

TREASURY MANAGEMENT YEAR-END PERFORMANCE 2023/24

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Wards affected:	(All Wards);
Appendices (attached):	Appendix 1 – Treasury Management Review Appendix 2 – Prudential Indicators

Summary

This report presents the Council's treasury management performance in 2023/24

Recommendation (s)

The Group is asked to:

- (1) Receive the report on the Council's treasury management performance 2023/24;
- (2) Receive the 2023/24 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 the Financial Strategy Advisory Group.
- 1.2 The Council's prudential indicators must also be received 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.

2 Background

- 2.1 Income earned from investments is used to help finance the Council's services and contributes to the key priority 'Effective Council'.

Financial Strategy Advisory Group

27 September 2024

- 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 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 2024 the Council held £8.2 million in money market funds (£7.4m March 2023) and £15.0m in fixed term deposits (£20.0m March 2023).
- 2.7 In total at 31 March 2024, the Council's treasury investments were £23.2m (£27.4m March 2023).
- 2.8 At the same reporting date, the Council had external debt with the Public Works Loans Board of £64.4m (unchanged from March 2023).
- 2.9 The Group 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 2023/24, the Council generated £1,718,000 gross interest on its treasury investments, compared to £833,000 generated in 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.

Financial Strategy Advisory Group

27 September 2024

3 Full Performance Review

- 3.1 A report on treasury management performance for 2023/24 is attached at Appendix 1.
- 3.2 The 2023/24 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 2023/24 except occasional use of the Council's bank overdraft facility to manage daily cash flow.
- 3.4 The average gross return achieved for 2023/24 of 5.07% (2.15% in 2022/23) is ahead of the benchmark seven-day Sterling Overnight Index Average (known as SONIA) rate of 4.96% (equivalent in 2022/23 was 2.20%). This amounted to total gross interest income for the year of £1,718,000 generated on reserves, working balances and cash flow. After deducting fees, net interest income for the year amounted to £1,664,900, a net return of 4.91%.
- 3.5 The net outturn position exceeded the mid-year forecast reported to the Financial Strategy Advisory Group in November 2023, when it was anticipated that net income from investments would be £1,200,000 at the end of the year.

The performance for 2023/24 on the Council's investments was as follows:

	Average Investment £'m	Net Interest Received £'000	Net Average Rate of Return %
Internally Managed Funds			
Money Market Funds	14.18	710.4	5.01
Fixed Rate Deposits	19.68	953.4	4.84
Interest Bearing Account	0.04	1.1	2.47
Total	33.90	1,664.9	4.91

- 3.6 Returns on 2023/24 investments were £996,000 higher than the budgeted income for the year and the average net annualised return on investments was 4.91% (2.00% in 2022/23).

4 Internally Managed Funds

4.1 Money Market Funds

4.1.1 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.

4.1.2 The net return on money market funds of 5.01% was above the SONIA benchmark of 4.96%. 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.

4.2 Interest Bearing Accounts

4.2.1 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.

4.2.2 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.

4.2.3 The net return made on interest bearing accounts of 2.47% is significantly below the SONIA benchmark of 4.96% gross return. Typically, this account is only used when limits with other counterparties were reached, as is reflected by the lower average investment figure.

4.3 Fixed Interest Investments

4.3.1 In 2023/24, the Council placed four fixed term deposits; three in April 2023 and one in August 2023, to reduce risk by locking in elevated interest rate returns for a fixed period. Over the year 2023/24, the amount invested in fixed term deposits averaged £19.68m. The average gross return on these investments was 4.99%, with a net return after fees of 4.84%, which compares favourably to the benchmark of 4.96% gross return.

5 Interest Equalisation Reserve

5.1 The Interest Equalisation Reserve was established to enable variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year.

Financial Strategy Advisory Group

27 September 2024

- 5.2 Due to investment income outperforming the budget for 2023/24, £783,745 of surplus interest has been transferred to this reserve.

6 Risk Assessment

Legal or other duties

6.1 Equality Impact Assessment

6.1.1 None.

6.2 Crime & Disorder

6.2.1 None

6.3 Safeguarding

6.3.1 None

6.4 Dependencies

6.4.1 None

6.5 Other

The Council approved the Treasury Management Strategy for 2023/24, which includes a risk management approach to investment of funds and returns..

7 Financial Implications

7.1 Financial implications are set out in the body of the report. The net interest income of £1,664,800 was mainly used to fund the Council's budget requirement during the year, with a balance of £784,000 set-aside in the Interest Equalisation Reserve to smooth future returns.

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 The 2024/25 mid-year position will be reported to this group on 22 November 2024.

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 other than as outline in the report**

Financial Strategy Advisory Group

27 September 2024

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.

12 Background papers

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

Previous reports:

- Treasury Management Strategy - Appendix 12 of the Budget Report to Full Council on 13 February 2023.
- Treasury Management Outturn Report 2022/23 to Audit & Scrutiny Committee on 24 November 2023.

Other papers:

- Final accounts working papers 2023/24.