Report to:	Audit and Governance Committee	**Date of Meeting:**	Wednesday 15 December 2021
Subject:	Treasury Management Position to September 2021		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	No	**Included in Forward Plan:**	No
Exempt / Confidential Report:	No		

Summary:

This report provides Members with a review of the Treasury Management activities undertaken to 30th September 2021. This document is the second report of the ongoing quarterly monitoring provided to Audit & Governance Committee and the mid-year report to Cabinet and Council, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management update to 30th September 2021, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities

Reasons for the Recommendation(s):

To ensure that Members are fully appraised of the treasury activity undertaken to 30th September 2021 and to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

The financial position on the external investment budget to the end of September indicates a deficit to the end of the period. The forecast to the end of the financial year also shows that investment income will fall below the level set in the budget.

(B) Capital Costs

None.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): A shortfall in investment income has been forecast for 2021/22 financial year due to prevailing market conditions.
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
Equality Implications: There are no equality implications.
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The Council has during 2021/22, invested its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances. It has not had the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion.

In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with the Treasury Management Advisors.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for

improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD6636/21) is the author of the report.
The Chief Legal and Democratic Officer (LD4837/21) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

With immediate effect.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Background to the Report

1.1. As recommended under CIPFA's revised 2017 Code of Practice on Treasury Management in Public Services, the Council's Treasury Management Policy and Strategy document for 2021/22 (approved by Council on 4th March 2021) included a requirement for regular updates to be provided on the investment activity of the Authority. This report is the second of such reports for the year and presents relevant Treasury Management information for the period ending 30th September 2021.

1.2. The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy and Strategy and the Council's approved Prudential Indicators (the operational boundaries within which the Council aims to work).

2. Investments Held

2.1. Investments held at the 30/09/2021 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	11.52	0.01	01.10.21	AAA
Aviva	11.52	0.01	01.10.21	AAA
Blackrock	11.52	0.01	01.10.21	AAA
BNP Paribas	11.52	0.01	01.10.21	AAA
Goldman-Sachs	5.41	0.00	01.10.21	AAA
HSBC	11.52	0.01	01.10.21	AAA
Invesco	9.60	0.01	01.10.21	AAA
Morgan Stanley	11.52	0.03	01.10.21	AAA
Federated	10.07	0.01	01.10.21	AAA
Total	94.20			
Deposit Accounts:				
Bank of Scotland	2.03	0.01	01.10.21	A+
Natwest SIBA	2.76	0.01	01.10.21	A+
Santander	2.30	0.02	01.10.21	A+
Total	7.09			
Notice Accounts:				
Lloyds	3.00	0.03	32 days	A+
Natwest	3.00	0.10	35 days	A+
Santander	3.00	0.15	35 days	A+
Total	9.00			
Property Fund:				
CCLA	5.00	4.04	n/a	n/a

Total	5.00			
TOTAL INVESTMENTS	**115.29**			

2.2. The Authority holds significant invested funds, representing grant income received in advance of expenditure plus balances and reserves held. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they are required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2021/22. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

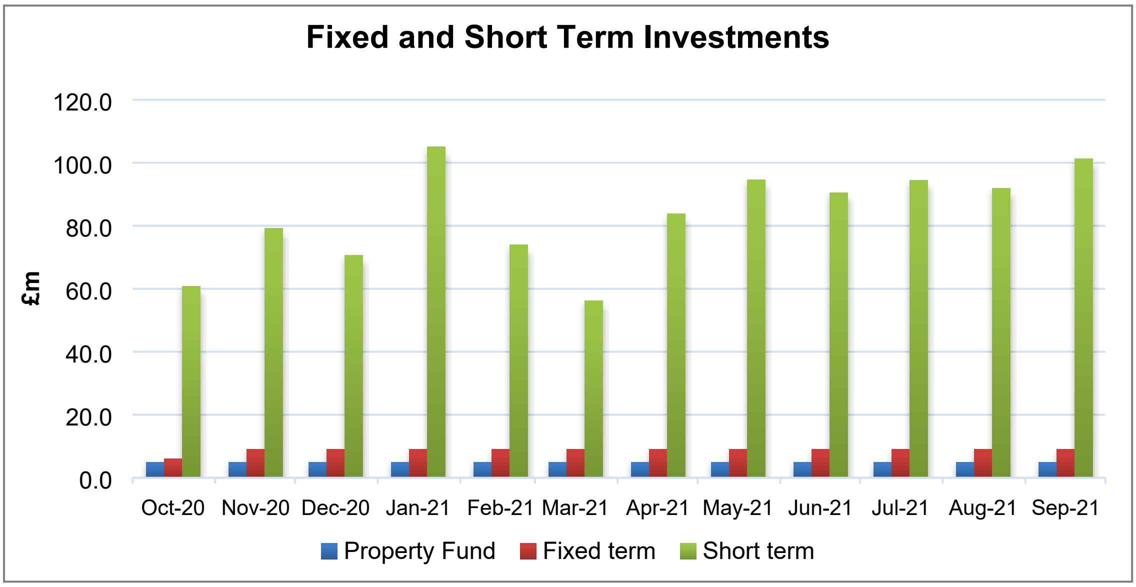
2.3. All of the investments made since April 2021 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of current economic conditions, a day to day operational maximum of 10% of the total portfolio is currently being imposed for investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

2.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 2.8).

2.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

2.6. The Net Asset Value (NAV) of the Property Fund has increased over a 12-month period to September 2021 from 283.22p per unit to 314.11p per unit, an increase of 10.9%. The income yield on the Property fund at the end of September 2021 was 4.04% which is consistent with returns received in the past.

2.7. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



2.8. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:

PROBABLITY of DEFAULT

INCREASING YIELD

High

F1 A+ 6	F2 12	F3 18	B 24	C 30	D 36
F1 A+ 5	F2 10	F3 15	F3 20	B 25	C 30
F1+/AA- 4	F1 A 8	F2 12	F3 16	F3 20	B 24
F1+/AA 3	F1 A+ 6	F1 A- 9	F2 12	F3 15	F3 18
F1+/AA+ 2	F1+/AA- 4	F1 A+ 6 £16.09m	F1 A 8	F2 10	F2 12
F1+/AAA 1 £94.20m	F1+/AA+ 2	F1+/AA 3	F1+/AA- 4	F1 A+ 5	F1 A+ 6

Low

High SEVERITY of CONSEQUENCE

SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	**1 - 4**	Investment Grade	**£94.20m**

LOW - MEDIUM	**5 - 9**	Investment Grade	**£16.09m**
MEDIUM	**10 - 20**	Investment Grade	**£0**
HIGH	**21 - 36**	Speculative Grade	**£0**

2.9. The Council will continue to maximise any investment opportunities as they arise, but in light of current economic conditions and low investment yields it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year. Cash balances available for investment will be held in overnight deposits to allow the council to respond to any exceptional demands for cash as they arise. The possibility for making long term deposits will be reviewed once economic conditions stabilise.

3. Interest Earned

3.1. The actual performance of investments against the profiled budget to the end of September 2021 and the forecast performance of investments against total budget at year end is shown below:

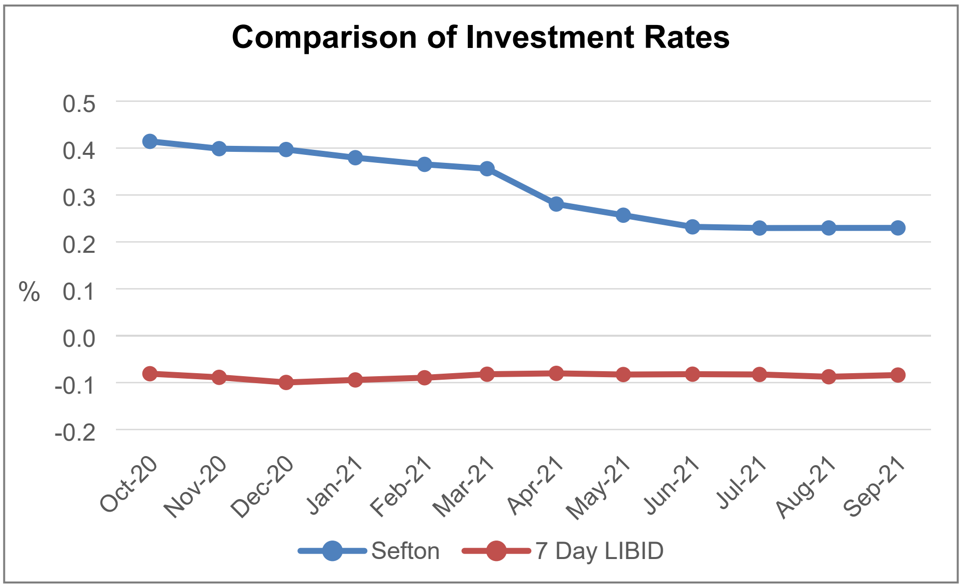
	Budget £m	Actual £m	Variance £m
September-21	0.145	0.063	0.082

	Budget £m	Forecast £m	Variance £m
Outturn 2021/22	0.415	0.257	0.158

3.2. The forecast outturn for investment income shows a significant shortfall against the budget for 2021/22. The impact of COVID-19 and current economic conditions in general mean that investment rates are low, and yields are expected to be well below the estimate originally forecast in the budget.

3.3. As mentioned in paragraph 2.9, it is not envisaged that improved rates will lead to a significant increase in the current forecast income from investments during 2021/22 as cash balances are diminishing and held in short term deposits.

3.4. The Council has achieved an average rate of return on its investments of 0.23% that has out-performed the 7-day LIBID to the end of September 2021.



4. Interest Rate Forecast

4.1. Arlingclose, the Council's treasury advisors, have provide the following interest rate view:

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

5. Compliance with Treasury and Prudential Limits

5.1. During the first half of 2021/22 financial year, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

5.2. The key treasury indicators compared to the actuals as at 30th September 2021 are shown below:

External Debt:	**2021/22 £m**
Authorised limit for external debt	245.000
Operational boundary for external debt	230.000
Actual external debt 30.09.21	185.999

Maturity structure of fixed rate borrowing:	Upper Limit %	Lower Limit %	Actual %
Under 12 months	35	0	10
12 months to 24 months	40	0	19
24 months to 5 years	50	0	10
5 years to 10 years	50	0	12
10 years to 15 years	75	0	13
15 years +	90	25	36

Upper limit for principal sums invested for longer than 365 days:	Limit %	Actual %
Principal sums invested	40	4