BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit and Standards Committee	REPORT NUMBER: **JAC/21/38**
FROM: Melissa Evans, Director, Corporate Resources	DATE OF MEETING: 28 November 2022
OFFICER: Rebecca Hewitt, Corporate Manager – Finance, Commissioning & Procurement Sue Palmer, Senior Finance Business Partner	KEY DECISION REF NO. N/A

HALF YEAR REPORT ON TREASURY MANAGEMENT 2022/23

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 2022/23.

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 2022/23 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 2022/23 as set out in this report and Appendices be noted.

RECOMMENDATION TO BABERGH COUNCIL

3.2 That it be noted that Babergh District Council's treasury management activity for the first six months of 2022/23 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

RECOMMENDATION TO MID SUFFOLK COUNCIL

3.3 That it be noted that Mid Suffolk District Council's treasury management activity for the first six months of 2022/23 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds, as mentioned in Appendix C,

	paragraph 4.1the 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 2022/23 Treasury Management Strategy for both Councils was approved in February 2022.

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 2022/23.

4.3 The Joint Treasury Management outturn report for 2021/22 was presented to Members at the Joint Audit and Standards Committee on 25 July 2022.

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 and that both Councils have complied with all the Treasury Management Indicators for this period.

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 2022/23.

4.7 Key points relating to activity for the first half of the year are set out below:

- The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

- The latest labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m per year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

- With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low in August.

- The Bank of England (BoE) increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

- UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.
- 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 overall debt reduced by £7.3m, mainly due to repaying short-term local authority loans.
- Mid Suffolk's overall debt increased by £8.5m, due to taking out more medium-term and short-term local authority loans.
- These changes reflect the ongoing impact of the ongoing economic pressures, the aftermath of Covid19 and the on general income and expenditure activity. COVID grants and S.31 Business Rates grants are held in reserves pending their use to offset continuing expenditure and income losses and expenditure on capital projects continues to be delayed due to shortages of supplies and labour.

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:

Risk Description	Likelihood	Impact	Mitigation Measures
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.
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.

11.3 Following a report (Report JAC/20/21) on 17 May 2021 it was resolved by this Committee to recommend that the Cabinet pushes its fund managers to filter investments in respect of the ESG considerations, looking for positive contributions to tackling our carbon reduction priorities and that the Cabinet considers withdrawing funds from investors who do not adequately address these concerns.

11.4 The Joint Audit and Standards Committee recognised that any decision to withdraw funds should be balanced against financial prudence.

12. APPENDICES

Title	Location
(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 2022/23 (Paper IRJAC/21/15).

13.3 Environmental, Social and Governance (ESG) Considerations for the Councils’ Joint Treasury Management Strategy (JAC/20/21 and Minute no.37)