

Agenda Item

REPORT OF Deputy S151 Officer

To: Full Council

Subject: Mid-Year Review of Treasury Management & Update for Resonance

Date: 12 December 2022

Reference:

PURPOSE OF REPORT:

To report on the treasury management activity in the year to date.

To Update the Treasury Management Policy to include £500K investment in Resonance

1. INTRODUCTION

The Council has adopted the CIPFA Code of Treasury Management, which requires that a mid-year review should be presented on treasury management activity.

2. REPORT

This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this code and the other statutory requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that borrowing activities are undertaken on a prudent, affordable and sustainable basis.

This report sets out:

- The performance for the year 2022/23 so far
- Implications
- Conclusion
- Recommendation

The Council's Strategy and Performance so far

The Treasury Strategy and Investment Strategy were agreed by Full Council at its meeting on 21st February 2022 (***attached as Appendix 1***).

No new borrowing was proposed, and investments would be short-term but periods would be spread to take best advantage of interest rates.

The Council currently has Public Loans Board debt of £470k outstanding.

Currently the Council has short term investments of £20m lodged with financial institutions, the comparable figure for the same time last year being £23m.

Short-term interest rate returns have increased significantly during the last year due to the Bank of England attempting to reduce inflation. The Base Rate has increased from 0.10% in December 2021 to 3% in December 2022. This has had a significant impact on the returns on the council's investments.

The average rate of return earned by the Council on its short term investments is forecast to be 2.02% which compares with 0.07% in 2021/22.



The forecasted return from short term investments for 2022/23 is £340k, which compares with a return of £14k in 2021/22.

The Council sets parameters pertaining to the Counterparties with which it invests its funds. These criteria include the minimum acceptable credit quality of the counter parties; i.e. their creditworthiness.

The counterparty list also enables diversification and thus helps to avoid the concentration of risk.

The creditworthiness methodology used to assess the Counterparty list takes account of the rating published by the Fitch rating agency and utilisation of Capita's Treasury Management Services.

Counterparty List is attached in Appendix 2 for information.

Update to counterparty limits by Full Council – 5th September 2022

Counterparty limits were changed to the following by full council on the 5th September 2022:

- £10m limit on placements with a single institution (previously £5m)
- £5m maximum deal size (previously £3m)
- Inclusion of Peer to Peer lending to a maximum of £1m (max £250k for a single deal)

Update to Treasury Management Policy - Resonance

Investment of £500K in Resonance (Not for Profit Organisation), which will deliver 10 one bed properties for rents at Local Housing Allowance (LHA) rates – **(attached as Appendix 2)**

Our Treasury management policy requires that our counterparty limits are updated to include the £500K investment in Resonance.

3. IMPLICATIONS

Legal Implications

There are no specific legal implications.

Financial Implications

All treasury management activity carries a level of risk, but adherence to the approved strategy minimises this. However, minimising risk needs to be balanced with the income generated and the expenditure incurred through treasury management activities.

The Council's treasury strategy can be best summarised in order of priority as

- Security of investment
- Liquidity
- Return on investment.

The Council employs Capita Asset Services as its external Treasury advisors.

Human Resources Implications

There are no specific human resources implications.

Sustainability Implications



There are no specific sustainability implications.

Equality/Diversity

There are no specific equality/diversity issues.

Risk Management

The risk that borrowers may default is minimised by adherence to the Treasury Management Strategy, the credit rating of counter parties being checked prior to making the investments, all financial institutions with which the Council contracts are UK registered and have a Fitch F1 rating.

Compliance with Policies and Strategies

The report fits within the Council's Treasury Management framework.

Ward Member and Lead Member Views

Lead Member Cllr. C. Hodson has been consulted in the writing of this report and commented:-

"We continue to be in a rising interest rate environment. With this in mind, the treasury management mid year review confirms that the investment strategy set out at the start of the financial year is delivering a reasonable rate of return, whilst having regard for the security of investments. Going forward the uncertainties in the wider economy will continue to impact on interest rates."

"With regards to the investment in Resonance, the benefits of this scheme are clearly laid out within the report, in essence for committing a sum of £500k for which it will receive a return of 6%, the Council will secure 10 single unit properties within Torridge for rent at LHA rates for which it will have nomination rights. These properties will help mitigate some of the severe financial pressures currently faced by the Council when providing temporary accommodation to residents at risk of homelessness. Members are requested to approve changes to the Councils treasury management policy to facilitate this scheme"

Date of Consultation – 01 December 2022

4. CONCLUSIONS

Returns on the Council's investments have increased, as the Bank of England raises interest rates to fight inflation, this is expected to continue further in the short term.

The economic situation remains uncertain but is monitored so that appropriate treasury management action can be taken as required.

5. RECOMMENDATION

Members are asked to note the Mid-Year Treasury Management Review.

Members are asked to approve the investment of £500K in Resonance to deliver 10 one bed properties at Local Housing Allowance (LHA) rates, and update the councils counterparty limits accordingly.



SUPPORTING INFORMATION

Consultations: Date of Consultation – 01 December 2022
Officers Consulted –
Chief Executive
Head of Legal and Governance (& Monitoring Officer)
Finance Manager and Section 151 Officer

Contact Officers: David Heyes - Section 151 Officer
Peter Hudson - Senior Capital Accountant & Deputy S151 Officer

Background Papers: Treasury Management papers held in the Accountancy Section at
Riverbank House.

