Report to:	Audit and Governance Committee	**Date of Meeting:**	Wednesday 16 March 2022
Subject:	Treasury Management Position to January 2022		
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 31st January 2022. This document is the third report of the ongoing quarterly monitoring provided to Audit & Governance Committee, 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 31st January 2022, 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 31st January 2022 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 January 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 (FD6743/22) is the author of the report.
The Chief Legal and Democratic Officer (LD4943/22) 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 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 third of such reports for the year and presents relevant Treasury Management information for the period ending 31st January 2022.

1.2. CIPFA published a revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The new codes take effect immediately, except that authorities may defer introducing revised reporting requirements until 2023/24. Sefton will therefore adopt the revised reporting requirements in the 2023/24 Treasury Management Policy and Strategy documents and the quarterly updates on investment activity to allow time for proper scrutiny and consultation with treasury management advisers to take place.

1.3. 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 31/01/2022 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	10.81	0.10	01.02.22	AAA
Aviva	10.81	0.08	01.02.22	AAA
Blackrock	2.21	0.01	01.02.22	AAA
BNP Paribas	10.81	0.13	01.02.22	AAA
Goldman-Sachs	4.14	0.04	01.02.22	AAA
HSBC	10.81	0.05	01.02.22	AAA
Invesco	9.50	0.05	01.02.22	AAA
Morgan Stanley	10.81	0.11	01.02.22	AAA
Federated	9.23	0.10	01.02.22	AAA
Insight	9.53	0.13	01.02.22	AAA
Total	88.66			
Deposit Accounts:				
Bank of Scotland	1.82	0.01	01.02.22	A+
Natwest SIBA	1.88	0.01	01.02.22	A+
Santander	1.82	0.02	01.02.22	A+

Total	5.52			
Notice Accounts:				
Lloyds	3.00	0.03	32 days	A+
Natwest	3.00	0.20	35 days	A+
Santander	3.00	0.15	35 days	A+
Total	9.00			
Property Fund:				
CCLA	5.00	3.44	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**108.18**			

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.

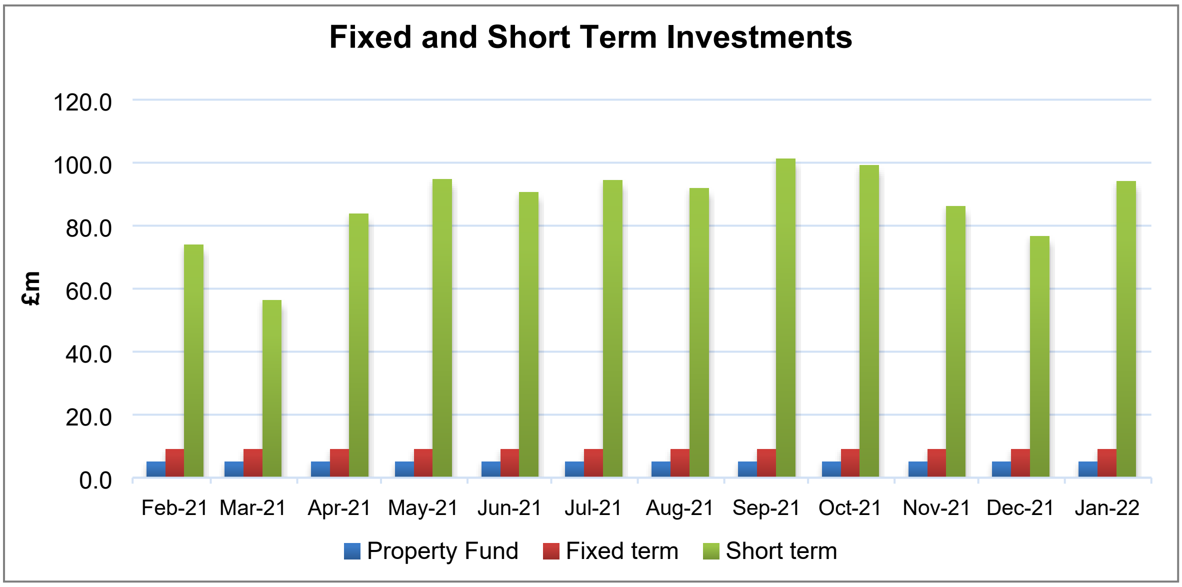
2.3. All of the investments made since April 2021 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of 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 January 2022 from 291.67p per unit to 331.92p per unit, an increase of 13.8%. The income yield on the Property fund at the end of January 2022 was 3.44% which, although lower than returns received in the past, still represents a reasonable return on the Council's investment.

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

High **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 £14.52m**	**F1 A 8**	**F2 10**	**F2 12**
F1+/AAA 1 £88.66m	**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	**£88.66m**
LOW - MEDIUM	**5 - 9**	Investment Grade	**£14.52m**
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.

2.10. In light of Russia's invasion of the Ukraine, the Council's treasury management advisors have conducted checks with fund managers to determine exposure to Russian and Belarussian assets. No direct exposure to these assets has been identified in the institutions that are being used for investments.

3. Interest Earned

3.1. The actual performance of investments against the profiled budget to the end of January 2022 and the forecast performance of investments against total budget at year end is shown below:

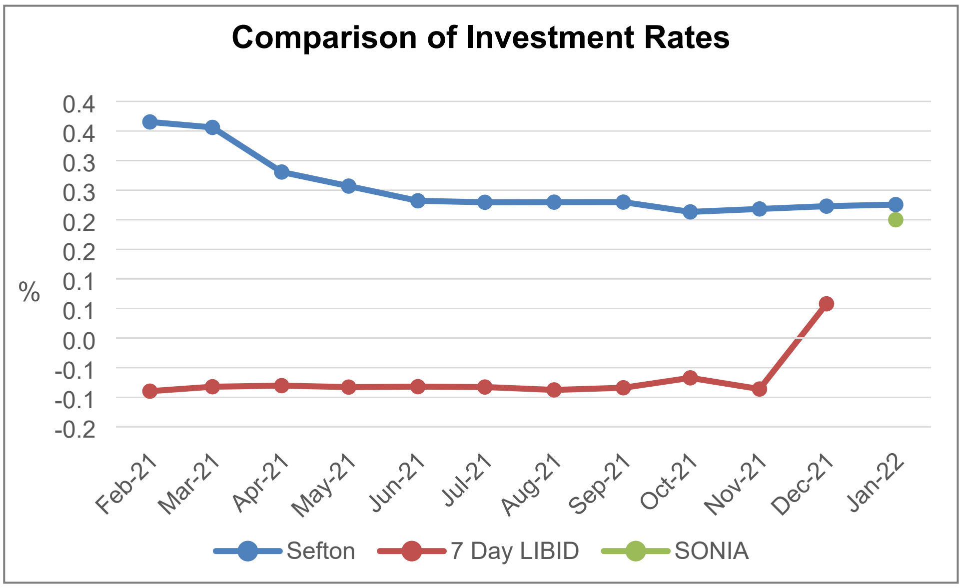
	Budget £m	Actual £m	Variance £m
January-22	0.325	0.178	0.147

	Budget £m	Forecast £m	Variance £m
Outturn 2021/22	0.415	0.233	0.182

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. Some improvements may be seen in 2022/23 financial year however, if the recent trend for interest rate rises continues.

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 December 2021.



3.5. On 5th March 2021 the Financial Conduct Authority announced the cessation of the LIBOR benchmark from the start of 2022. This deadline has now passed and as a result some LIBOR benchmarks such as the 7-day LIBID have been discontinued. LIBOR has primarily been replaced by the Sterling Overnight Index Average (SONIA) benchmark as the new widespread reference rate.

3.6. On the advice of its treasury management advisors, Sefton will use the SONIA rate as a replacement for the 7-day LIBID when benchmarking its investment performance from January 2022 onwards. As can be seen from the chart above, Sefton's investments have outperformed SONIA to the end of January 2022.

4. Interest Rate Forecast

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

	Current	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	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

- The MPC will raise Bank Rate further to dampen aggregate demand and reduce the risk of sustained higher inflation.
- Arlingclose therefore expects Bank Rate to rise to 0.75% in March and 1.0% in May. Despite this expectation, risks to the forecast remain weighted to the upside for 2022, becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels, which have risen sharply since mid-December 2021. Significant volatility is, however, likely which should offer tactical opportunities for borrowing and investment.

- The risks around the gilt yield forecasts are broadly balanced. While gilt yields may face downward pressure as Bank Rate expectations ease from current levels, the runoff of the Bank's corporate bond portfolio, and later the gilt portfolio, as it reverses QE, could impact some upward pressure on yields.

5. Compliance with Treasury and Prudential Limits

5.1. As at the end of January 2022, 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.