Southend-on-Sea Borough Council

Agenda Item No.

Report of Executive Director (Finance & Resources)
to
Cabinet
on
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Treasury Management Report – Mid Year 2021/22
Policy and Resources Scrutiny Committee
Cabinet Member: Councillor Paul Collins
A Part 1 Public Agenda Item

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1. Purpose of Report

1.1 The Mid-Year Treasury Management Report covers the treasury management activity and compliance with the treasury management strategy for both quarter two and the period from April to September 2021.

2. Recommendations

That the following is approved:

2.1 The Treasury Management Mid-Year Position report for 2021/22.

2.2 That the benchmark against which in-house investment performance is measured is changed from 7-day LIBID to SONIA with effect from 1 January 2022. (Section 14.)

That the following is noted:

2.3 Treasury management activities were carried out in accordance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Sector during the period from April to September 2021.

2.4 The loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk.

2.5 £0.759m of interest and income distributions for all investments were earned during this six-month period at an average rate of 0.99%. This is 1.07% over the average 7-day LIBID (London Interbank Bid Rate) and 0.89%

over the average bank rate. Also, the value of the externally managed funds increased by a net of £1.685m due to changes in the unit price, giving a combined overall return of 3.17%. (Section 8).

2.6 The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained at £310.3m (Housing Revenue Account (HRA): £75.0m, General Fund: £235.3m) during the period from April to September 2021.

2.7 The level of financing for 'invest to save' schemes decreased from £8.53m to £8.46m during the period from April to September 2021.

3. Background

3.1 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. The code recommends that local authorities submit reports regularly as part of its Governance arrangements.

3.2 Current guidance is that authorities should report formally at least twice a year and preferably quarterly. The Treasury Management Policy Statement for 2021/22 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation. This is the second quarter report for the financial year 2021/22.

3.3 Appendix 1 shows the in-house investment position at the end of quarter two of 2021/22.

3.4 Appendix 2 shows the treasury management performance specifically for quarter two of 2021/22.

4. National Context

4.1 Following the easing of coronavirus (COVID-19) restrictions UK gross domestic product (GDP) is estimated to have increased by 5.5% in the quarter from April to June 2021, revised from the first estimate of a 4.8% increase. There were increases in all the main components of expenditure, with the largest contribution from household consumption, which contributed 4% of the 5.5% increase. However, the level of GDP is now 3.3% below where it was pre-coronavirus pandemic (for the quarter October to December 2019), revised from the previous estimate of 4.4% below.

4.2 The unemployment rate for the quarter from June to August 2021 was 4.5%. The number of job vacancies in July to September 2021 was a record high of 1,102,000, an increase of 318,000 from its pre-pandemic (January to March 2020) level.

4.3 The Consumer Prices Index including owner occupiers' housing costs (CPIH) was at 2.1% in July, at 3.0% in August and 2.9% in September. Restaurants and hotels, recreation and culture, and food and non-alcoholic beverages made the largest upward contributions to the change in the CPIH 12-month inflation rate between July and August 2021. Restaurants and hotels made the largest downward contribution to the change in CPIH 12-month inflation rate between August and September 2021. The Bank of England expects inflation to increase further in the short term before falling back close to the target of 2%.

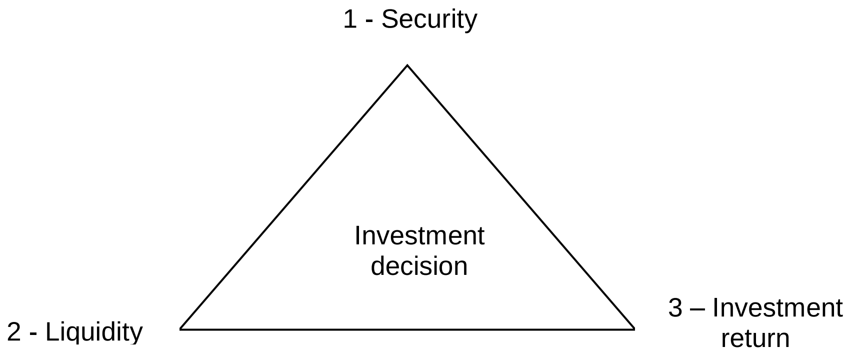
4.4 The Bank of England kept the bank base rate at the historically low value of 0.10% throughout the quarter and maintained their Quantitative Easing (QE) programme at £875bn of gilts.

4.5 The economic situation together with the financial market conditions prevailing throughout the quarter continued to provide challenges for treasury management activities. Whether for instant access, notice or fixed term deposit accounts, low interest rates prevailed throughout the quarter from July to September 2021 and this led to low investment income earnings from in-house investments.

5. Investments – quarter two (July to September)

5.1 A prime objective of our investment activities is the security of the principal sums invested. To ensure this security before a deposit is made an organisation is tested against a matrix of credit criteria. During the period from July to September 2021 investment deposits were limited to those who met the criteria in the Annual Treasury Management Investment Strategy when the deposit was placed.

5.2 Other investment objectives are to maintain liquidity (i.e. adequate cash resources to allow the council to operate) and to optimise the investment income generated by surplus cash in a way that is consistent with a prudent level of risk. Investment decisions are made with reference to these objectives, with security and liquidity being placed ahead of the investment return. This is shown in the diagram below:



Security:

5.3 To maintain the security of sums invested, we seek to lower counterparty risk by investing in financial institutions with good credit ratings, across a range of sectors and countries. The risk of loss of principal of monies is minimised through the Annual Treasury Management Investment Strategy.

5.4 Pie chart 1 of Appendix 1 shows that at the end of quarter two; 40% of our in-house investments were placed with financial institutions with a long-term rating of AAA, 33% with a long-term rating of A+ and 27% with a long-term rating of A.

5.5 As shown in pie chart 2 of Appendix 1, these monies were with various counterparties, 60% being placed directly with banks and 40% placed with a range of counterparties via money market funds.

5.6 Pie chart 3 of Appendix 1 shows the countries where the parent company of the financial institution with which we have monies invested is registered. For money market funds there are various counterparties spread across many countries. The cumulative balance of funds held with any one institution was kept within agreed limits.

Liquidity:

5.7 At the end of quarter two £45.3m of our in-house monies were available on an instant access basis, £22.5m were held in notice accounts and £22.5m was invested in fixed term deposits. The table below shows the fixed term deposits during the period April to September 2021.

Table 1: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK plc	12/07/2021	12/04/2022	274	0.250	5.0
Goldman Sachs International	27/05/2021	28/02/2022	277	0.275	5.0
Goldman Sachs International	09/07/2021	08/04/2022	273	0.225	2.5
Standard Chartered	12/07/2021	12/01/2022	184	0.120	10.0

5.8 The maturity profile of our investments is shown in pie chart 4 of Appendix 1.

Investment return:

5.9 During the quarter the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £5.1m was invested in these funds during the quarter. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 3 of Appendix 2.

Table 2: Payden Sterling Reserve Fund

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	5.098	
Increase/decrease in fund due to value of unit price	-0.009	-0.72
Value of fund at end of quarter	5.089	
Income distributions	0.006	0.44
Combined investment income (income distribution plus change in fund value due to unit price)	-0.003	-0.28

5.10 The Council had an average of £103.0m of investments managed in-house over the period from July to September, and these earned an average interest rate of 0.17%. Of the in-house managed funds:

- an average of £14.0m was held in the Council's main bank account. Over the quarter no interest was earned as the rate is at a margin below the base rate of 0.10;

- an average of £38.8m was held in money market funds earning an average of 0.08% over the quarter. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk;

- an average of £22.5m was held in notice accounts earning an average of 0.28% over the quarter;

- an average of £27.7m was held in fixed term deposits and earned an average return of 0.29% over the quarter;

5.11 In accordance with the Treasury Management Strategy the in-house performance during the quarter is compared to the average 7-day LIBID (London Interbank Bid Rate). Overall, investment performance was higher than the average 7-day LIBID. The 7-day LIBID rate fluctuated between -0.09% and -0.08% throughout the quarter. The bank base remained at 0.10% throughout the quarter. Performance is shown in Graph 1 of Appendix 2.

5.12 As investment balances fluctuate, all investment returns quoted in this report are calculated using the average balance over the period and are quoted as annualised returns.

6. Short Dated Bond Funds – quarter two (July to September)

6.1 Throughout the quarter medium term funds were invested in two short-dated bond funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

6.2 The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one-to-five-year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the value of the corporate bonds in the fund. So, these investments would be over the medium term with the aim of realising higher yields than short term investments.

6.3 In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in the unit price.

6.4 An average of £7.7m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 3: AXA Sterling Credit Short Duration Bond Fund

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	7.740	
Increase/decrease in fund due to value of unit price	-0.029	-1.52
Value of fund at end of quarter	7.711	
Income distributions*	0.025	1.29
Combined investment income (income distribution plus change in fund value due to unit price)	-0.004	-0.23

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

6.5 An average of £7.8m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 4: Royal London Investment Grade Short Dated Credit Fund

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	7.829	
Increase/decrease in fund due to value of unit price	-0.047	-2.35
Value of fund at end of quarter	7.782	
Income distributions	0.043	2.19
Combined investment income (income distribution plus change in fund value due to unit price)	-0.004	-0.16

7. Property Funds – quarter two (July to September)

7.1 Throughout the quarter long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property Trust.

7.2 The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.

7.3 In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in unit price.

7.4 An average of £14.0m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 5: Patrizia Hanover Property Unit Trust

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	14.042	
Increase/decrease in fund due to value of unit price	0.779	22.02
Value of fund at end of quarter	14.821	
Income distributions*	0.175	4.92
Combined investment income (income distribution plus change in fund value due to unit price)	0.954	26.94

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

7.5 An average of £13.3m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 6: Lothbury Property Trust

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	13.208	
Increase/decrease in fund due to value of unit price	0.257	7.67
Value of fund at end of quarter	13.465	
Income distributions*	0.095	2.84
Combined investment income (income distribution plus change in fund value due to unit price)	0.352	10.51

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

8. Investments – quarter two cumulative position

8.1 During the period from April to September 2021 the Council complied with all the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. Its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low-risk approach.

8.2 The Council is aware of the risks of passive management of the treasury portfolio and has proactively managed levels of debt and investments over the six-month period with the support of its treasury management advisers.

8.3 The table below summarises the Council's investment position for the period from April to September 2021:

Table 7: Investment position

	At 31 March 2021	At 30 September 2021	April to September 2021	
	Actual Balance (£000s)	Actual Balance (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts#	15,816	9,293	12,007	0.00
Money market funds	49,000	36,000	52,897	0.06
Notice accounts	10,000	22,500	18,669	0.28
Fixed term deposits	15,000	22,500	22,325	0.38
Total investments managed in-house	**89,816**	**90,293**	**105,898**	**0.16**
Enhanced Cash Funds	5,098	5,089	5,100	0.04
Short Dated Bond Funds	15,546	15,493	15,551	1.06
Property funds	26,539	28,286	26,989	16.82
Total investments managed externally	**47,183**	**48,868**	**47,640**	**9.88**
Total investments	**136,999**	**139,161**	**153,538**	**3.17**

#The council's main current account.

8.4 In summary the key factors to note are:

- An average of £105.9m of investments were managed in-house. These earned £0.084m of interest during this six-month period at an average rate of 0.16%. This is 0.24% over the average 7-day LIBID (London Interbank Bid Rate) and 0.06% over the average bank base rate. The average in-house balances are higher than they would be under normal circumstances due to the timing of receipt of COVID-19 related Government funding.

- An average of £5.1m was managed by an enhanced cash fund manager. During this six-month period this earned £0.011m from income distributions at an average rate of 0.41% and the value of the fund decreased by £0.009m giving a combined overall return of 0.04%

- An average of £15.5m was managed by two short-dated bond fund managers. During this six-month period these earned £0.136m from income distributions at an average rate of 1.75% and the value of the funds decreased by £0.053m giving a combined overall return of 1.06%

- An average of £27.0m was managed by two property fund managers. During this six-month period these earned £0.528m from income distributions at an average rate of 3.91% and the value of the funds increased by £1.747m giving a combined overall return of 16.82%.

8.5 The total for interest and income distributions in paragraph 8.4 above is £0.759m. The total change in external fund values due to the unit price is a net increase of £1.685m, which is set out in the table below:

Table 8: Externally managed funds – changes in unit price

Fund	**Table Number**	**Amount (£m)**
Payden Sterling Reserve Fund	Paragraph 8.4	-0.009
AXA Sterling Credit Short Duration Bond Fund	11	-0.022
Royal London Investment Grade Short Dated Credit Fund	12	-0.031
Patrizia Hanover Property Unit Trust	13	1.158
Lothbury Property Trust	14	0.589
Total net increase due to changes in unit price		**1.685**

8.6 Some cash balances held by the Council are required to meet short term cash flow requirements and therefore throughout the six-month period monies were placed into Money Market Funds 5 times for periods of one year or less. The table below shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 9: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
Goldman Sachs	Money Market Fund (Various Counterparties)	3	26
BlackRock	Money Market Fund (Various Counterparties)	1	10
Insight Investment Management Ltd	Money Market Fund (Various Counterparties)	1	1

8.7 In addition to the above, use was also made of call accounts during the year, because they provide instant access to funds. This meant that funds were available for unexpected cash flow events to avoid having to pay higher rates to borrow from the market. During the period from April to September 2021 an average of £12.0m was held in such accounts.

8.8 For cash balances that are not needed to meet immediate or very short-term cash flow requirements, monies were invested in:

- a 95-day notice account with Barclays;
- a 185-day notice account with Goldman Sachs;

8.9 Monies were also invested in fixed term deposits of up to one year, depending on the liquidity requirements. The table below shows the fixed term deposits held during the period from April to September 2021.

Table 10: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK plc	12/07/2021	12/04/2022	274	0.250	5.0
Goldman Sachs International	27/05/2021	28/02/2022	277	0.275	5.0
Goldman Sachs International	09/07/2021	08/04/2022	273	0.225	2.5
Standard Chartered	12/07/2021	12/01/2022	184	0.120	10.0

9. Short Dated Bond Funds – quarter two cumulative position

9.1 An average of £7.7m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 11: AXA Sterling Credit Short Duration Bond Fund

April to September 2021	**£m**	**Investment return (%)**
Value of fund at start of financial year	7.733	
Increase/decrease in fund due to value of unit price	-0.022	-0.57
Value of fund at end of quarter 2	7.711	
Income distributions*	0.050	1.30
Combined investment income (income distribution plus change in fund value due to unit price)	0.028	0.73

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

9.2 An average of £7.8m was managed by Royal London Asset Management. The table on the next page shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 12: Royal London Investment Grade Short Dated Credit Fund

April to September 2021	**£m**	**Investment return (%)**
Value of fund at start of financial year	7.813	
Increase/decrease in fund due to value of unit price	-0.031	-0.79
Value of fund at end of quarter 2	7.782	
Income distributions	0.086	2.19
Combined investment income (income distribution plus change in fund value due to unit price)	0.055	1.40

10. Property Funds – quarter two cumulative position

10.1 An average of £13.9m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 13: Patrizia Hanover Property Unit Trust

April to September 2021	**£m**	**Investment return (%)**
Value of fund at start of financial year	13.663	
Increase/decrease in fund due to value of unit price	1.158	16.68
Value of fund at end of quarter 2	14.821	
Income distributions*	0.340	4.89
Combined investment income (income distribution plus change in fund value due to unit price)	1.498	21.57

* This is an estimate and may change due to the high level of uncertainty in the property market as a result of the Covid-19 pandemic. The income Distribution will be confirmed in quarter 3.

10.2 An average of £13.1m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 14: Lothbury Property Trust

April to September 2021	**£m**	**Investment return (%)**
Value of fund at start of financial year	12.876	
Increase/decrease in fund due to value of unit price	0.589	8.95
Value of fund at end of quarter 2	13.465	
Income distributions	0.189	2.86
Combined investment income (income distribution plus change in fund value due to unit price)	0.778	11.81

11. Borrowing – quarter two

11.1 The Capital Financing Requirement (CFR) is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position by either:

1. borrowing to the CFR;
2. choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
3. borrowing for future increases in the CFR (borrowing in advance of need)

11.2 The Council began quarter two in the second of the above scenarios, with actual borrowing below CFR.

11.3 This, together with the Council's cash flow, the prevailing Public Works Loans Board (PWLB) at historically low interest rates and the future requirements of the capital investment programme, were taken into account when deciding the amount and timing of any further loans. During the quarter no new PWLB loans were taken out, no loans matured and no debt restructuring was carried out.

11.4 The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained the same at £310.3m during the quarter. The average rate of borrowing at the end of the quarter was 3.76%. A profile of the repayment dates is shown in Graph 2 of Appendix 2. A £3m loan taken out in March 1992 at 10.625% is due to mature in March 2022.

11.5 The level of PWLB borrowing at £310.3m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council's prudential indicators and is prudent, affordable and sustainable.

11.6 Interest rates from the PWLB fluctuated throughout the quarter in response to economic and political events: 10-year PWLB rates between 1.42% and 1.84%; 25-year PWLB rates between 1.75% and 2.19% and 50-year PWLB rates between 1.49% and 1.96%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

11.7 During quarter two, no short-term loans were taken out for cash flow purposes. This is shown in Table 4 of Appendix 2.

12. Borrowing – quarter two cumulative position

12.1 The Council's borrowing limits for 2021/22 are shown in the table below:

	2021/22 Original (£m)
Authorised Limit	385
Operational Boundary	375

The Authorised Limit is the “Affordable Borrowing Limit” required by the Local Government Act 2003. This is the outer boundary of the Council’s borrowing based on a realistic assessment of the risks and allows sufficient headroom to take account of unusual cash movements.

The Operational Boundary is the expected total borrowing position of the Council during the year and reflects decisions on the amount of debt needed for the Capital Programme. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

12.2 The Council’s outstanding borrowing as at 30 September 2021 was:

- Southend-on-Sea Borough Council £318.8m
  - PWLB: £310.3m
  - Invest to save: £8.5m
- ECC transferred debt £9.6m

Repayments in the first 6 months of 2021/2022 were:

- Southend-on-Sea Borough Council £0.07m
  - PWLB: £0.00m
  - Invest to save: £0.07m
- ECC transferred debt £0.52m

12.3 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1st April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County. The debt is recognised as a deferred liability on our balance sheet.

12.4 The interest payments for PWLB and excluding transferred debt, during the period from April to September 2021 were £5.8m which is same as the original budget for the same period.

12.5 The table below summarises the PWLB borrowing activities over the period from April to September 2021:

Quarter	**Borrowing at beginning of quarter (£m)**	**New borrowing (£m)**	**Re-financing (£m)**	**Borrowing repaid (£m)**	**Borrowing at end of quarter (£m)**
April to June 2021	310.3	0	0	(0)	310.3
July to September 2021	310.3	0	0	(0)	310.3
Of which:					
General Fund	235.3	0	0	(0)	235.3
HRA	75.0	0	0	(0)	75.0

All PWLB debt held is repayable on maturity.

13. Funding for Invest to Save Schemes

13.1 Capital projects were completed on energy efficiency improvements at the Beecroft Art Gallery, replacement lighting on Southend Pier, draughtproofing of windows, lighting replacements at University Square Car Park and Westcliff Library which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.

13.2 To finance these projects the Council has taken out interest free loans of £0.161m with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for periods of four and five years with equal instalments to be repaid every six months. There are no revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.016m of these loans were repaid during the period from April to September 2021.

13.3 At the meeting of Cabinet on 23 June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance ‘invest to save’ finance from L1 Renewables Finance Limited. The balance outstanding at the end of quarter two was £8.40m. A repayment of £0.053m was made during the period from April to September 2021.

13.4 Funding of these invest to save schemes is shown in Table 5 of Appendix 2.

14. Discontinuation of 7-day LIBID rates

14.1 The Council’s 2021/22 Treasury Management Strategy sets out that in-house investment performance will be measured against the 7-day London Inter-bank Bid Rate (LIBID). This rate is linked to the London Inter-bank Offered Rate (LIBOR) which will only be available until the end of 2021, when all LIBOR settings will cease.

14.2 The markets are moving away from LIBOR due to rate manipulation and little transactional volume. In 2012 the Financial Conduct Authority began imposing fines on firms for the attempted manipulation of LIBOR. Also, since the 2008 financial crisis the number of panel banks reporting their funding rate has declined and the remaining banks that still submit a rate are reporting significantly fewer transactions.

14.3 The Working Group on Sterling Risk-Free Reference Rates has recommended the rate to replace GBP LIBOR is the Sterling Overnight Index Average (SONIA), a rate administered by the Bank of England.

14.4 Given the changes set out above, from 1 January 2022 the Council’s in-house investment performance will be measured against the SONIA rate.

15. Compliance with Treasury Management Strategy – quarter two

15.1 The Council's investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector (revised in December 2017), which has been implemented in the Annual Treasury Management Investment Strategy approved by the Council on 25 February 2021. The investment activity during the quarter conformed to the approved strategy and the cash flow was successfully managed to maintain liquidity. This is shown in Table 7 of Appendix 2.

16. Other Options

16.1 There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

17. Reasons for Recommendations

17.1 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2021/22 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

18. Corporate Implications

18.1 Contribution to Council's Vision & Critical Priorities

Treasury Management practices in accordance with statutory requirements, together with compliance with the prudential indicators acknowledge how effective treasury management provides support towards the achievement of the Council's ambition and desired outcomes.

18.2 Financial Implications

The financial implications of Treasury Management are dealt with throughout this report.

18.3 Legal Implications

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.

18.4 People Implications

None.

18.5 Property Implications

None.

18.6 Consultation

The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

18.7 Equalities and Diversity Implications

None.

18.8 Risk Assessment

The Treasury Management Policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

18.9 Value for Money

Treasury Management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

18.10 Community Safety Implications

None.

18.11 Environmental Impact

None.

19. Background Papers

None.

20. Appendices

Appendix 1 – In-House Investment Position as at 30 September 2021

Appendix 2 – Treasury Management Performance for Quarter Two – 2021/22