

BRECKLAND DISTRICT COUNCIL

Report of: Maxine O'Mahony, Chief Executive

To: Governance and Audit Committee, 2 December 2021

Author: Alison Chubbock, Assistant Director Finance

Subject: Mid-Year Report 2021-22 on Treasury activity

Purpose: The report is a mid-year update on treasury activity

Recommendation:

- 1) That Governance and Audit Committee agree the mid-year report and information on treasury activity

1.0 BACKGROUND

- 1.1 Treasury management is defined as: "The management of the local authority's borrowing, Investments and cash flows, its banking, money market 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 Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations.

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) has been adopted by this Council. The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council (delegated to the Governance and Audit Committee for this Council) of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid Year Review report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of the scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

1.2 The CIPFA Code of Practice on Treasury Management and the Prudential Code was effective from 01-04-2018. New indicators were added to the Treasury Management Strategy in 2019-20 to ensure the same robust procedures for the consideration of risk and return are applied to both financial and non-financial investments.

1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of 2021-22
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2021-22
- A review of the Council's borrowing strategy for 2021-22
- A review of compliance with Treasury and Prudential Limits for 2021-22

The management and monitoring of the Treasury Management Policies and Prudential indicators (for financial and non-financial investments) remains the responsibility of Full Council (via the Governance and Audit Committee).

KEY CHANGES

1.4 The low interest rate environment has continued in 2021-22 although the LINK forecast on 8th November 2021 was that base rate should rise to 0.50% by Q1 2022-23 and to 0.75% by the end of March 2023. However, the exact dates for changes to rates remains unpredictable.

1.5 The level of cash we hold has remained unusually high during the first six months of the year due a combination of; re-profiling spend within the capital programme, delays in making payment under the new waste contract and grant income/NNDR owed back to the Government but not yet requested to be paid.

1.6 LIBID which is the Councils performance measure for returns on investments is due to be phased out by the end of December 2021. This is an industry wide change led by the regulators. LINK advise that the most likely scenario will be that LIBID is replaced with a backward looking compounded SONIA (Sterling Overnight Index Average) rate. Link will be providing compounded SONIA rates to clients in the same way that it currently does with LIBOR / LIBID rates.

2.0 OPTIONS

2.1 That Governance and Audit Committee agree the mid-year report and information on treasury activity.

2.2 Do nothing.

3.0 REASONS FOR RECOMMENDATION(S)

3.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial

assets whilst maximising returns.

4.0 **EXPECTED BENEFITS**

4.1 To ensure Members are updated regularly on the Treasury Management service so that they can adequately scrutinise treasury management activity.

5.0 **IMPLICATIONS**

5.1 In preparing this report, the report author has considered the likely implications of the decision - particularly in terms of Carbon Footprint / Environmental Issues; Constitutional & Legal; Contracts; Corporate Priorities; Crime & Disorder; Data Protection; Equality & Diversity/Human Rights; Financial; Health & Wellbeing; Reputation; Risk Management; Safeguarding; Staffing; Stakeholders/Consultation/Timescales; Other. Where the report author considers that there may be implications under one or more of these headings, these are identified below.

5.2 **Financial**

5.2.1 The report is of a financial nature and financial details are included in the report and appendices.

5.3 **Risk Management**

5.3.1 I can confirm that risk has been given careful consideration and it is addressed in TMP1 within the Treasury Policy Statement 2021-22

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 N/A

7.0 **ACRONYMS**

7.1 CFR – Capital Financing Requirement

7.2 CIPFA - Chartered Institute of Public Finance and Accountancy

7.3 LIBID – London Interbank Bid Rate

7.4 LIBOR – London Interbank Offered Rate

7.5 MRP – Minimum Revenue Provision

7.6 SONIA - Sterling Overnight Index Average

Background papers:- None

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report:

Appendix A – Economic Outlook from Link Asset Services

Appendix B – Treasury Management Strategy Statement