LEADER DECISION – 14 - 18 MARCH 2022

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR TREASURY INVESTMENTS 2022/23

COMMENTS FROM THE OVERVIEW AND SCRUTINY MANAGEMENT BOARD

At its meeting on 24 February 2022, the Overview and Scrutiny Management Board considered the report and unanimously agreed to support the recommendations to the Leader.

In response to questions from members of the Board, the following points were confirmed:

- The impact of a rising short term rate environment means that as interest rates increase, money market fund rates and call account rates also increase, whilst temporary fixed borrowing which the Council had already taken was at very low rates compared to the current levels. Increasing interest rates also however make it harder to maintain the investment benchmark as there was always a time lag of when investments had not matured yet to replace them with investments at current levels.
- The risk of inflation was still not fully known but it was expected to peak in April 2022 and then start reducing over the course of this year back to 2% target levels by the end of 2023. There could be several increases in interest rates which could see a rise to around 2%. However, there was a balancing act between the need to reduce inflation while not restricting economic growth and impacting further on businesses and individuals. Higher interest rates would mean better investment returns for the Council so there would be more investment income, but this might be offset by higher external borrowing costs.
- The Ukraine crisis could result in risky assets such as equities reducing, as money moves into safer, higher quality government bonds and gold. This increased demand in bonds and gilts would lower the yield and hence lower borrowing costs. The crisis could have a negative impact on economic growth which may mean that interest rates would not need to increase. However, there could also be a negative impact on gas for the region which could increase fuel costs even further which would have an impact on inflation. In relation to the liability benchmark, this would result in less long-term borrowing and a lower investment level, with investments held for liquidity purposes only in the long term.
- CIPFA had reclassified investment into three types which were Treasury Investments, Service Delivery Investments and Commercial Return Investments. The Strategy decision related to the Treasury investments only, which were the investments made from the cash balance of the Council. Service delivery investments taken have a service reason behind the investment and could include loans to a third party to

deliver a service. Commercial return investments were made to make a return only with no service delivery benefit behind them. CIPFA's new code was to tackle the policy and practices of the non-treasury and commercial investments that had arisen over the past few years.

- Training expectations for those involved in treasury management was currently set out in the Strategy. The new CIPFA code introduces a new requirement for a knowledge and skills framework for everyone involved in treasury management setting out what skills and knowledge each participant in treasury management should have and identify any training requirements required to provide that. This would be proportionate to the size and complexity of the council as each council delivered treasury management differently and it would be for each council to determine what was suitable. This framework would be developed over the forthcoming financial year.
- With regards to the pension fund pooling arrangements, an agreement was put in place in April 2010 which set out how it would be governed and operate to ensure there was protection for both sides.