

**EAST STAFFORDSHIRE BOROUGH COUNCIL**

**REPORT COVER SHEET**

Title of Report:	<b>Mid-Year Treasury Management Review Report 2021-22</b>
Meeting of:	Council
Date:	13th December 2021
Is this an Executive Decision:	NO
Is this a Key Decision:	NO
Is the report Confidential:	NO
If so, please state relevant paragraph from Schedule 12A LGA 1972:	-
<b>Essential Signatories:</b>  <b>ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE</b>  Monitoring Officer – Chris Ebberley  Date ..... Signature .....	
Head of Service and Chief Finance Officer – Sal Khan  Date ..... Signature .....	

**EAST STAFFORDSHIRE BOROUGH COUNCIL**

Report to Council

Date 13th December 2021

<b>TITLE:</b>	<b>Mid-Year Treasury Management Review Report 2021-22</b>	
<b>PORTFOLIO:</b>	Finance	
<b>HEAD OF SERVICE:</b>	Sal Khan	
<b>CONTACT OFFICER:</b>	Geoff Bagnall – Principal Accountant	ext. No. 1131
<b>WARD(S) AFFECTED:</b>	All	

**1. Purpose of the Report**

- 1.1 The Council has a duty to comply with the Treasury Management Code of Practice, published by the Chartered Institute of Public Finance and Accountancy. The code requires authorities to present a mid-year report on their treasury management activities. This report fulfils this requirement, providing an update against the Treasury Management Strategy Statement (TMSS), setting out current investment and borrowing portfolios and outlining any other treasury related matters.

**2. Contribution to Corporate Priorities**

- 2.1 By minimising the cost to the Council of borrowing associated with capital spending, whilst at the same time maximising the Council's income from the investment of surplus funds and maintaining the security and liquidity of those funds, this provides underlying support to all corporate priorities.

### **3. Mid-Year Treasury Management Report – Executive Summary**

3.1 This is one of three Statutory Treasury Management Reports which are required to be presented to Council each year. The report was considered by the Scrutiny (Audit and Value for Money Council Services) Committee on the 18<sup>th</sup> November 2021 and the Committee did not have any comments or observations that they wanted to highlight to Council.

#### **3.2 An economic update**

3.2.1 The Monetary Policy Committee (MPC) at its September meeting voted unanimously to leave the Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year.

However, the MPC's words indicated there had been a marked increase in concern that more recent increases in prices are likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement

At the end of September financial markets were pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looked ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September.

Higher levels of inflation will put additional pressure on the Council's Medium Term Financial Strategy, however should investment rates increase this would have a positive impact.

3.2.2 COVID-19 vaccines have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. This has resulted in a positive impact on the Council's Medium Term financial Strategy. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

3.2.3 Supply shortages - The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

### 3.3 A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy

3.3.1 The TMSS was approved on 22<sup>nd</sup> February 2021 and establishes the Council's investment priorities as being the security of capital, liquidity and the achievement of the optimum returns commensurate with the proper levels of security and liquidity.

3.3.2 Borrowing and investments have been in line with the approved strategy and there have been no deviations. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. It is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates remain very low since the Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that the Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

3.3.3 In the current economic conditions the approved strategy remains fit for purpose for the Council for 2021-22.

### 3.4 The Council Investment portfolio for 2021/22

3.4.1 Investments stood at £60.8m as at 30th September 2021, with a daily average of £57.6m for the first six months of the year. With investment returns being at an historical low, the authority's returns are below the Bank base rate but above the average 6 month LIBID in the first half of 2021/22. Average returns for the first six months stood at 0.06% (0.32% 30th September 2020). This is slightly below the level set within the budget of 0.07%, however, average investment balances are currently higher than forecast.

3.4.2 The investment portfolio includes certificates of deposits and call accounts held with a number of UK banks, local authorities, UK Government Treasury Bills as well as a deposit account and AAA rated money market funds. These instruments offer significant counterparty strength as well as diversification of the portfolio.

### 3.5 The Council Borrowing Strategy and debt rescheduling for 2021/22

3.5.1 The latest forecasts indicate that the Council's Capital Financing Requirement (CFR) or underlying need to borrow is expected to be higher than when the budget was set. This primarily relates to the latest information in relation to the timing of capital receipts which are partially being utilised to repay debt and deliver savings to the revenue budget.

### 3.6 An update on Treasury and Prudential limits for 2021/22

3.6.1 During the first half of year the council has operated within the treasury limits and prudential indicators set out within the TMSS.

### 3.7 An update on the Icelandic Deposit/Administration

3.7.1 In August the Council received notification of the 23<sup>rd</sup> and final dividend payment against the original £2m investment in the Icelandic Bank (KSF) taking the overall investment recovery to 87%, in line with the allowance made in the accounts.

## 4. Financial Considerations

*This section has been approved by the following member of the Finance Team: (Lisa Turner).*

4.1 The report is solely related to financial matters.

## 5. Risk Assessment and Management

5.1 The main risks associated with this report and the Council achieving its objectives are the same as those contained within the Treasury Management Strategy Statement, these are monitored and managed by the finance team throughout the year.

## 6. Legal Considerations

This section has been approved by the following member of the Legal Team: Caroline Elwood.

6.1 The Local Government Act 2003 requires local authorities “to have regard” to the Prudential Code for capital finance. This report supports this requirement.

## 7. Equality and Health

7.1 Equality impacts: The subject of this Report is not a policy, strategy, function or service that is new or being revised. An equality and health impact assessment is not required.

## 8. Human Rights

8.1 There are no Human Rights issues arising from this Report.

## 9. Sustainability (including climate change & change adaptation measures)

9.1 There are no related issues within this report.

## 10. Recommendation

10.1 To approve the mid-year Treasury Management Report as set out in Appendix A.

## 11. Background papers

11.1 Treasury Management Strategy Statement 2021/22 – approved by full Council on 22nd February 2021.

## 12. Appendix

Mid- Year Treasury Management Report – Appendix A.