

Title of Report	Treasury Management Update Report
For Consideration By	Audit Committee
Meeting Date	17th April 2024
Classification	Open
<u>Ward(s) Affected</u>	All Wards
<u>Group Director</u>	Jackie Moylan, Interim Group Director Finance

1. Introduction

- 1.1. This report provides Members of the Audit Committee with an update on treasury management activities over the period January 2024 to March 2024.

2. Recommendations

- 2.1. **There are no immediate recommendations arising from this report as the purpose is to update the Audit Committee on past events.**

3. Reason(s) for decision

- 3.1. This report is an update on the past events.

4. Background

Policy Context

- 4.1. To help ensure that the treasury management function is governed effectively it is essential for those charged with governance to review the operations of treasury management on a regular basis. This report is the fourth of the treasury reports relating to the financial year 2023/24 for the Audit Committee. It sets out the background for treasury management activity from January 2024 to March 2024 and the action taken during this period.

Equality impact assessment

- 4.2. There are no equality impact issues arising from this report.

Sustainability and climate change

- 4.3. There are no sustainability and climate changes issues arising from this report.

Consultations

- 4.4. No consultations are required in respect of this report.

Risk assessment

- 4.5. There are no risks arising from this report as it reports on past events. Clearly though the treasury management function is a significant area of potential risk for the Council if the function was not properly carried out and monitored by those charged with responsibility for oversight. Regular reporting on treasury management ensures that the Committee is kept informed.

5. Comments of the Interim Group Director, Finance

- 5.1. There are no direct financial consequences arising from this report as it reflects the performance from January 2024 to March 2024. Whilst investment interest is not currently used to underpin the Council's base revenue budget, as in some other authorities, it does impact on the ability to fund additional discretionary expenditure and capital programmes. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations. Officers continue to pay close attention to the council cashflow making sure there is enough liquid cash to meet any unexpected situation as a result of a highly volatile economy at present.
- 5.2. No new borrowings have been undertaken since the last update due to sufficiency of internal cash levels. For future capital financing requirements, the Council will continue to consider borrowing rates offered by alternative lenders, including other local authorities alongside PWLB rates in order to minimise, where possible, its costs of borrowing. Officers regularly review council borrowing requirements based on development in cash forecasts and capital programmes.
- 5.3. The Committee is requested to note this report.

6. Comments of the Acting Director of Legal, Democratic and Electoral Services

- 6.1. The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk.
- 6.2. In addition, the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report sets out the work that Treasury Management is undertaking to ensure that it is meeting these requirements and adapting to changes as they arise.
- 6.3. There are no immediate legal implications arising from the report.

Appendices

None

Background documents

None

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Treasury Management Update Report

Treasury Management Activities from January 2024 to March 2024

1. Economic Highlights

1.1 Growth: UK GDP is estimated to have fallen by an unrevised 0.3% in Quarter 4 2023, following an unrevised fall of 0.1% in the previous quarter. The economy saw a decline for two consecutive quarters, while GDP for the year 2023 is estimated to have increased by an unrevised 0.1% in comparison with 2022.

1.2 Inflation: CPI rose by 3.4% in the 12 months to February 2024, down from 4.0% in January. On a monthly basis, CPI rose by 0.6% in February 2024 while in February 2023 it was 1.1%.

1.3 Labour Market: The UK unemployment rate increased to 3.9% in the three months to January 2024.

1.4 Monetary Policy Committee: The Bank of England's Monetary Policy Committee voted by a majority of 8-1 to maintain the official Bank Rate at 5.25%. One member preferred to reduce the Bank Rate by 0.25 percentage points to 5%.

2. Borrowing & Debt Activity

2.1 The Authority currently has £63.1m in external borrowing. This is made up as a single LEEF loan of £0.8m from the European Investment Bank to fund housing regeneration, £62.3m borrowed from the Public Work Loan Board for housing capital programme, particularly in respect of housing regeneration.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £63 million during the reported period, compared to an average £62 million for the same period last financial year.

	Balance as at 01/01/2024 £'000	Average Rate of Interest %	Balance as at 31/03/2024 £'000	Average Rate of Interest %
Short Term Investments	10,000	-	5,055	-
Long Term Investments	200	-	200	-
Housing Associations	0	-	0	-
Money Market Funds	82,300	-	34,200	-
	92,500	5.31	39,455	5.27

3.2 Due to the volatility of available creditworthy counterparties, short term investments have been placed in highly rated UK institutions, thus ensuring creditworthiness of investments.

4. Counterparty Update

4.1 Moody's has placed the long-term deposit ratings of Bayerische Landesbank, Landesbank Baden-Wuerttemberg and Landesbank Hessen-Thuringen Girozentrale on Review for Upgrade. Our treasury advisors remain comfortable with clients' placing deposits with Bayerische Landesbank, Landesbank Baden-Wuerttemberg and Landesbank Hessen-Thuringen Girozentrale for periods up to a maximum of 100 days. Moody's has upgraded, or placed on review for possible upgrade, the major Australian banks following the introduction of a bail-in regime. Our treasury advisors remain comfortable with client's making deposits for up to 100 days with Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation. Fitch has revised the United Kingdom's outlook to Stable from Negative and affirmed the short and long-term ratings. Our treasury advisors remain comfortable with clients making investments of unlimited amounts for up to 50 years with the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. Moody's has placed Warrington Borough Council's ba1 baseline credit assessment and long-term rating on review for possible downgrade due to the lack of sufficient, current audited financial information caused by a backlog of unaudited accounts. Our treasury advisors continue to advise against lending to Warrington Borough Council.

4.2 Whilst the ongoing investment strategy remained cautious counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below.

5. Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
31/01/2024	A+	5.0	A+	5.0
29/02/2024	A+	5.0	A+	5.0
31/03/2024	A+	5.0	A+	5.0

5.1 The Council continues to utilise AAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances. This type of investment vehicle has continued to provide very good security and liquidity, although yield suffers as a result.

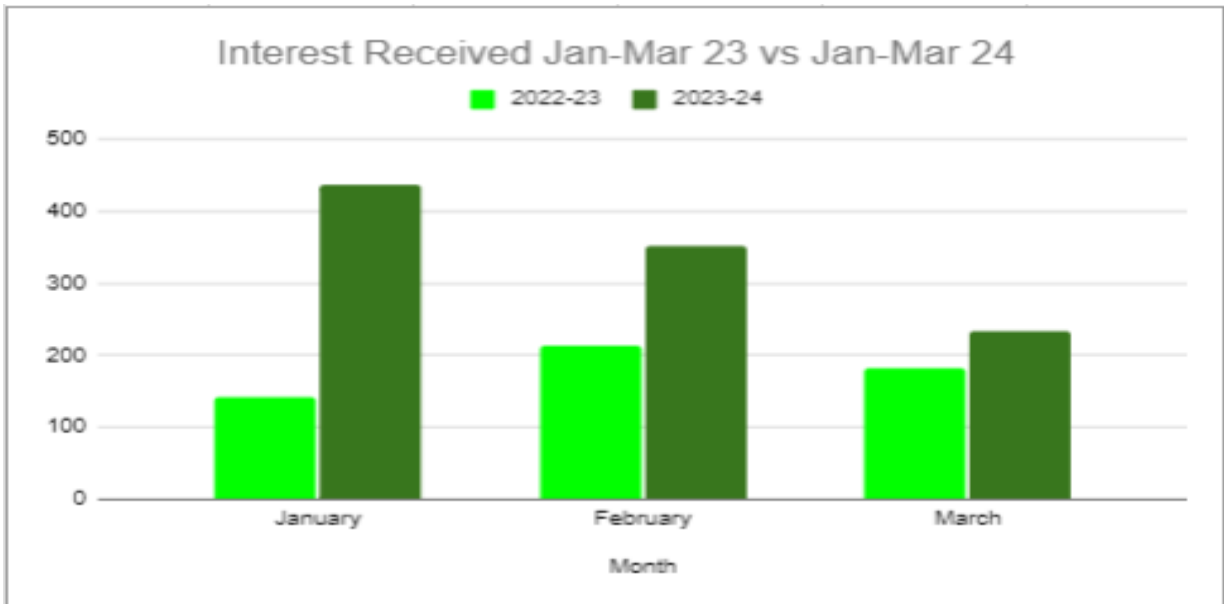
5.2 Council will continue to invest in highly rated UK Government institutions, Building Society and Housing Associations. These investment vehicles offer a good level of security and increase diversification for the Council’s portfolio whilst achieving a reasonable yield.

6. Comparison of Interest Earnings

6.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, short term investments have been placed in highly rated institutions, thus ensuring creditworthiness whilst increasing yield’s through the duration of the deposits.

6.2 The graph below provides a comparison of interest earnings for Jan 2024 to March 2024 against the same period for 2022/23.

6.3 Average interest received for the period Jan 2024 to March 2024 was £341k compared to £178k for the same period last financial year. Increased interest received this year is due to increase in interest rates.



7. Movement in Investment Portfolio

7.1 Investment levels have slightly decreased to £39 million at the end of March 2024 in comparison to the end of March 2023 last year of £45 million. It is anticipated that overall levels of investment balance will reduce as the capital programme continues to be delivered, although we need to maintain liquidity for day-to-day operational purposes.

