



**REPORT of
INTERIM CHIEF FINANCE OFFICER**

**to
STRATEGY AND RESOURCES COMMITTEE
9 NOVEMBER 2023**

HALF YEARLY TREASURY MANAGEMENT UPDATE

1. PURPOSE OF THE REPORT

- 1.1 To report on the Council's investment activity for the first half of 2023 / 24 in accordance with the Chartered Institute of Public Finance and Accountancy Treasury Management Code (CIPFA's TM Code) and the Council's Treasury Management Policy and Treasury Management Practices (TMPs).

2. RECOMMENDATION

That Members note the Treasury Management report for compliance purposes.

3. SUMMARY OF KEY ISSUES

3.1 Overview

- 3.1.1 The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 3.1.2 The Council's Treasury Management Strategy for 2023 / 24 was presented to the Strategy and Resources Committee on 26 January 2023 and subsequently approved by the Council on 22 February 2023.
- 3.1.3 During 2023 / 24, the Council has had an average of £32.3m invested and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
- 3.1.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by the Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by the Council on 22 February 2023.

3.2 External Context

- 3.2.1 The Council currently engages LINK group to provide treasury management consultancy and advice services. Attached at **APPENDIX 1** is information prepared by LINK group providing an overview of the external economic environment.

3.3 Local context

3.3.1 The Council is currently debt free, although its capital expenditure plans do include the need to acquire new vehicles as part of the new Waste contract via internal borrowing in 2023 / 24, as approved by the Council on 30 March 2023. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are required to finance any gap in the future revenue budget.

3.4 Investment Activity (April 2023 – September 2023)

3.4.1 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment returns.

3.4.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April to September 2023, the level of investments held by the Council has seen an increase of £4.8m due to the timing of receiving Grants, Council Tax and National Non-Domestic Rates (NDR) ahead of paying these out to beneficiaries and preceptors. Therefore, the total of investments held on 30 September 2023 is £37.0m. These are comprised as follows:

Table 1 – Invested Funds

| | Balance on 01/04/2023 £000s | Movement £000s | Balance on 30/09/2023 £000s | Average Credit Risk Score | Counter-party limit | Sector limit |
|------------------------------------------|--------------------------------|-------------------|--------------------------------|---------------------------|--------------------------------|----------------------------------------------|
| Short term Investments: | | | | | | |
| Banks and Building societies | 5,270 | (2,205) | 3,065 | 5.0 | Operational £3m, Investing £2m | Unlimited (Banks) / £5m (Building Societies) |
| Money Market Funds | 8,000 | 0 | 8,000 | 1.0 | £5m | £20m |
| Debt Management Account Deposit Facility | 0 | 13,000 | 13,000 | 4.0 | Unlimited | Not applicable (N/A) |
| Fixed Term Deposits (LA's) | 14,000 | (6,000) | 8,000 | 4.0 | £2m | Unlimited |
| Long Term Investments | 5,000 | 0 | 5,000 | N/A | £5m | £12m |
| TOTAL | 32,270 | 4,795 | 37,065 | Ave. 3.3 | | |

3.4.3 The Council's £5m of externally managed pooled and property funds have generated a total return of £203k in 2023 / 24 to date. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five year period total returns will exceed cash interest rates. In the light of their performance over the medium / long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

3.5 Performance – Budgeted Income and Outturn

3.5.1 Below are the average rates of returns obtained on the Authority’s investments:

- Short Term investments (including Local Authorities) – 2.3%;
- Investments in the Ninety One (Investec) Diversified Income Fund – 4.6%;
- Investment in the CCLA (Churches, Charities and Local Authorities) – Lamit Property Fund– 4.2%.

3.5.2 The above returns average 2.6%, which is slightly lower than the 3% assumed within the 2023 / 24 Budget Setting Report; however interest rates have been increasing over this period and it is forecast that average interest rates will be higher than 3% over the full financial year.

3.5.3 The Authority’s budgeted investment income for the year was set at £750,000. Projected income for the year is currently £1,250,000. This increase is due to the rise in interest rates this year and the increase in average cash balances held.

3.6 Outlook for the remainder of 2023 / 24

3.6.1 Interest rate forecasts provided by Link Group are detailed at **APPENDIX 2**.

3.7 Compliance with Prudential Indicators and Treasury Management Strategy

3.7.1 The Prudential Indicators for 2023 / 24, which were set on 22 February 2023 as part of the Treasury Management Strategy Statement shown at **Table 1** above have been complied with to date, except for some brief breached bank limits that occurred on the Council’s current account, disclosed below.

Table 2 – Counterparty Limit Breaches

| Date in Excess | Amount in Excess £000 | Reason | Date Resolved | How Resolved |
|----------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12/04/2023 | £601 | Net balance exceeded the £3m bank counterparty when £2m investment to Nationwide took 24hrs to clear. | 13/04/2023 | £2m investment in Nationwide Building Society cleared |
| 14/04/2023 | £47 | Unexpected income received towards the end of the day. | 15/04/2023 | £1m invested in Federated Money Market Fund. |
| 19/07/23 | £3,692 | Net balance exceeded the £3m bank counterparty limit when £5m repaid by Federated a day before monthly NNDR precept payment. | 20/07/2023 | £3m reinvested in Federated, £524k paid in NNDR precepts, £166k paid to Essex Pensions and £471k repaid to the Department for Levelling Up, Housing and Communities (DLUHC). |

| Date in Excess | Amount in Excess £000 | Reason | Date Resolved | How Resolved |
|----------------|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------------------------------------|
| 14/08/23 | £3,550 | Net balance exceeded the £3m bank counterparty limit when £5m repaid by Federated a day before monthly NNDR precept payment. | 15/08/23 | £5m reinvested in Federated Money Market Fund |
| 01/09/23 | £3,014 | Net balance exceeded the £3m bank counterparty limit when monthly council tax payment came in and £4m investment to Debt Management Organisation (DMO) took 24hrs to clear. | 04/09/23 | £4m investment to Government DMO. |

3.7.2 The Section 151 Officer reports that all treasury management activities undertaken during the half year in review complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy, the above items excepted. The Council's Treasury Management Prudential Indicators are detailed at **APPENDIX 3**.

4. CONCLUSION

4.1 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary of the treasury management activity during the first half of 2023 / 24. As indicated in this report, only one of the prudential indicators has been breached on brief occasions and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

5. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2023 - 2027

5.1 Smarter finances

5.1.1 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, referring to the Link suggested creditworthiness approach, including a minimum sovereign credit rating.

6. IMPLICATIONS

- (i) **Impact on Customers** – None identified.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – None identified.

- (iv) **Impact on Resources (financial)** – Income is projected to exceed the Council's budgeted figure (£750,000) by £500,000 in 2023 / 24.
- (v) **Impact on Resources (human)** – None identified.

Background Papers: None.

Enquiries to: Lance Porteous, Lead Finance Specialist.