

## **TREASURY MANAGEMENT - INTERIM REPORT 2023/24**

**Head of Service:** Brendan Bradley, Head of Finance  
**Wards affected:** (All Wards);  
**Appendices (attached):** None

### **Summary**

This report provides an update on treasury management performance for the first six months of 2023/24.

### **Recommendation (s)**

#### **The Group 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 2023/24;**
- (3) Note the current investment decisions being made within the terms set out in the Treasury Management Strategy;**
- (4) Note that 2024/25's Treasury Management Strategy, due to be presented to Financial Strategy Advisory Group in January 2024, will continue to be based on the local government template provided by sector specialist Link Asset Solutions.**

### **1 Reason for Recommendation**

- 1.1 The 2023/24 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 the Financial Strategy Advisory Group – the recommendations ensure that this requirement is met.

## 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 and is based on a sector template provided by Link Asset Solutions.
- 2.2 This report covers the performance of the treasury management function for the period 01 April 2023 to 30 September 2023.
- 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 group 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 £33 million at September 2023 (£35 million at September 2022).
- 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;

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3.1.3 to update financial limits to each institution depending on the quality of their financial ratings.

### 4 Current Performance

4.1 The average return from investments for 2023/24 was originally budgeted at 4%. This amounted to total income for the year of £720,000, to be generated on reserves, working balances and cash flow.

4.2 The performance for the first six months of 2023/24 on the council's investments is as follows;

01 April to 30 September	Average Investment (Apr-Sept) £'m	Interest Receivable (Apr-Sept) £'000	Average Rate of Return %
<b>Internally Managed Funds</b>			
Money Market Funds	12.42	296.6	4.78
Fixed Rate Deposits	20.83	443.6	4.26
Interest Bearing Account	0.02	0.1	1.07
<b>Total</b>	<b>33.28</b>	<b>740.3</b>	<b>4.45</b>

4.3 During the first half of the year, £740,337 of interest had been earned, significantly overachieving the profiled budgeted target of £360,000 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 The average return achieved for the first six months of 4.45% compares slightly adversely with the benchmark overnight SONIA (Sterling Overnight Index Average) rate of 4.74%.

### 5 Internally Managed Funds

#### Money Market Funds

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.

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- 5.2 The average return made on money market funds was 4.78%. The average return has increased throughout the first half of the year, from an average of 2.8% during April 2023, rising to 5.2% in September.

### **Fixed Rate Term Deposits**

- 5.3 The Council had four fixed term deposits at 30 September 2023; the average return on these deposits was 4.26%. Returns on individual deposits ranged from 1.79% (deposit placed in April 2022) to 5.77% (placed in August 2023). 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 1.07%, consequently, officers use this account the least, typically when counter party limits with other providers have been fully utilised.

## **6 Treasury Management Strategy**

- 6.1 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.
- 6.2 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.
- 6.3 The Council's Treasury Management Strategy is based on the local government template provided by external treasury specialists, Link Asset Solutions, as it incorporates appropriate risk and counterparty controls for the sector. Members can view the current 2023/24 Treasury Management Strategy on the Council's [website](#), and are asked to note that 2024/25's strategy will continue to be based on Link Asset Solutions' sector-specific template.

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### 7 Risk Assessment

Legal or other duties

7.1 Equality Impact Assessment

7.1.1 None.

7.2 Crime & Disorder

7.2.1 None.

7.3 Safeguarding

7.3.1 None.

7.4 Dependencies

7.4.1 None.

7.5 Other

7.5.1 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.

7.5.2 Investments in money market funds 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 Financial Implications

8.1 The council's budget anticipates the equivalent of £720,000 of interest to help fund services in 2023/24, calculated as follows:

	<b>Budgeted £</b>	<b>Updated Forecast £</b>
Interest earned in year	720,000	1,200,000
Less interest credited to specific provisions	(58,000)	(58,000)
<b>Interest used to fund General Fund services</b>	<b>662,000</b>	<b>1,142,000</b>

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- 8.2 The forecast interest at the end of 2023/24 is now anticipated to overachieve the budgeted income by £480,000.
- 8.3 The Council's budget in future years is reliant on a significant level of interest being generated to fund services. To mitigate the risk that this income stream could reduce in future years (either due to reduced cash balances or interest rates), it is expected that additional interest generated in 2023/24 will be set-aside in an earmarked Interest Equalisation Reserve to help smooth interest returns in future years.
- 8.4 **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 remain in flux and latest expectations will be taken into account when setting the Council's 2024/25 budgeted income target.

## 9 Legal Implications

- 9.1 There are no particular equalities or other legal implications directly arising from this report, other than the requirement to act within the Council's powers when undertaking treasury management borrowings and investments.
- 9.2 **Legal Officer's comments:** None for the purposes of this report

## 10 Policies, Plans & Partnerships

- 10.1 **Council's Key Priorities:** The following Key Priorities are engaged:
- Effective Council
- 10.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 10.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.
- 10.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 10.5 **Partnerships:** None arising from the contents of this report.

## 11 Background papers

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

### Previous reports:

- 2022-23 Treasury Management Year-End Performance – Financial Strategy Advisory Group – September 2023

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- Budget Report 2023/24 – Full Council, February 2023

### **Other papers:**

- Treasury Management Strategy 2023/24
- CIPFA Prudential Code
- Code of Practice for Treasury Management in Local Authorities (CIPFA)