds.

6. Comments of the Director of Legal, Democratic and Electoral Services

The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

7. Economic Highlights

- **Growth:** There were a number of revisions in the finalised Quarterly National Accounts, the overall growth in output in Q4 2021 was 1.3% which is higher than the initial expected level of 1%. Services and construction output both experienced increases in the quarter while production output contracted slightly.

- **Inflation:** CPI inflation exceeded forecasts again at 6.2% for February. The data will reinforce policymakers' concerns about both the short term price shocks changing long term expectations and fears about the impact on household confidence, spending and ultimately growth. These intertwined risks were displayed in the MPC's musings at the March meeting, but with inflation again beating forecasts (and projected to spike in April), it is unlikely policymakers will be swayed from the present tightening course at the next policy meeting.

- **Monetary Policy:** At its meeting ending on 16th March 2022 the MPC voted by a majority of 8-1 to increase the Bank Rate by 0.25 percentage points, to 0.75%. One member preferred to maintain the Bank Rate at 0.5%. The MPC's remit was clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework also recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. The UK economy has recently been subject to a succession of very large shocks. Russia's invasion of Ukraine is a prime example of this. Should recent movements prove persistent, the elevated levels of global energy and tradable goods prices, of which the UK is a net importer, will necessarily weigh further on UK real aggregate income and spending. Based on its current assessment of the economic situation, the Committee judges that some further modest tightening in monetary policy may be appropriate in the coming months, but there are risks on both sides of that judgement depending on how medium-term prospects for inflation evolve. The MPC will review developments in the light of recent geopolitical events and other incoming data, alongside their implications for medium-term inflation as part of its forthcoming forecast round ahead of the May 2022 Monetary Policy Report.

8. Borrowing & Debt Activity

8.1 The Authority currently has £72.1m in external borrowing. This is made up of a single £1.6m London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration, alongside £70.5m long term used to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration.

8.2 Close analysis of Councils Capital Financing Requirement (CFR is an indicator of an overall need to borrow) indicates that further borrowing will be required going forward, even without the impact of Covid-19, although this requirement will be continually monitored given the potential for the slowdown in the delivery of some aspects of the capital programme, also arising from the current situation.

9. Investment Policy and Activity

9.1 The Council held average cash balances of £90 million during the reported period January 2022 to March 2022, compared to an average £95 million for the same period January 2021 to March 2021 last financial year.

Movement in Investment Balances 01/01/22 to 31/03/22

	Balance as at 01/01/2022 £'000	**Average Rate of Interest %**	**Balance as at 31/03/2022 £'000**	**Average Rate of Interest %**
Short term Investments	15,047	-	15,047	
Long term Investments	200	-	200	
AAA-rated Stable Net Asset Value Money Market Funds	14,850	-	77,500	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	17,500		17,500	
Housing Associations	15,000		15,000	
	62,597	**0.6**	**125,247**	**0.8**

9.2 Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions. Thus ensuring creditworthiness whilst increasing yield due to the duration of the deposits.

9.3 The Council has placed two long-term investments with Housing Associations assisting both diversification and yield. However, the focus in the short to medium term will be on short term liquid investments in order that cash will be available to the authority as required during the Covid-19 crisis.

9.4 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

9.5 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital; liquidity of the invested capital; and,
- An optimum yield which is commensurate with security and liquidity.

10. Counterparty Update

10.1 Following Russia's invasion of Ukraine, our treasury advisors have examined some of the credit-related issues and factors. Despite the strong financial market reaction seen since the start of the conflict, our treasury advisors do not believe they are likely to have a material impact on the creditworthiness of the institutions and funds that form part of our creditworthiness advice and will therefore not be making any changes to either the banks/institutions on our list or the recommended maximum duration.

10.2 Whilst the ongoing investment strategy remained cautious counterparty credit quality remains relatively strong, as can be demonstrated by the Credit Score Analysis summarised below:

Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
31/01/2022	5.4	A+	6.2	A
28/02/2022	5.4	A+	6.3	A
31/03/2022	5.3	A+	6.0	A

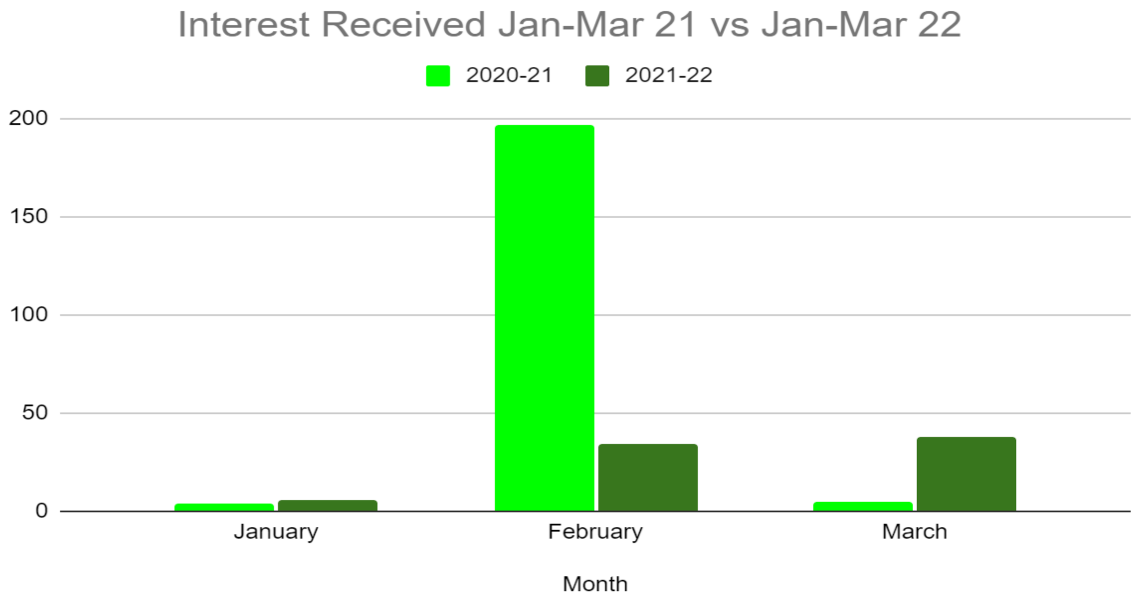
Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

10.3 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances. This type of investment vehicle has continued to provide very good security and liquidity, although yield suffers as a result.

11. Comparison of Interest Earnings

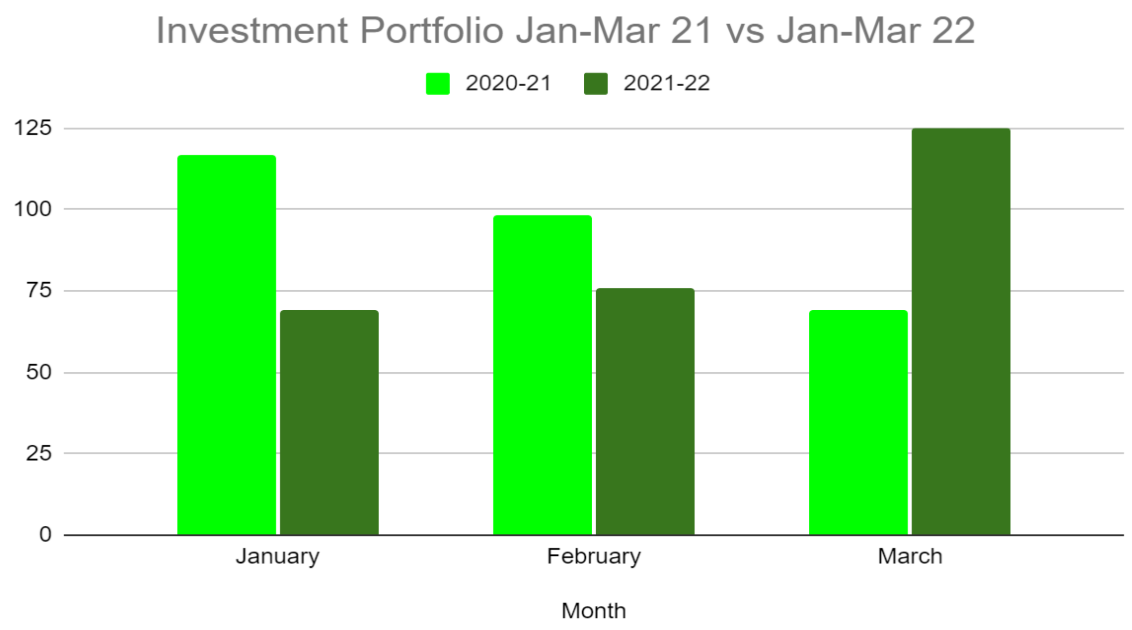
11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

11.2 The graph below provides a comparison of average interest earnings for 2021/22 against the same period for 2020/21. Average interest received for the period January to March 2022 was £26k compared to £69k for the same period last financial year. Decrease in average interest is mainly due to change in the maturity date for one of the investments.



12. Movement in Investment Portfolio

12.1 Investment levels have increased to £125 million at the end of March in comparison to the end of March last year of £69 million. Over the period January 2022 to March 2022 balances have increased due to capital receipts, receipts from Government in respect of the energy rebate scheme and NHS funding receipts.



13. Summary

13.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the last quarter of the financial year 2021/22. As indicated in this report, a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

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