

**Public
Key Decision - No**

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Treasury Management Six Month Performance Review

Meeting/Date: Cabinet – 14th November 2023

Executive Portfolio: Executive Councillor for Finance & Resources

Report by: Director of Finance and Corporate Resources

Ward(s) affected: All Wards

Executive Summary:

Best practice and prescribed treasury management guidance requires members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

The Council's 2023/24 Treasury Management Strategy was approved by the Council on the 22nd February 2023, this report sets out the Treasury Performance and indicators for period between 1st April 2023 and 30th September 2023.

Treasury Management is;

The management of the local authority's borrowing, 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.

The main purpose of Treasury Management is to.

- Ensure the Council has sufficient cash to meet its day-to-day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest, and prioritising liquidity before considering optimising investment returns.

The key market Treasury Management issues through the first half of

2023/24 influencing the Council's decision-making were:

- The Bank of England (BoE) Bank Rate increased over the period to 5.25% (possibly peak rate) from 4.25% in March.
- Gilt rates (10 year) fell from a peak of 4.74% in August to 4.44% on 29th of September, Gilt rates feed into the rates paid for investing in the Debt Management Office.
- Gilt rates are forecast to fall, as long as the inflation rate falls as expected.
- Inflation and interest rates are both high, this feeds into the council's current strategy of using lower risk investments while high interest rates (and debt defaults) may lead to increased stress in financial institutions.

The Council's responses to the key issues were.

- When the Council has surplus funds, these will primarily be invested on a short-term basis, primarily in the DMO, money market funds, and the council's transactional bank Natwest.
- Where possible to take a higher return without sacrificing liquidity eg use of timed deposits at the DMO, as long as sufficient cash is available for short-term needs.
- Where economic conditions are forecast to deteriorate it is vital to monitor financial institutions credit rating, and credit default swap rates (the cost to insure lending). This information is provided by the Council's treasury adviser – Link Group.

The Council's Commercial Investment Strategy (CIS)

The Commercial Investment Strategy commenced in 2015/16. Indicators relating to the investments are shown in Appendix A section 3.5.

The commercial property portfolio generated £2.8m of gross income for the Council in the first half of 2023/24. The breakdown of the property's portfolio is shown in Table 8 and the proportion of the investment income in relation to gross service expenditure, in Table 9 of Appendix A.

Recommendation(s):

The Cabinet is

RECOMMENDED

To note the treasury management performance for the first six months of 2023/24 and to recommend the report to Council for consideration.

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to update Members on the Council's treasury management activity for the first six months of the year, including investment and borrowing activity and treasury performance.

2. BACKGROUND

- 2.1 It is regarded as best practice and prescribed treasury management practice, that Members are kept up to date with treasury management activity.
- 2.2 The Council approved the 2023/24 Treasury Management Strategy at its meeting on 22nd February 2023.
- 2.3 All treasury management activity undertaken during the first half of 2023/24 complied with the CIPFA Code of Practice, relevant legislative provisions and the Treasury Management Strategy.
- 2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

3. ANALYSIS

Economic Review

- 3.1 An economic review of the year has been provided by the council's treasury management advisors, Link Group, and is attached with an analysis of the local context implications in Appendix A, Section 2.0.

Performance of Council Funds

- 3.2 The treasury management transactions undertaken during the first 6 months of 2023/24 financial year and the details of the investments and loans held as at 30th September 2023 are shown in detail in Appendix A, Section 3.0 to 3.3.

Risk Management

- 3.3 The Council's primary objectives for the management of its investment are to give priority to the security and liquidity (how quickly cash can be accessed) of its funds before seeking the best rate of return. For more details see Appendix A, Section 3.4.

Non-Treasury Investments

- 3.5 The definition of investments in CIPFA's Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. The full details of these investments can be found on Section 3.5 of Appendix A.

Compliance

- 3.6 Compliance with specific investment and debt limits are indicated in tables 12 and 13. of Appendix A.

Treasury Management Indicators

- 3.7 The Council measures and manages its exposure to treasury management risks using indicators which are details in the Appendix A, Section 5.0.

6.0 **COMMENTS OF OVERVIEW & SCRUTINY**

- 6.1 The Panel discussed the Treasury Management 6 Month Performance Review Report at its meeting on 1st November 2023.

- 6.2 Following a question from Councillor Gardener, the Panel heard that investment properties are revalued annually, the valuations take into account rents received (and lease lengths) so although there is an awareness of empty units at present, specifically at the Rowley Centre, the property value figures will not be adjusted until the 2023/24 year end.

- 6.3 Councillor Martin further enquired about the liquidity of the Council and how this compared to past years. The Panel were advised that the last couple of years had a similar look whereas historically before that there had been lower cash balances, especially by the end of the financial year (when less council tax is collected) when cash balances could be near zero. The current liquidity levels are expected to be maintained in the short term to medium term, and it was observed that as the cash balances are in part as a result of significant CIL reserves, future CIL receipts and projects are likely to affect the cash balances.

- 6.4 The Panel were advised that a revised table, on properties included within the "Existing Portfolio" grouping, would be added to future Treasury Management reports as an appendix following an enquiry from Councillor Martin.

- 6.5 Following the discussion, the Panel were informed that their comments would be added to the Cabinet report in order for Cabinet to make a decision on the recommendations.

7. LIST OF APPENDICES INCLUDED

- Appendix A
 - Economic review (source: Link Group)
 - Borrowing and Investment as at 30th September 2023
 - Risk Management
 - Non-treasury Investments (CIS and service loans)
 - Treasury Management Compliance and Indicators
 - Outlook for the remainder of 2023/24

- Appendix B
 - Capital Prudential Indicators

- Appendix C
 - Glossary

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