

2022-23 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 presents the Council's treasury management performance in 2022/23.

Recommendation (s)

The Group is asked to:

- (1) receive the report on the Council's treasury management performance 2022/23;**
- (2) receive the 2022/23 prudential indicators.**

1 Reason for Recommendation

- 1.1 In July 2023, Full Council agreed updated Financial Regulations which transferred the reporting of treasury management performance to Financial Strategy Advisory Group, having previously been reported to Audit and Scrutiny Committee, and prior to that, to Financial Policy Panel (mid-year position) and Strategy & Resources Committee (outturn position).
- 1.2 The Council's treasury and capital 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.
- 1.3 Approving the recommendations will enable the Council to meet the above requirements.

Financial Strategy Advisory Group

29 September 2023

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 the 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.
- 2.6 The Council's cash balances can be invested in fixed term deposits, money market funds or other secure investments such as long term gilts, as prescribed by the Treasury Management Strategy. At the end of March 2023 the Council held £7.4 million in money market funds (£25m March 2022) and £20.0m in fixed term deposits (£10m March 2022).
- 2.7 In total at 31 March 2023, the Council's treasury investments were £27.4m (£35.0m March 2022).
- 2.8 At the same reporting date, the Council had external debt with the Public Works Loans Board of £64.4m (unchanged from March 2022).
- 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.
- 2.11 During 2022/23, the council generated £833,000 gross interest on its treasury investments, compared to £26,000 generated in 2021/22. This substantial increase is as a result of numerous Bank of England base rate increases, from 0.75% at 1 April 2022 to 4.25% by 31 March 2023, marking the end of a prolonged period of low interest rates.

Financial Strategy Advisory Group

29 September 2023

- 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 Financial Strategy Advisory Group members with treasury management training on 24 November 2023 (immediately prior to the meeting of the same date).

3 Full Performance Review

- 3.1 A report on treasury management performance for 2022/23 is attached at Appendix 1.
- 3.2 The 2022/23 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 members.
- 3.3 No temporary borrowings were required in 2022/23 except occasional use of the Council's bank overdraft facility to manage daily cash flow.
- 3.4 The average gross return achieved for 2022/23 of 2.15% (0.24% in 2021/22) is broadly in line with the benchmark seven-day Sterling Overnight Index Average (known as SONIA) rate of 2.20% (equivalent in 2021/22 was minus 0.07%). This amounted to total gross interest income for the year of £833,400 generated on reserves, working balances and cash flow. After deducting fees, net interest income for the year amounted to £775,300, a net return of 2.00%.
- 3.5 The London Interbank Bid Rate (LIBID) benchmark rate was abolished from 1 January 2022, and has been replaced with the Sterling Overnight Index Average (SONIA).
- 3.6 The net outturn position exceeded the mid-year forecast reported Financial Policy Panel in November 2022, when it was anticipated that net income from investments would be £545,000 at the end of the year. Returns in the second half of the year outperformed this forecast, as interest rate rises by the Bank of England continued to tackle rising inflation.
- 3.7 The performance for 2022/23 on the council's investments was as follows;

| | Average Investment | Net Interest Received | Net Average Rate of Return |
|--------------------------|--------------------|-----------------------|----------------------------|
| | £'m | £'000 | % |
| Invested Funds | | | |
| Money Market Funds | 15.4 | 324.3 | 2.10 |
| Fixed Rate Deposits | 22.3 | 448.4 | 2.01 |
| Interest Bearing Account | 0.9 | 2.7 | 0.29 |
| Total | 38.6 | 775.4 | 2.00 |

3.8 Returns on 2022/23 investments were £505,000 higher than the budgeted income for the year and the average net annualised return on investments was 2.00% (0.09% in 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 2.10% was marginally below the SONIA benchmark of 2.20%. Investment in money market funds enables cash balances to be called back on any working day. This secures the Council's liquidity position – simply put, cash invested in money market funds remains accessible at same-day notice to meet the Council's upcoming liabilities/payments due to creditors.

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.
- 4.4 The risk on these investments is also low, albeit potentially 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 net return made on interest bearing accounts of 0.29% is significantly below the SONIA benchmark of 2.20%. Typically, this account was used when limits with other counterparties were reached, as is reflected by the lower average investment figure.

Fixed Interest Investments

- 4.6 In 2022/23, the council placed five fixed term deposits; two in April 2022, one in May 2022, one in August 2022 and one in November 2022, to take advantage of increased expectations for interest rate rises. Over the year 2022/23, the amount invested in fixed term deposits averaged £22.3m. The average net return made on this investment was 2.01% compared to the benchmark of 2.20%.
- 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 Risk Assessment

Legal or other duties

5.1 Impact Assessment

- 5.1.1 The Council approved the Treasury Management Strategy for 2022/23, which includes a risk management approach to investment of funds and returns.

5.2 Crime & Disorder

- 5.2.1 None.

5.3 Safeguarding

- 5.3.1 None.

5.4 Dependencies

- 5.4.1 None.

5.5 Other

- 5.5.1 None.

6 Financial Implications

- 6.1 Financial implications are set out in the body of the report. The net interest income of £775,300 was used to fund the council's budget requirement during the year.
- 6.2 **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.

Financial Strategy Advisory Group

29 September 2023

- 6.3 Any councillors who have any questions on the detail of treasury management performance for 2022/23 are requested to contact the Head of Finance prior to the meeting.
- 6.4 The 2023/24 mid-year position will be reported to this group on 24 November 2023. Investment returns in 2023/24 are expected to be higher than in 2022/23, owing to further increases in the Bank of England base interest rate.

7 Legal Implications

- 7.1 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.
- 7.2 **Legal Officer's comments:** none for the purposes of this report.

8 Policies, Plans & Partnerships

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

9 Background papers

- 9.1 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 15 February 2022.
- Treasury Management Interim Report 2021/22 to Audit & Scrutiny Committee on 17 November 2022.

Other papers:

- Final accounts working papers 2022/23.