REPORT of
CHIEF FINANCE OFFICER

to
STRATEGY AND RESOURCES COMMITTEE
25 JULY 2024

TREASURY MANAGEMENT OUTTURN 2023 / 24

1. PURPOSE OF THE REPORT

1.1 To report on the Council's investment activity for the financial year 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

To the Council:

That the 2023 / 24 Treasury Outturn report be reviewed for compliance purposes.

3. SUMMARY OF KEY ISSUES

3.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's 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).

3.2 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.

3.3 During 2023 / 24, the Council had an average of £27.3m invested and was 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.

3.4 The 2021 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 Councils Capital Strategy, complying with CIPFA's requirement, was approved by the Council on 22 February 2023.

3.5 **External Context**

3.5.1 The Council currently engages Link Group to provide treasury management consultancy and advice services. Included at **APPENDIX 1** is information prepared by Link providing an overview of the external economic environment.

3.6 Local context

3.6.1 The Council did not hold any external debt during 2023 / 24, with the exception of a five-year hire purchase agreement entered into on the acquisition of two tractors in April 2023. The borrowing position of the Council will be reviewed as part of the updated 2024 / 25 Strategy. Investments levels are forecast to fall, as capital receipts are used to finance capital expenditure and reserves are used to finance any revenue budget gaps.

3.7 Investment Activity (April 2023 – March 2024)

3.7.1 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.

3.7.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April 2023 to March 2024, the level of investments held by the Council has seen a decrease of £2.5m with total investments held on 31 March 2024 being £24.5m.

3.7.3 During 2023 / 24 the Bank of England increased interest rates to reduce inflation, prolonging the cost of living crisis for households and businesses and temporarily taking the nation into recession.This has in turn increased interest returns on investments but cooled property values. The Council has £3m invested in the CCLA (Churches, Charities and Local Authorities) Local Authorities Property Fund and £2m in the Ninety One Diversified Income Fund, which is a multi-asset fund. The falls in the capital values of the underlying assets were reflected in 31 March 2024 valuations of both funds. The 31/3/2024 Balance Sheet figure for long-term investments is recorded at fair value, £4,428k. The Council is using the alternative Fair Value through Profit and Loss (FVPL) accounting and must defer the funds' fair value gains and losses to the Financial Instruments Adjustment Account (which is an unusable reserve until 2024 / 25) and reflected in the movement in reserves statement.

3.7.4 The Council's £5m of externally managed pooled and property funds generated a total income return of £220k during 2023 / 24. Because 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.

3.8 Performance – Budgeted Income and Outturn

3.8.1 Below are the average income returns obtained on the Authority's investments:

- Short Term investments – 4.2%;
- Investments in the Ninety One Diversified Income fund – 4.0%;
- Investment in the Property Fund – 4.66%;
- All investments – 4.2%.

3.8.2 The Authority's budgeted investment income for the year was £0.750m. The actual investment income for the year was £1.449m. This income overachievement was due to interest rates increasing throughout the financial year.

3.9 **Compliance with Prudential Indicators and Treasury Management Strategy**

3.9.1 All Prudential Indicators for 2023 / 24, have been complied with to date, except for breaches on the Council's current account limits, 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 National Non-Domestic Rates (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).
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.	15/08/2023	£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.	04/09/2023	£4m investment to Government DMO.
02/10/2023	£255	LRSG payment didn't go as planned on 02/10. paid on the next day	03/10/2023	£1.9m paid to LRSG
04/10/2023	£513	funds from Blackpool received later in the day. Invested next day	05/10/2023	£2m invested in Deutsche
01/12/2023	£878	Funds invested on the next working day to Wirral	02/12/2023	£2m invested in Wirral Council

3.9.2 **APPENDIX 1** reports on the Council's compliance with Prudential Indicators.

3.9.3 The Section 151 Officer reports that all treasury management activities undertaken during the second half of the year in review complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy, the above items excepted.

3.10 **Outlook for 2024 / 25 (Summary of advice from Link Group)**

- As widely expected, the Bank of England's Monetary Policy Committee kept the Bank Rate unchanged for a seventh consecutive time at its June meeting.
- Ahead of the meeting markets had been pricing in around a 30% chance of a rate cut in August. Post-meeting, this had risen to over 60%.
- Equity markets had a broadly positive start to the second half of the year. In the UK, the FTSE-100 eked out a modest 0.03% advance, as investors took a more cautious stance ahead of the election.
- House prices rose by 0.2% in June, modestly above forecasts, which raised the annual increase from 1.3% to 1.5%. Over Q2, it meant prices were little changed, following declines in both April and May. Meanwhile, consumer credit figures saw an increase from £0.7bn in April to £1.5bn in May, reflecting the rise in retail sales over the month. Elsewhere, net mortgage lending eased from April's £2.2bn to £1.2bn in May but the annual rate ticked up to 0.3%as activity continued to be pressured by elevated borrowing rates. Overall, analysts suggested the figures indicated a further softening in the drag on activity, with the outlook more positive for the second half of the year, especially if the Bank of England cuts policy rates as widely expected.
- The June manufacturing Purchasing Managers Index figure was revised lower to 50.9 from its initial reading of 51.4. Data has shown that shop prices rose by just 0.2% on the year in June, against a prior reading of 0.6% and expectations of a 0.5% gain. All sector-level readings eased, with negative monthly returns for each of food and non-food while the latter continued to trend deeper into negative territory on the year at -1.0%.

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 for the financial year 2023 / 24. As indicated in this report, none of the Prudential Indicators have been breached 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 STRATEGIC THEMES

5.1 The report links to the Maldon District Council's Strategic Priority of Smarter Finances.

6. IMPLICATIONS

(i) **Impact on Customers** – None directly.

(ii) **Impact on Equalities** – None identified.

(iii) **Impact on Risk (including Fraud implications)** – This report is mainly about managing credit risk. A prudent approach continues to be taken in relation to investment activity with priority being given to security and liquidity over yield.

(iv) **Impact on Resources (financial)** – Income exceeded the Council's budgeted figure of £750,000 by £698,655 in 2023 / 24.

(v) **Impact on Resources (human)** - None directly.

Background Papers: None

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