Rochford District Council

REPORT TITLE:	**Treasury Management Annual Review 2022/23**
REPORT OF:	**Tim Willis, Interim Director of Resources**

REPORT SUMMARY

This report sets out a summary of the Council's Treasury Management activity for the 2022/23 financial year.

RECOMMENDATIONS

R1 To recommend the contents of this report to Full Council.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 The council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce an annual review of its treasury management activities.

1.2 Overview & Scrutiny Committee is asked to consider the contents of this report and recommend it for approval by Full Council on 18 July 2023.

2.0 BACKGROUND INFORMATION

2.1 Treasury management is defined as "The management of the local authority's investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 All decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

2.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

Member training on treasury management issues was last undertaken in September/October 2022 in order to support Members' scrutiny role.

2.4 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and report on the actual prudential and treasury indicators each year. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2.5 The minimum reporting requirements for 2022/23 were that Council should receive the following reports:

- An Annual Treasury Strategy in advance of the year (Council 08/02/2022)
- A Mid-Year Treasury Update Report (Council 01/12/2022)
- An Annual Review following the end of the year describing how actual activity compares to the Strategy (this report)

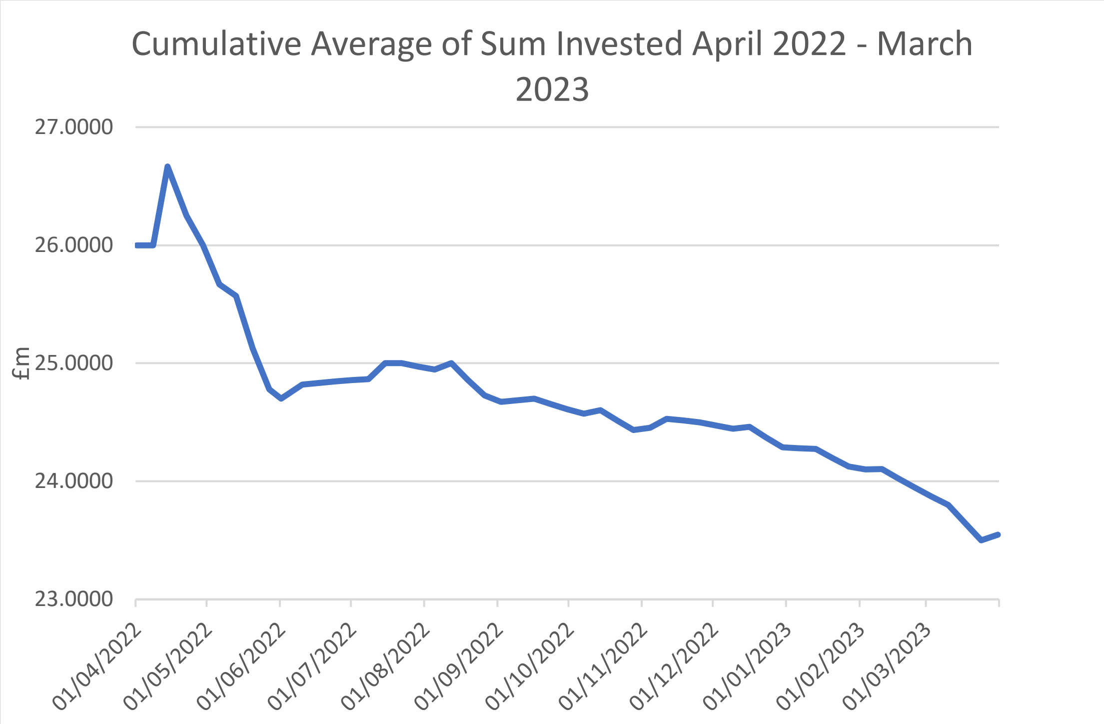
2.6 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:

- Balance as at 31 March 2022 £22.0 m
- Balance as at 31 March 2023 £20.0 m

2.7 The breakdown of the investments held at 31 March 2023 are shown in the table below:

Investment held at 31st March 2023	**Amount**	**Term**	**Interest**
Handelsbanken	£6,000,000	3M Fixed	3.38%
Money Market – Deutsche	£5,000,000	Instant	3.94%
Money Market – Prime	£4,000,000	Instant	4.04%
Money Market – HSBC	£5,000,000	Instant	3.95%

2.8 The graph below shows the Council's average balances over the year. The balance remained steady over the year, with only a sharp increase at the start due to receiving Council Tax and NNDR payments.



2.9 Total external interest earned in 2022/23 was £543,777 compared to £30,165 in 2021/22. The increase was due to the increase in average interest rates paid on investments compared to 2021/22.

2.10 In line with the Treasury Management Strategy agreed by Council the Authority takes advice from its Treasury Management Advisors Link Asset Services, which uses a combination of credit ratings and market intelligence, in order to decide which banks and financial institutions to deposit funds with.

2.11 During the financial year, the Council exceeded the £5m limit on its current account for the period 4th May due to system error. It should be noted that the £5m is an internal limit set within the Council's Treasury Management Strategy, rather than an external limit set by the bank and therefore no additional costs/fees were incurred as a result.

2.12 The outturn position against the 2022/23 Prudential Indicators estimated in the Council's Treasury Management Strategy in February 2023, are shown below:

£000s	2021/22Actual	2022/23 Forecast	2022/23 Actual
Capital Expenditure (£000s)	1,106	5,659	3,836
Ratio of Financing Costs to Net Revenue Stream	-0.51%	0.00%	-5.03%
Capital Financing Requirement as at 31 March (£000s)	777	777	777
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum (£000)	(0.00)	0.14	0.08

3.0 ECONOMIC BACKGROUND

3.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

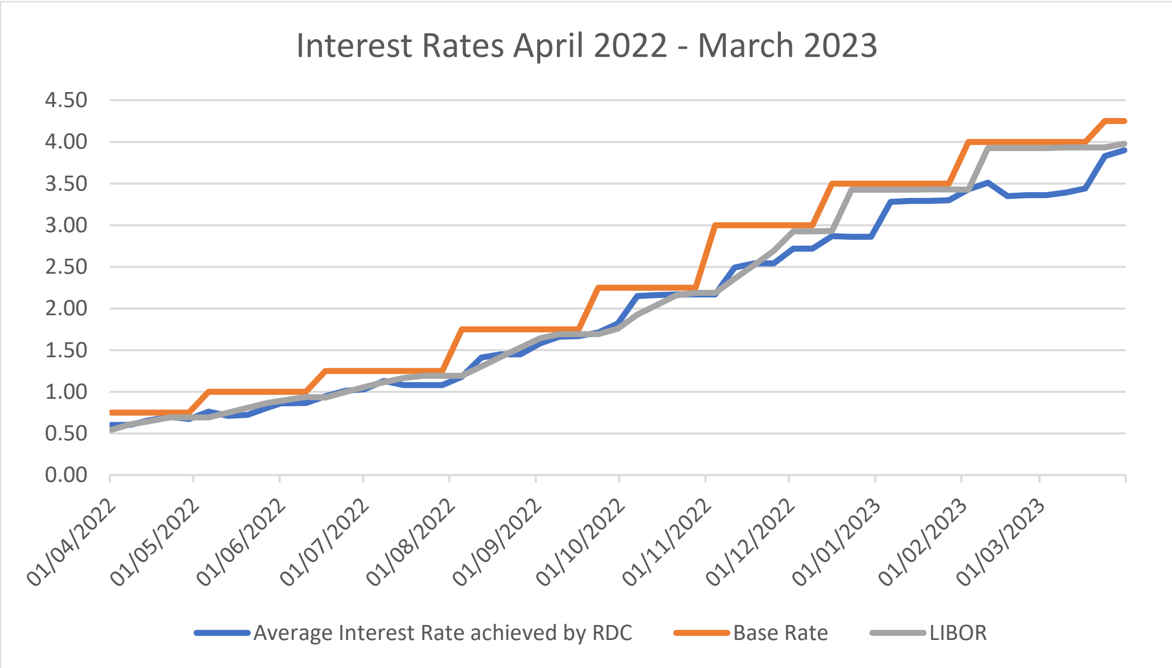
3.2 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

3.3 With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

3.4 Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

3.5 Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

3.6 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in the average interest rate the Council achieved compared to the Bank of England Base rate. Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.



4.0 FINANCIAL IMPLICATIONS

4.1 The Council has not undertaken any external borrowing during the year and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.

4.2 The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract cost for 2022/23 was £8,500 which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made.

4.3 The increase in interest payments from Bank of England Interest Payments, is set to continue in 2023/24.

5.0 LEGAL IMPLICATIONS

5.1 None

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 None.

7.0 RELEVANT RISKS

7.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and in particular the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

8.0 ENGAGEMENT/CONSULTATION

8.1 None.

9.0 EQUALITY IMPLICATIONS

9.1 None.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 None.

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SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
An Annual Treasury Strategy in advance of the year - Council	**8/2/2022**
A Mid-Year Treasury Update Report - Council	**1/12/2022**