

TREASURY MANAGEMENT - INTERIM REPORT 2022/23

Head of Service:	Brendan Bradley, Head of Finance
Wards affected:	(All Wards);
Urgent Decision?	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	None

Summary

This report provides an update on treasury management performance for the first six months of 2022/23.

Recommendation (s)

The Panel is asked to:

- (1) Receive the presentation from Link Asset Services – Treasury Solutions;**
- (2) Note the performance on return of investments for the first six months of 2022/23;**
- (3) Note the current investment decisions being made within the terms set out in the Treasury Management Strategy.**

1 Reason for Recommendation

- 1.1 The 2022/23 Treasury Management Strategy, agreed by Council in February, aims to ensure maximum return on investments for the Council within reasonable risk constraints. The Strategy requires a mid-year treasury management performance report to be brought before Audit & Scrutiny Committee – the recommendations ensure that this requirement is met.

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2 Background

- 2.1 The Council's Treasury Management Strategy (the Strategy) is consistent with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services. It supports the achievement of the council's Medium Term Financial Strategy.
- 2.2 This report covers the performance of the treasury management function for the period 01 April 2022 to 30 September 2022.
- 2.3 The CIPFA Code also requires that adequate training be provided to members with responsibility for treasury management. To meet this requirement, an officer from Link Asset Services – Treasury Solutions will provide a presentation to members immediately prior to the committee meeting on current treasury management issues.
- 2.4 The treasury function deals with the management of cash funds held by the Council. The level of funds held during the year will vary but, on average, currently amounts to around £35 million at September 2022 (£24 million at September 2021).
- 2.5 The aim of treasury management is to ensure funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means, for example, not investing in banks/building societies that are offering high investment returns but are at high risk of defaulting (for example Icelandic Banks in 2008).
- 2.6 Before an investment decision is made, officers will investigate any proposed counterparty to ensure its financial rating makes it eligible for investment. Even if the institution meets the criteria as set out in the financial strategy, independent advice will be sought from our external financial advisors before the investment is made.

3 Security, Liquidity and Yield

- 3.1 The Council's approved investment strategy and practice is to put security of investment at a higher priority than rate of return/yield. The day-to-day practice continues to be reviewed and refined, within the boundaries of the approved policy, in response to changing market conditions. The cornerstones of current policy/practice are:
 - 3.1.1 to restrict lending to only those institutions which fit the council's policy in terms of financial standing, credit ratings etc;
 - 3.1.2 generally, to restrict lending to the short-term (under one year) or to cover precept dates for the remainder of the year;
 - 3.1.3 to update financial limits to each institution depending on the quality of their financial ratings.

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4 Current Performance

- 4.1 The average return from investments for 2022/23 was originally budgeted at 0.5% (at the time, the Bank of England base rate was 0.25%). This amounted to total income for the year of £110,000, to be generated on reserves, working balances and cash flow. In July, Strategy & Resources Committee agreed to re-base the council's budgets to reflect the post-Covid operating environment, which increased the budgeted target for treasury management income to £270,000 per annum.
- 4.2 The performance for the first six months of 2022/23 on the council's investments is as follows;

01 April to 30 September	2022/23			2021/22
	Average Investment	Interest Received	Average Rate of Return	Average Rate of Return
	£'m	£'000	%	%
Internally Managed Funds				
Money Market Funds	13.0	60	0.93	0.003
Fixed Rate Deposits	20.8	161	1.55	No deposits
Interest Bearing Account	0.8	1	0.17	0.010
Grand Total	34.6	222	1.28	0.005

- 4.3 During the first half of the year, £222,000 of interest had been earned, significantly overachieving the profiled budgeted target of £135,000 for the same period.
- 4.4 The Council has been able to capitalise on greater returns available in the market, as base rate increases by the Bank of England (in its attempt to temper inflation) have been swifter than forecast.
- 4.5 With expectations of further base rate rises to come, maturing deposits are all being replaced at higher rates and the impact of this should become even more apparent in the second half of the year.
- 4.6 The average return achieved for the first six months of 1.28% compares favourably with the benchmark overnight SONIA (Sterling Overnight Index Average) rate of 1.22%.

5 Internally Managed Funds

Money Market Funds

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- 5.1 Money market funds (MMFs) are pooled investments that allow instant access to these monies. The benefit of MMFs is that the risk on the investment is very low as 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. In addition, cash balances can be called back from MMFs with no notice required, ensuring the council has liquidity to meet its daily cash flow requirements.
- 5.2 The average return made on money market funds was 0.93%, although in recent weeks returns have increased significantly to c.2%, which should benefit the council further in the second half of the year.

Fixed Rate Term Deposits

- 5.3 The Council had five fixed term deposits at 30 September 2022; the average return on these deposits was 1.55%. Returns on individual deposits ranged from 0.86% (deposit placed in December 2021) to 3.69% (placed in August 2022). This example demonstrates how maturing deposits are being replaced at higher rates and the impact of this should benefit the Council further in the second half of the year.

Interest Bearing Accounts

- 5.4 Interest bearing accounts offer similar instant access as money market funds and deliver a rate of return linked to base rate set by the Bank of England.
- 5.5 The risk on these investments is higher than 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.
- 5.6 The return on the interest-bearing account was just 0.15%, consequently, officers use this account the least, typically when counter party limits with other providers have been fully utilised.

6 Externally Managed Funds

- 6.1 ABRDN/Aberdeen Asset Management has been the council's external fund manager since October 2007.
- 6.2 The main benefit to the Council of using external fund managers is to minimise risk, as 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.
- 6.3 However, externally managed funds typically incur higher fees; the Council has not needed to utilise this resource during the period.

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7 Treasury Management Strategy

- 7.1 In previous years, the council has held a greater proportion of its cash balances in liquid money market funds rather than in fixed term deposits, partially because interest returns on fixed term deposits had been very low.
- 7.2 With fixed rate deposit returns now increasing, officers have moved more funds into these investments, within the approved Treasury Management Strategy risk framework. It is anticipated that fixed term deposits will continue to be utilised in the forthcoming period to maximise interest returns available, while still holding sufficient cash in money market funds to diversify risk and ensure the Council has sufficient headroom to meet all day-to-day cash flow requirements.

8 Risk Assessment

Legal or other duties

8.1 Impact Assessment

- 8.1.1 The Treasury Management Strategy sets out that investment decisions must be based first and foremost on security, then liquidity and finally yield, in order to minimise risk.

Investments with our external fund manager are considered low risk as the money invested in the fund is spread across a range of counterparties, this limits the exposure of a significant sum being invested with a defaulting counterparty.

8.2 Crime & Disorder

- 8.2.1 None.

8.3 Safeguarding

- 8.3.1 None.

8.4 Dependencies

- 8.4.1 None.

8.5 Other

- 8.5.1 None.

9 Financial Implications

- 9.1 The council's budget anticipates the equivalent of £270,000 of interest to help fund services in 2022/23, calculated as follows:

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	Budgeted £	Forecast £
Interest earned in year	270,000	545,000
Less Interest credited to specific provisions	(58,000)	(58,000)
Interest used to fund General Fund services	212,000	487,000

9.2 The forecast interest at the end of 2022/23 is anticipated to overachieve the budgeted income by £275,000, which has been factored into the Q2 budget monitoring report to this same Committee.

9.3 **Section 151 Officer's comments:** Financial implications are set out in the body of the report. The interest rate environment has enabled officers to take advantage of opportunities to generate additional interest returns to help fund the council's services. Future interest rate expectations are currently relatively volatile and consensus expectations will be taken into account when setting the council's 2023/24 budgeted income target.

10 Legal Implications

10.1 There are no particular equalities or other legal implications for the purpose of this report.

10.2 **Legal Officer's comments:** None for the purposes of this report.

11 Policies, Plans & Partnerships

11.1 **Council's Key Priorities:** The following Key Priorities are engaged:
Effective Council

11.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

11.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.

11.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

11.5 **Partnerships:** There is partnership working with the external fund manager and the treasury consultants, but no particular implications arise from this report.

12 Background papers

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

Previous reports:

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- 2021-22 Treasury Management Year-End Performance – Audit & Scrutiny Committee
- Budget Report 2022/23 – Full Council, February 2022

Other papers:

- Treasury Management Strategy 2022/23
- CIPFA Prudential Code
- Code of Practice for Treasury Management in Local Authorities (CIPFA)