Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Treasury Management Outturn Report 2021/22
Meeting/Date:	Council – 20 July 2022
Executive Portfolio:	Executive Councillor for Finance and Resources: Councillor B A Mickelburgh
Report by:	Chief Finance Officer
Ward(s) affected:	All Wards

Executive Summary:

Best practice and prescribed treasury management guidance requires Members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

The Council's 2021/22 Treasury Management Strategy was approved by the Council on the 24 February 2021 and this report sets out the treasury performance for period between 1 April 2021 and 31 March 2022.

The main purpose of Treasury Management is to.

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues during 2021/22 influencing the Council's decision-making were.

- In the first half of 2021/22 credit default swap (CDS) spreads, a measure of market risk, were flat over most of period and are broadly in line with their pre-pandemic levels. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK. The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered

by Russia's invasion of Ukraine pushed CDS prices slightly higher over January to March 2022, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

- The Bank of England Bank Rate was at 0.1% at the start of the financial year and had increased to 0.75% by March 2022.

- Market rates were low throughout the year (though latterly increasing), due to the Bank Rate remaining historically low. This reduces the Council's ability to earn a return on investments without increasing the risk of the investments. The Council's average investing rate was 0.82% (the average interest rate obtained from Bank/DMO Deposits and Money Market Funds).

The Council's responses to the key issues were.

- When the Council has surplus funds, these will primarily be invested on a short-term basis, in bank deposit accounts and money market funds.

- Where possible to take a higher return without sacrificing liquidity.

- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing, based on gilt yields over a long period.

Where economic conditions are forecast to deteriorate it is vital to monitor financial institutions credit rating, and credit default swap rates (the cost to insure lending). This information is provided by the Council's treasury adviser – Arlingclose.

The Council's Commercial Investment Strategy (CIS)

The Commercial Investment Strategy commenced in 2015/16. Indicators relating to the investments are shown in **Appendix A section 3.4.**

These investments generated £1.3m of investment income for the Council in 2021/22 after taking account of direct costs. The breakdown of the property's portfolio is shown in **Table 6** and the proportion of the investment income in relation to gross service expenditure, in **Table 7** of **Appendix A**.

Recommendation(s):

The Council is recommended to:

Note the report the treasury management performance for the period 1st April 2021 to 31st March 2022.

1. PURPOSE OF THE REPORT

1.1 The purpose of this report is to update councillors on the Council's treasury management activity during 2021/22, including investment and borrowing activity and treasury performance.

2. BACKGROUND

2.1 It is regarded as best practice and prescribed treasury management practice, that Members are kept up to date with treasury management activity.

2.2 The Council approved the 2021/22 Treasury Management Strategy at its meeting on 24th February 2021.

2.3 All treasury management activity undertaken during 2021/22 complied with the CIPFA Code of Practice and relevant legislative provisions.

2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

3. ANALYSIS

Economic Review

3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A section 2.0**.

Performance of Council Funds

3.2 The treasury management transactions undertaken during 2021/22 and the details of the investments and loans held as at 31st March 2022 are shown in detail in **Appendix A section 3.0 to 3.2**.

Risk Management

3.3 The Council's primary objectives for the management of its investment are to give priority to the security and liquidity (how quickly cash can be accessed) of its funds before seeking the best rate of return. For more details see **Appendix A section 3.3.**

Non-Treasury Investments

3.4 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. The full details of these investments can be found on **Section 3.4 of Appendix A.**

4. COMPLIANCE

4.1 Compliance with specific investment and debt limits are indicated in **table 8** and **9** of **Appendix A**.

5. TREASURY MANAGEMENT INDICATORS

5.1 The Council measures and manages its exposure to treasury management risks using indicators which are details in the **Appendix A section 5.0**.

6. COMMENTS OF OVERVIEW & SCRUTINY

6.1 The Panel discussed the Treasury Management 6 Month Performance Review Report at its meeting on 6th July 2022.

6.2 Councillor Gray observed the strong financial position with plenty of reserves that the previous administration had left the Council in, therefore nothing of concern could be observed within the report.

6.3 Having welcomed the report, the Panel encourage the Cabinet to endorse the recommendations within the report.

List of Appendices:

Appendix A
- Economic review (source: Arlingclose)
- Borrowing and Investment as at 31st March 2022
- Risk Management
- Non-treasury Investments
- Treasury Management Indicators
- Outlook for the remainder of 2022

Appendix B
- Capital Prudential Indicators

Appendix C
- Glossary

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