



# Committee report

Committee	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>25 SEPTEMBER 2023</b>
Title	<b>TREASURY MANAGEMENT REPORT Q1 2023-24</b>
Report of	<b>PENSION FUND AND TREASURY MANAGEMENT ACCOUNTANT</b>

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## EXECUTIVE SUMMARY

1. In accordance with the council's Treasury Management Strategy 2023-24, this is a report on treasury management policies, practices and activities for the quarter ended 30 June 2023.
2. In March 2023, the committee approved the Treasury Management Strategy for 2023-24 and this is the first of the regular progress reports on treasury management activities for this year.
3. The council's activities have fallen within the boundaries of the prudential indicators set for the year.
4. The committee is asked to note this report and highlight any areas which may need to be addressed in the forthcoming year.

## RECOMMENDATION

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| <ol style="list-style-type: none"><li>5. That the committee notes the performance for the quarter to 30 June 2023 against the treasury management indicators.</li></ol> |
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## BACKGROUND

6. The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the code), which requires authorities annually to produce prudential indicators and a treasury management strategy statement on the likely financing and investment activity. The code also requires that councillors are informed of treasury management activities on a quarterly basis.

7. The report in Appendix 1, has been produced from a template provided by the council's treasury management advisor, Arlingclose Limited. It sets out a summary of the council's treasury management activities during the quarter to 30 June 2023, and its performance against the prudential indicators that were approved as part of the Treasury Management Strategy.
8. Appendix 1 also includes a summary of the economic outlook provided by Arlingclose, based on information on 7 July 2023. Since then, the Bank of England base rate was increased from 5.00% to 5.25% on 2 August 2023.
9. Arlingclose's latest interest rate forecast is suggesting that the rate may increase by a further 0.25% in September and then they anticipate that the rate will start to slowly reduce from September 2024.
10. The code of practice defines treasury management as follows:  
*"The management of the council's investments and 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."*
11. The code of practice requires that a report be provided on the actual performance of the council against the following prudential indicators at the end of each financial year and that it encompasses:
  - the revenue effect of transactions executed.
  - the risk implications for decisions made.
  - compliance on agreed policies / practices and statutory / regulatory requirements.
  - performance report.
  - compliance with the CIPFA code recommendations.
  - monitoring of treasury management indicators.
12. Detailed information on the council's performance in respect of these items is set out in Appendix 1 to this report.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

13. The council's arrangements for treasury management support effective service and project delivery across the authority, in turn supporting the key priorities set out in the [Corporate Plan 2021 – 2025](#)
14. There is a need for regular review of the Treasury Management Strategy, in line with the Corporate Plan and Medium-Term Financial Strategy, to ensure the key priorities of the council continue to be deliverable within the reduced resources available to the council.
15. The Treasury Management Strategy is reviewed and updated annually in March and approved by the Audit & Governance Committee.

### Responding to climate change and enhancing the biosphere

16. Through its treasury management activity, the council invests in a combination of money market funds, call accounts maintained by banks and in other local

authorities. The council undertook a review of these investments in relation to their impact on the council's Climate and Environment Strategy.

17. As a result, each of the financial institutions that the council invests in has provided their Environmental, Social and Governance statements, together with any specific statements relating to climate change.
18. The council will include all [scope 1, 2 and 3 emissions](#) created directly by itself or indirectly (for example emissions made by our contractors, investments or travel) in our annual carbon footprint.
19. Investments count towards downstream scope 3 emissions which contribute towards the Council's overall carbon footprint.

#### Economic Recovery and Reducing Poverty

20. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards reducing the numbers of residents, and especially children, who are living in poverty.

#### Impact on Young People and Future Generations

21. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards the future sustainability of the council.

#### Corporate Aims

22. The reporting of the treasury management activity of the council is in alignment with the aspiration of transparency and disclosure of council investments and debts as detailed in the latest [Corporate Plan 2021 - 2025](#).

#### CONSULTATION

23. The treasury management report for quarter ended 30 June 2023, has been considered by senior accountants within the Financial Management team, including both the Director of Finance and the Assistant Director of Finance.
24. No external consultation has been undertaken.

#### FINANCIAL / BUDGET IMPLICATIONS

25. The council's current treasury management arrangements are conducted by council staff, with support from an external treasury management advisor, Arlingclose Limited, within existing budgets.
26. The Treasury Management Strategy includes the overall management of the council's cash flow and borrowing strategy. With interest rates having been low over the last few years, it was decided to take a combination of short-term and long-term borrowing in order to balance the requirement for low interest costs and achieving cost certainty.

27. Even though interest rates are currently increasing, the council is forecasting lower than budgeted costs of borrowing, due to current lower levels of short-term borrowing. At the end of June 2023, it has been reported that we are expecting a net saving of £0.5 million which will contribute towards the overall financial result of the council for 2023-24.
28. During the quarter the percentage rates on the investments held increased from an average of 4.20% to 4.78%.
29. The actual level of investments increased by £8 million during the quarter, due to the timing of income received in advance of expenditure. The council has continued to invest money market funds throughout this period.

### LEGAL IMPLICATIONS

30. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to “have regard” to the CIPFA Code of Practice for Treasury Management.
31. Should the council not receive this report, it is in breach of the requirements set out in the code and the council’s approved Treasury Management Strategy 2023-24.

### EQUALITY AND DIVERSITY

32. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
33. Under The annual treasury management report has no implications for any of the protected characteristics.

### RISK MANAGEMENT

34. Treasury management activities have a high level of risk as they comprise transactions that can amount to several million pounds which are undertaken with external bodies. When the council has surplus monies to invest, there are risks, if those organisations to whom it lends, default on repayment (counterparty risk). The costs to the council of its treasury management activities are dependent on fluctuating interest rates.
35. The overall strategy of borrowing short-term and avoiding long-term debt carries the risk that, if interest rates suddenly rise, when longer term debt is eventually required, it will cost more (refinancing risk).

36. The council manages the counterparty risk by adopting a treasury management strategy which includes maintaining a limited list of organisations to which it is authorised to lend and restricting the maximum amount to be invested with each organisation, based on advice obtained from its external treasury management advisor, Arlingclose Limited.
37. The refinancing risk is mitigated by maintaining a combination of both short-term and long-term borrowing, which is regularly reviewed, based on interest rate projections provided by Arlingclose Limited.
38. It also operates protocols for maintaining financial controls. The treasury management function is reviewed by the council's internal auditors on a regular basis. The most recent review which was based on the 2019-20 transactions provided the highest level of assurance on the operation of these controls.
39. The council is obliged under section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. Failure to comply with the code could result in adverse comments being raised by the council's external auditors.
40. The committee's overview of the council's treasury management arrangements plays an important part in the council's overall governance regime. It has an important role to play in the monitoring of treasury management activities, including overview of the risks faced by this function both internally, which are directly controllable through segregation of duties and reporting arrangements, and externally, controllable through the monitoring of counterparties and lending limits, and also regular monitoring of general economic factors.

## EVALUATION

41. The council's treasury management activities for the quarter to 30 June 2023 have fallen within the boundaries of the agreed strategy for 2023-24.

## APPENDICES ATTACHED

42. Appendix 1 – Treasury Management 2023-24 Quarter 1 Report

## BACKGROUND PAPERS

43. Treasury Management Strategy 2023-24 (Audit Committee 20 March 2023) ([Public Pack](https://www.moderngov.co.uk/documents/g1443/Public%20reports%20pack%2020th-Mar-2023%2010.00%20Audit%20Committee.pdf?T=10)) [Agenda Document for Audit Committee, 20/03/2023 10:00 \(moderngov.co.uk\)](https://www.moderngov.co.uk/documents/g1443/Public%20reports%20pack%2020th-Mar-2023%2010.00%20Audit%20Committee.pdf?T=10) [https://www.moderngov.co.uk/documents/g1443/Public reports pack 20th-Mar-2023 10.00 Audit Committee.pdf?T=10](https://www.moderngov.co.uk/documents/g1443/Public%20reports%20pack%2020th-Mar-2023%2010.00%20Audit%20Committee.pdf?T=10)

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