

2021-22 TREASURY MANAGEMENT YEAR-END PERFORMANCE

Head of Service:	Brendan Bradley, Head of Finance
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	Appendix 1 – Treasury Management Review Appendix 2 – Prudential Indicators

Summary

This report has been carried forward from September's cancelled meeting. It presents the Council's treasury management performance in 2021/22.

Recommendation (s)

The Committee is asked to:

- (1) Receive the report on the Council's treasury management performance 2021/22;
- (2) Approve the 2021/22 prudential indicators.

1 Reason for Recommendation

- 1.1 Prior to 2022, treasury management performance was reported to Financial Policy Panel (mid-year position) and Strategy & Resources Committee (outturn position). However, following the LGA Finance Peer Review in 2021, Full Council agreed updated Financial Regulations (in February 2022) that require treasury management performance to be reported to Audit and Scrutiny Committee instead.
- 1.2 The Council's prudential indicators must also be approved by a Committee of members, in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector.

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- 1.3 Approving the recommendations will enable the council to meet the above requirements.

2 Background & Executive Summary

- 2.1 Income earned from investments is used to help finance the Council's services and contributes to the key priority 'Effective Council'.
- 2.2 The Treasury Management Strategy, approved annually by Council in February, sets out the strategy and procedures for managing the investment of reserves, provisions and cash flow.
- 2.3 A review of treasury management performance and activity is prepared on an annual basis. This is completed in line with Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Sector and the Treasury Management Strategy approved by Council.
- 2.4 The reporting requirements of the annual performance review meet the requirements of the CIPFA Prudential Code.
- 2.5 The Council maintains revenue reserves, provisions and capital reserves as part of its financial strategy. Since March 2020 when pandemic restrictions were first introduced, the Council's cash balances have principally been invested in secure, liquid money market funds, to ensure security of the Council's funds amid heightened global market and economic volatility, and to ensure maximum liquidity for the Council to meet all cashflow commitments.
- 2.6 Internally managed balances can also be invested in longer term gilts or deposits with a balance retained to meet short term cash flows invested in temporary loans or money market funds. At 31 March 2022 the Council held £25.0 million in money market funds (£18.7m March 2021) and £10.0m in fixed term deposits (£0m March 2021).
- 2.7 In total at 31 March 2022, the Council's treasury investments were £35.0m (£18.7m March 2021).
- 2.8 At the same reporting date, the Council had external debt with the Public Works Loans Board of £64.4m (unchanged from March 2021).
- 2.9 The Committee will note that the Pension Fund does not form part of the Council's investments and is managed on our behalf by Surrey County Council.
- 2.10 The aim of treasury management is to ensure that funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means not investing in banks/building societies/institutions that offer high investment returns but are at high risk of defaulting.

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- 2.11 During 2021/22, the Council generated £26,000 net interest on its treasury investments, compared to £30,000 generated in 2020/21. With the Bank of England base rate at 0.1% until December 2021, returns remained at a historically low level during 2021/22. However, as interest rates rise, investment income is expected to increase substantially during the current year 2022/23.
- 2.12 The Council's prudential indicators, disclosed at Appendix 2, must also be approved by a committee of members, in accordance with the CIPFA Code.
- 2.13 The Council's external treasury management advisors – Link Asset Services, Treasury Solutions – are scheduled to provide Audit & Scrutiny members with treasury management training on 17 November 2022 (immediately prior to the committee meeting of the same date).

3 Full Performance Review

- 3.1 A report on treasury management performance for 2021/22 is attached at Appendix 1.
- 3.2 The 2021/22 figures in this report are not expected to change, however, should there be any material amendments following completion of the external audit, these will be reported back to committee members.
- 3.3 No temporary borrowings were required in 2021/22 except occasional use of the Council's bank overdraft facility to manage daily cash flow.
- 3.4 The average gross return achieved for 2021/22 of 0.24% (0.29% in 2020/21) compares favourably with the benchmark seven day London Interbank Bid (LIBID) rate of -0.07% (minus 0.07%). This amounted to total gross interest income for the year of £68,900 generated on reserves, working balances and cash flow. After deducting fees, net interest income for the year amounted to £26,000.
- 3.5 The LIBID rate was abolished from 1 January 2022, therefore the quoted -0.07% benchmark relates to the period 1 April to 31 December 2021.
- 3.6 Going forward from 1 April 2022, the council's external treasury advisors recommend that treasury management performance is benchmarked against the Sterling Overnight Index Average (known as SONIA).
- 3.7 The net outturn position exceeded the mid-year forecast reported Financial Policy Panel in November 2021, when it was anticipated that net income from investments would be £8,000 at the end of the year. Returns in the second half of the year were higher than expected, because fixed term deposit rates started to gradually increase, in response to the wider market starting to anticipate earlier interest rate rises by the Bank of England to tackle rising inflation.

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- 3.8 The performance for 2021/22 on the Council's investments was as follows;

	Average Investment	Net Interest Received	Net Average Rate of Return
	£'m	£'000	%
Internally Managed Funds			
Money Market Funds	19.9	12.2	0.06
Fixed Rate Deposits	3.8	13.3	0.36
Interest Bearing Account	5.0	0.5	0.01
Grand Total	28.6	26.0	0.09

- 3.9 Returns on 2021/22 investments were £89,000 lower than the budgeted income for the year and the average net annualised return on investments was 0.09% (0.14% in 2020/21).

- 3.10 This performance has been impacted by the economic environment following the pandemic, as interest rates fell in March 2020. The Bank of England base rate remained at 0.1% until December 2021, when it increased to 0.25% for the final three months of 2021/22.

4 Internally Managed Funds

Money Market Funds

- 4.1 Money market funds are pooled investments that allow instant access to withdraw monies. The benefit of MMFs is that the risk on the investment is very low as the money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum being invested with a defaulting counterparty.
- 4.2 The net return on money market funds of 0.06% compared favourably to the LIBID benchmark of -0.07%. Investment in money market funds has meant that cash balances could be called back with no notice required.

Interest Bearing Accounts

- 4.3 Interest bearing accounts offer the same instant access as the money market funds and deliver a rate of return linked to base rate set by the Bank of England.

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- 4.4 The risk on these investments may be higher than the money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.
- 4.5 The return made on interest bearing accounts of 0.01% compared favourably to the benchmark of -0.07%. Typically, this account was used when limits with other counterparties were reached.

Fixed Interest Investments

- 4.6 In 2021/22, the council placed two fixed term deposits in October and December 2021, to take advantage of increased expectations for interest rate rises. Over the year 2021/22, the amount invested in fixed term deposits averaged £3.75m. The average return made on this investment was 0.36% compared to the benchmark of -0.07%.
- 4.7 The current strategy and guidance obtained from our independent advisors is to limit fixed term investments to a period of one year.

5 Externally Managed Funds

- 5.1 The main benefit to the Council of using external fund managers is to minimise risk, as the funds invested are spread across a wide portfolio of financial institutions. This results in the overall exposure to a potential defaulting bank being limited to a small percentage of the overall holding.
- 5.2 Abrdn (formerly Aberdeen Asset Management) has been the Council's external fund manager since October 2007.
- 5.3 During the pandemic and throughout 2021/22, officers have used money market funds to hold cash balances instead of the external fund manager, as the money market funds allow the council to access cash balances more quickly if needed in the current uncertain environment.
- 5.4 Beyond the pandemic, due to its reliable performance over the past fifteen years, officers will continue to utilise Abrdn as the external fund manager when required.

6 Risk Assessment

Legal or other duties

6.1 Impact Assessment

- 6.1.1 The council approved the Treasury Management Strategy for 2021/22, which includes a risk management approach to investment of funds and returns.

6.2 Crime & Disorder

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6.2.1 None.

6.3 Safeguarding

6.3.1 None.

6.4 Dependencies

6.4.1 None.

6.5 Other

6.5.1 None.

7 Financial Implications

7.1 Financial implications are set out in the body of the report. The net interest income of £26,000 was used to fund the council's budget requirement during the year.

7.2 **Section 151 Officer's comments:** Effective treasury management is essential to ensuring the security of the council's funds. Interest earned from the investments contributes towards the delivery of services to residents.

7.3 Any councillors who have any questions on the detail of treasury management performance for 2021/22 are requested to contact the Head of Finance prior to the meeting.

7.4 The 2022/23 mid-year position will be reported to this committee on 17 November 2022, along with treasury management training to be provided by the council's external advisors Link Asset Services, Treasury Solutions. Investment returns in 2022/23 are expected to be substantially higher than in 2021/22, owing to recent increases in the Bank of England base interest rate.

8 Legal Implications

8.1 The legal issues around treasury management have been addressed within the report. The key issue is to appropriately manage the risks around investment, and to ensure that all decisions are taken in accordance with the governance arrangements.

8.2 **Legal Officer's comments:** None arising from the contents of this report.

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9 Policies, Plans & Partnerships

- 9.1 **Council's Key Priorities:** The following Key Priorities are engaged:
Effective Council
- 9.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 9.3 **Climate & Environmental Impact of recommendations:** None arising directly from the contents of this report.
- 9.4 **Sustainability Policy & Community Safety Implications:** None arising directly from the contents of this report.
- 9.5 **Partnerships:** None directly from the contents of this report.

10 Background papers

- 10.1 The documents referred to in compiling this report are as follows:

Previous reports:

- Treasury Management Strategy - Appendix 11 of the Budget Report to Full Council on 16 February 2021
- Treasury Management Interim Report 2020/21 to Financial Policy Panel on 30 November 2021

Other papers:

- Final accounts working papers 2021/22