

OVERVIEW AND SCRUTINY COMMITTEE

RYEDALE
DISTRICT
COUNCIL



REPORT TO: AUDIT, OVERVIEW & SCRUTINY COMMITTEE

DATE: 21 OCTOBER 2021

REPORT OF THE: CHIEF FINANCE OFFICER (s151)
ANTON HODGE

TITLE OF REPORT: TREASURY MANAGEMENT MID-YEAR REVIEW

WARDS AFFECTED: ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities to date for the financial year 2021/22 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (i) Members receive this report; and
- (ii) The mid-year performance of the in-house managed funds to date is noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Authority's cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Authority has adopted the Code and complies with its requirements
- 5.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
- 5.3 The second major function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide towards whether the Council has a borrowing need, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.
- 5.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:
- An economic update for the first six months of 2021/22;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - A review of the Council's investment portfolio for 2021/22;
 - A review of compliance with Treasury and Prudential Limits for 2021/22.

6.0 POLICY CONTEXT

- 6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this Code.

7.0 CONSULTATION

- 7.1 The Council uses the services of Link Asset Services (Link) to provide treasury management information and advice.

8.0 REPORT DETAILS

- 8.1 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q2 2021/22 up to 30 September 2021:
- The development of Coronavirus vaccines has boosted economic confidence and unleashed pent-up demand during the summer;
 - Bank Rate remained unchanged at 0.1%, although financial markets are pricing in a possible first increase in the bank rate to 0.25% in February;

- Quantitative easing programme is unchanged and is due to finish by the end of the year at a total of £895bn;
- There has been a marked increase in concern that recent increases in prices, particularly gas and electricity, will lead to faster and higher inflation expectations and underlying wage growth;
- Some concern that underlying price pressures in the economy may become embedded next year, elevating future inflation to stay significantly above the 2% target.

A more detailed economic commentary on developments during Q2 2021/22 is included in **Appendix C**.

8.2 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Treasury Management Strategy Statement and Annual Investment Strategy Update.

8.3 The Treasury Management Strategy (TMSS) for 2021/22 was approved by this Council on 18 February 2021. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved. Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity
- Yield

8.4 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Link's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Link.

8.5 Investments during the first six months of the year have been in line with the strategy and there have been no deviations from the strategy.

8.6 As outlined above, there is still some uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 18 February 2021 is still fit for purpose in the current economic

climate.

Investment Portfolio 2021/22

- 8.7 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return consistent with the Council's risk appetite.
- 8.8 As highlighted in the economic commentary, the continuing effect of Covid-19 on the economy is apparent in the financial markets, with the bank base rate remaining at 0.1%. Investment returns have therefore been low during Q2, although there is the possibility of rates beginning to rise as the year continues.
- 8.9 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	8,901,486
Foreign Banks	-
Building Societies	-
Local Authorities	20,000,000
Total	28,901,486

- 8.10 A full list of investments held as at 30 September 2021, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first six months of 2021/22 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	27,266,040
Foreign Banks	-
Building Societies	-
Local Authorities	28,000,000
Total	55,266,040

- 8.11 The average level of funds available for investment purposes in the first six months of 2021/22 was £36.08m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants, along with progress of the capital programme.
- 8.12 The table below compares the investment portfolio yield for the first six months of the year against a benchmark of the average 7 day LIBID rate of -0.08%.

	Average Investment (£)	Average Gross Rate of Return	Net Rate of Return	Benchmark Return	Interest Earned (£)
Cash Equivalents	12,622,572	0%	n/a	n/a	-
Fixed Term Deposits	23,456,284	0.23%	n/a	-0.08%	26,768

- 8.13 The Council's budgeted investment return for 2021/22 is £55k and performance during the financial year to 30 September 2021 is £26.8k, slightly below the YTD target of £27.5k.

- 8.14 During 20/21, we experienced difficulties placing deposits with many Local Authorities at the then maximum level of £1m, and consequently were carrying a large balance in our call account, attracting 0% return. Local Authorities are considered as high security deposits as they are backed by the UK Government and in line with other secure counterparties, which currently ranges up to £4m with the highest rated UK banks. The limit for local authority deposits was therefore increased to £2m. In Q2 of 21/22, there have been continued difficulties in placing funds, due to few other local authorities requiring cash, so the average balance in the call account has increased. Cash balances have also been higher than usual, due to the regular receipt and disbursement of Covid-19 business grants.

Compliance with Treasury and Prudential Limits

- 8.15 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. The Council’s approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS).
- 8.16 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s TMSS and in compliance with the Council’s Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.
- 8.17 The level of borrowing is £1.5m, full details can be found at annex B. Repayments have been made in line with the loan repayment schedule. In order to fulfil the funding requirements of the current Capital Programme it is unlikely any additional borrowing will be undertaken, with any anticipated capital expenditure funded from reserves.

9.0 TREASURY MANAGEMENT FUNCTION & SWEEPING ARRANGEMENTS

- 9.1 Included within the service level agreement currently being finalised with North Yorkshire County Council (NYCC) for the provision of s151 Officer and Finance services, there is provision for treasury management support.
- 9.2 Reporting and monitoring processes are currently in place. Although options were explored to incorporate Ryedale into the pooled investment fund operated by NYCC, this was not possible to implement under the terms of our agreement with Lloyds Bank.

10.0 IMPLICATIONS

- 10.1 The following implications have been identified:
- a) Financial
The results of the investment strategy affect the revenue budget. The investment income return to 30 September 2021 was £26.8k, which is £0.7k below the profiled budget. The cost of borrowing affects the revenue account, and forecast interest costs for the year are £51.5k, which is £6.5k below budget.
 - b) Legal
There are no additional legal implications within this report.
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

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Background Papers:
None

Background Papers are available for inspection at:
N/a