

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>TO: Joint Audit and Standards Committee</b>	<b>REPORT NUMBER: JAC/20/3</b>
<b>FROM: Katherine Steel, Assistant Director, Corporate Resources</b>	<b>DATE OF MEETING: 30 November 2020</b>
<b>OFFICER: Melissa Evans, Corporate Manager Finance and Commissioning &amp; Procurement Sue Palmer, Senior Finance Business Partner</b>	<b>KEY DECISION REF NO. N/A</b>

### HALF YEAR REPORT ON TREASURY MANAGEMENT 2020/21

#### 1. PURPOSE OF REPORT

- 1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the first six months of the financial year 2020/21.
- 1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed during the first six months of 2020/21 and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.

#### 2. OPTIONS CONSIDERED

- 2.1 This report fulfils the Councils' legal obligations to have regard to the Code and there are no other options to consider.

#### 3. RECOMMENDATION TO BOTH COUNCILS

- 3.1 That the Treasury Management activity for the first six months of 2020/21 as set out in this report and Appendices be noted.
- 3.2 That it be noted that both Councils' Treasury Management activity for the first six months of 2020/21 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

#### REASON FOR DECISION

**It is a requirement of the Code of Practice on Treasury Management that full Council notes the Half-Year position.**

## 4. KEY INFORMATION

- 4.1 The 2020/21 Treasury Management Strategy for both Councils was approved in February 2020.
- 4.2 The Strategy and activities are affected by several factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the first six months of 2020/21.
- 4.3 The Joint Treasury Management outturn report for 2019/20 was presented to Members at the Joint Audit and Standards Committee on 11 August 2020.
- 4.4 The Section 151 Officer is pleased to report that all treasury management activities undertaken in the first half of the year complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.
- 4.5 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.
- 4.6 Appendix D shows the position on key Treasury Management Indicators for the first six months of 2020/21.
- 4.7 The following key points relating to activity for the first half of the year are set out below:
- In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.
  - UK labour market data for the three months to July 2020 showed wages fell in real terms by 1.8% while the unemployment rate had increased to 4.1%, with an expected peak of between 8% and 9%, when the furlough scheme came to an end in October. This is now likely to be revised, following the extension of the scheme to 31 March 2021.
  - GDP growth contracted by a massive 19.8% in Q2 2020 (April-June) according to the Office for National Statistics, pushing the annual growth rate down to -21.5%.
  - The Bank of England maintained the official Bank Rate at 0.1%.
  - The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, further below the Bank of England's 2% target,
  - Investment of surplus funds - As market conditions, credit ratings and bank ring-fencing have changed during the year, institutions that the Councils invest with and the period of the investments have been reviewed.
  - Credit risk scores were within the benchmark A- credit ratings.
  - Babergh's debt reduced by £6.5m, due to repayments made on long term PWLB loans and by repaying short-term local authority loans.

- Mid Suffolk’s overall debt reduced by £17.08m, due to making repayments on long term PWLB loans and by replacing medium/longer term local authority loans with short term loans.
- Both reductions reflect the overall impact of Covid19 on general income and expenditure activity. Cashflows improved, at the beginning of the year, when additional government grants were received in advance, (to pass on to small and medium sized businesses), and during the period by delayed expenditure on capital projects.

4.8 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis.

4.9 Appendix A sets out the issues that are impacting on current and future treasury management activity.

## 5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Corporate Plan.

## 6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

## 7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities “shall have regard to such guidance as the Secretary of State may issue”.

## 8. RISK MANAGEMENT

8.1 This report is most closely linked with the Councils’ Significant Risk Register, Risk no.13. “We may be unable to respond in a timely and effective way to financial demands”.

8.2 The key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services.	Probable (3)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.

## **9. CONSULTATIONS**

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

## **10. EQUALITY ANALYSIS**

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

## **11. ENVIRONMENTAL IMPLICATIONS**

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils' ambition to be carbon neutral by 2030.

11.2 Both Councils have joined Arlingclose's ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils' investment portfolios.

## **12. APPENDICES**

<b>Title</b>	<b>Location</b>
(a) Background, Economy and Outlook	Appendix A
(b) Borrowing Strategy	Appendix B
(c) Investment Activity	Appendix C
(d) Treasury Management indicators	Appendix D
(e) Glossary of Terms	Appendix E

### **13. BACKGROUND DOCUMENTS**

- 13.1 CIPFA's Code of Practice on Treasury Management ("the Code").
- 13.2 Joint Treasury Management Strategy 2020/21 (Paper JAC/19/13).