



**Rochford District
Council**

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| REPORT TITLE: | Treasury Management Annual Review 2023/24 |
| REPORT OF: | Interim Director of Resources |

REPORT SUMMARY

This report sets out a summary of the Council's Treasury Management activity for the 2023/24 financial year.

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.

The council's income from treasury management activities in 2023/24 was £1,311,035 against a budget of £275,000.

RECOMMENDATIONS

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

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. 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).

2.0 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 undertaken during the year on 19/9/2023 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 are that Council should receive the following reports:

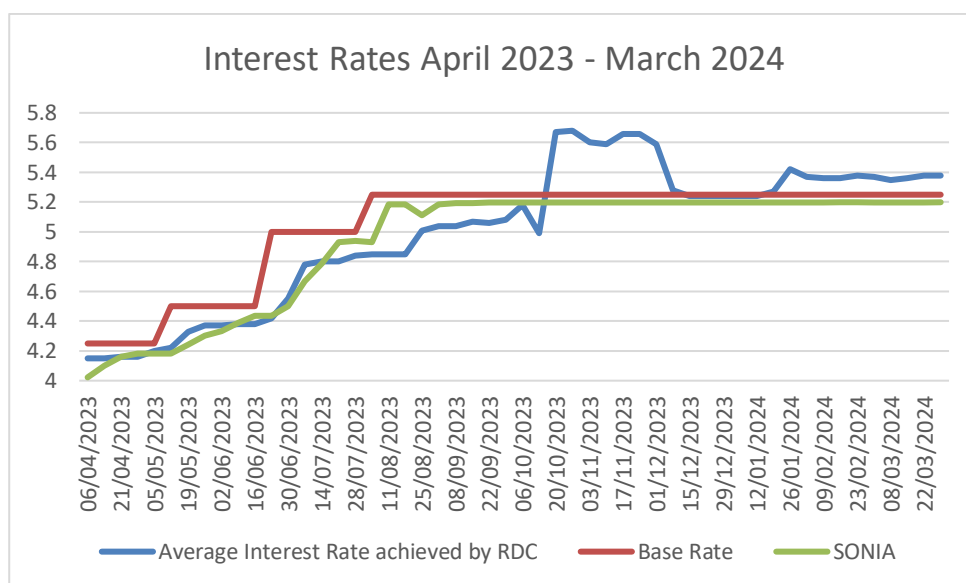
- An Annual Treasury Strategy in advance of the year (Council 15/02/2023)
- A Mid-Year Treasury Update Report (Council 14/12/2023)
- An Annual Review following the end of the year describing how actual activity compares to the Strategy (this report)

2.6 There has also been quarterly reporting in line with requirements, this isn’t required to be reported to Council. These were received by the Overview and Scrutiny committee in October and February.

3 INVESTMENT PERFORMANCE FOR 2023/24

- 3.1 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.
- 3.2 Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.
- 3.3 The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, 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.
- 3.4 With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.
- 3.5 While the Council has taken a prudent approach to investing surplus monies, 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 Global Financial Crisis of 2008/09. 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 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% in quarter 2 and staying at the level until the end of the financial year. The rates are anticipated to drop but have been impacted at the slower rate of decline in inflation. In Quarter 2, we did not achieve the indicative rates, as our counterparties were

unable to offer higher rates of return. However, we did overachieve from Quarter 3 onwards.



4 INVESTMENT POSITION

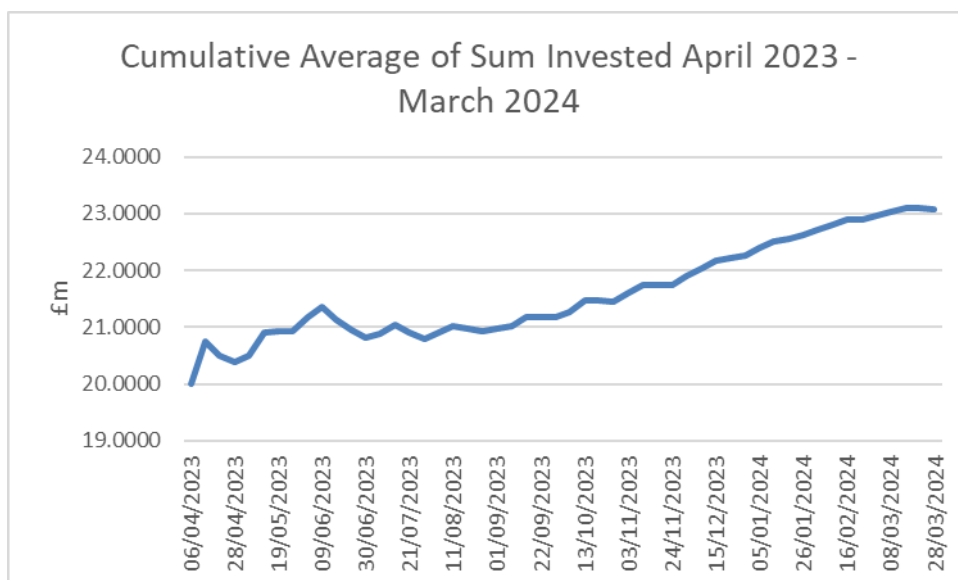
4.1 The Council’s investment position at the beginning and the end of the year, as shown on the Council’s Balance Sheet, was as follows:

| | |
|-----------------------------|---------|
| Balance as at 31 March 2023 | £20.0 m |
| Balance as at 31 March 2024 | £23.0 m |

4.2 The breakdown of the investments held at 31 March 2024 are shown in the table below:

| Investment held at 31 st March 2024 | | | |
|--|------------|---------|----------|
| | Amount | Term | Interest |
| | | 3M | |
| Handelsbanken | £3,000,000 | Fixed | 5.32% |
| Money Market – Deutsche | £5,000,000 | Instant | 5.24% |
| Money Market – Prime | £5,000,000 | Instant | 5.29% |
| Money Market – HSBC | £4,000,000 | Instant | 5.23% |
| Santander | £6,000,000 | 95 Day | 5.70% |

4.3 The graph below shows the Council’s average balances over the year. The balance has increase slowly over the year. Both revenue and capital expenditure have been lower than anticipated increasing balances held.



- 4.4 Total external interest earned in 2023/24 was ££1,311,035 compared to £543,777 in 2022/23. The increase was due to the retained high levels in interest rates paid on investments for the full year, and a high level of balances maintained.
- 4.5 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.

5 COMPLIANCE WITH TREASURY LIMITS

- 5.1 The outturn position against the 2023/24 Prudential Indicators estimated in the Council’s Treasury Management Strategy in February 2024, are shown below:

| £000s | 2022/23 Actual | 2023/24 Forecast | 2023/24 Actual |
|---|----------------|------------------|----------------|
| Capital Expenditure (£000s) | 3,836 | 4,870 | 2,159 |
| Ratio of Financing Costs to Net Revenue Stream | -5.03% | -2.40% | -11.34% |
| Capital Financing Requirement as at 31 March (£000s) | 777 | 777 | 298 |
| Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum (£000) | 0.008 | 0.014 | -.05 |

6.0 OTHER OPTIONS CONSIDERED

This report is an account of the preceding year, therefore no other options available.

7.0 RELEVANT RISKS

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

Not applicable.

9.0 FINANCIAL IMPLICATIONS

The Council has not undertaken any external borrowing during the year and therefore no interest costs were incurred.

The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract cost for 2023/24 was £8,750 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.

10.0 LEGAL/GOVERNANCE IMPLICATIONS

Name & Title: Claire Mayhew, Acting Joint Director – People & Governance & Monitoring Officer Tel & Email 01277 312500 / claire.mayhew@brentwood.rochford.gov.uk

The Council is obliged under Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs.

11.0 EQUALITY & HEALTH IMPLICATIONS

Name & Title: Paul Brace, Interim Director – Communities & Health Tel & Email 01277 312500 paul.brace@brentwood.rochford.gov.uk

None

12.0 ENVIRONMENT & CLIMATE IMPLICATIONS

Name & Title: Marcus Hotten, Director – Environment Tel & Email 01702 546366 marcus.hotten@brentwood.rochford.gov.uk

None

13.0 ECONOMIC IMPLICATIONS

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emma.gooding@brentwood.rochford.gov.uk

None

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APPENDICES

none

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

| Council Meeting | Date |
|---------------------------------------|-------------|
| Overview and Scrutiny – Q3 monitoring | 1/2/2024 |
| Overview and Scrutiny – Q1 monitoring | 3/10/2023 |
| Council – mid year review | 14/12/2023 |
| Council – Annual Strategy | 15/2/2023 |