Melton Borough Council
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Cabinet

16 November 2022

Report of: Councillor Ronnie de Burle - Portfolio Holder for Corporate Governance, Finance and Resources

Treasury Management Mid-Year Report 2022-23

Corporate Priority:	Ensuring the right conditions to support delivery (inward)
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 The Mid-Year Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities to the end of September 2022. The report also covers the actual position to date on the Prudential Indicators in accordance with the Prudential Code.

1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

2 Recommendations

That Cabinet recommends to Council:

2.1 **That the mid-year position on treasury activity for 2022-23 be noted**

2.2 **That the mid-year position on Prudential Indicators for 2022-23 be noted**

2.3	**The proposed change to the Investment Strategy as outlined in Para 5.2 to increase the maximum investment period with Banks and Building Societies to three years is approved**

3 Reason for Recommendations

3.1 The Treasury Management Code requires the Council to provide a mid-year update on Treasury Management activities to the Council. It is a requirement that Treasury Management performance is scrutinised during the year prior to consideration by the Council which falls within Cabinet's remit.

3.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators.

4 Background

4.1 The Treasury Management & Prudential Indicators mid-year report for 2021-22 is attached at Appendix A. The report covers:

- Borrowing and Investment Objectives
- Capital Finance Objectives
- Investment and Borrowing Strategies
- Borrowing Limits

4.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Department for Communities & Local Government (DCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise Treasury Management services.

5 Main Considerations

5.1 The underlying economic environment has been challenging for a number of years which has been impacting on investment returns, however since the start of 2022 interest rates have continued to rise with the current base rate at 2.25% following a 1.75% move in August alone as part on the Bank of England's response to the escalating inflation rates which are around 12% currently. The continued economic turmoil across the economy is likely to continue with interest rates potentially peaking at 4-5% during 2023. Whilst the upturn in rates in positive for an investment return perspective the associated high inflation at present will add financial pressures around salaries, fuel, utilities, contracts etc.

5.2 In light of the increase in interest rates there have been some more attractive medium term investment opportunities coming to market which included placing investments with banks for up to 2-3 years with rates increasing from 5.5% to 7.5%. The Councils current strategy as outlined in Appendix B (extract of Counterparty investment criteria) only allows investments to be placed with banks and building societies for a maximum of 12 months and therefore we are restricted at present to take advantage of these opportunities.

Officers are seeking members support to amend the investment criteria to allow up to a 3 year maximum duration. This would allow officers subject to cashflow forecasts, risk assessment and counterparty strength the option to place investments for a longer period in order to access a higher rate of return whilst always keeping in mind the balance between Security, Liquidity and Yield.

5.3 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.

5.4 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

5.5 The implementation of IFRS 16 bringing currently off-balance sheet leased assets on to the balance sheet, has been delayed for a further year until 2022/23. The Council is preparing for its implementation but is still under consideration by government whether to extend the override further.

5.6 CIPFA have been undertaken a review of the Prudential Code for Capital Finance in Local Authorities which has focused on proposals to address the risks associated with commercial property acquisitions, following comment from the Public Accounts Committee and National Audit Office reports. The new code will come into force in 2023/24 and an update will be provided to members as part of the 2023/24 Treasury Management Strategy.

6 Options Considered

6.1 No other options considered. If the report was not provided councillors would not be aware of the ongoing management of the treasury functions and appropriate scrutiny would not be undertaken in accordance with the treasury framework.

7 Consultation

7.1 Consultation has been undertaken with the portfolio holder regarding the position for the 2022-23 financial year

8 Next Steps – Implementation and Communication

8.1 This report will be submitted to the Council meeting on 15th December 2022.

9 Financial Implications

9.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

9.2 Following a period of suppressed interest rates there has been a period of positivity with rates steady increasing since early 2022 and 12 month rates now over 5%. Interest rates are expected to remain high for the remainder of the year, with officers looking to continue to maximise returns with the latest forecast predicts a surplus of £271k against a budgeted income level of £222k (across General Fund and HRA). This will be help to support some of the other in year pressures the Council is facing.

9.3 In terms of performance in comparison to the benchmarking group Melton is part of, at the end of Q1 (latest data available) the council is achieving a return of 1.43%, which is above the benchmark average of 0.97% which includes county level authorities as well. This is a positive achievement as the Council looks to maximise its returns whilst striving to balance risk and return. This excludes the property fund which is averaging around 4% return.

9.4 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2022/23.

9.5 The Director for Corporate Services can confirm that no difficulties are envisaged for the current or future years in complying with these indicators and that all treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

10.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity. There are no direct legal implications arising from this report. Failure to follow the Code of Practice and Strategy could increase the risk of financial loss.

Legal Implications reviewed by: Monitoring Officer

11 Equality and Safeguarding Implications

11.1 There are no direct equality or safeguarding issues arising from this report.

12 Community Safety Implications

12.1 There are no direct links to community safety arising from this report.

13 Environmental and Climate Change Implications

13.1 No implications have been identified but members may wish to note the council has an investment in a green and sustainable product that is focused around sustainable economic growth investment.

14 Other Implications (where significant)

14.1 No other implications have been identified.

15 Risk & Mitigation

15.1 These are assessed as part of the Corporate Services Risk Register

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2022-23 as result of changed in interest rates	Low	Marginal	Low Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council. A fund has been established to mitigate any losses in the property fund	Low	Marginal	Low Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant				
	3 Low		**1, 2**		
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	Continue to maximise returns in line with the Treasury management investment strategy
2	Establishment of a property fund reserve to help mitigate any losses in the future should they need to be charged direct to the revenue account in line with any change in accounting rules.

16 Background Papers

16.1 Treasury Management Strategy Statement 2022-23

17 Appendices

17.1 Appendix A – Mid-Year Treasury Management Review 2022-23

17.2 Appendix B – Counterparty

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