

## Part A

**Report to:**               **Audit Committee**

**Date of meeting:**   **Wednesday, 26 July 2023**

**Report author:**       **Head of Finance**

**Title:**                   **Treasury Management Annual Report 2022/23**

### 1.0     **Summary**

#### 1.1     **Purpose of the report**

1.1.1   This 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 2022/23. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.1.2   During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council January 2022)
- A mid-year year review (November Audit Committee)
- An annual review following the end of the year describing activity compared to the strategy, (this report)

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

1.1.4   This Council confirms that it has complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Audit Committee. Following scrutiny by the Audit Committee, the report will be presented to Full Council in October.

#### 1.2     **Key Prudential and Treasury Indicators**

1.2.1   During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the

impact of capital expenditure activities during the year, with comparators, are as follows:

<b>Prudential and treasury indicators</b>	<b>31.3.22 Actual £m</b>	<b>2022/23 Original Budget £m</b>	<b>31.3.23 Actual £m</b>
Capital Financing Requirement in relation to Capital expenditure	81.632	162.423	85.033
Capital Financing Requirement in relation to Finance Lease Liability	228.994	225.046	225.046
<b>Total Capital Financing Requirement</b>	<b>310.626</b>	<b>387.469</b>	<b>310.079</b>
<b>Gross borrowing</b>	<b>281.942</b>	<b>334.626</b>	<b>308.994</b>
External debt	49.000		80.000
Investments	144.773		110.454
<b>Net borrowing / (Investments)</b>	<b>(95.773)</b>		<b>(30.454)</b>

## 2.0 Risks

2.1 The Code of Practice on Treasury Management identifies eight key risks that are inherent in Treasury Management activity. The Council's Treasury Management Policy sets out the risks that it is seeking to manage:

1.	<b>Liquidity Risk</b>	That the Council may not have the cash it needs on a day to day basis to pay its bills.	This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.
2.	<b>Interest Rate Risk</b>	That the costs and benefits expected do not materialise due to changes in interest rates.	This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).
3.	<b>Exchange Rate Risk</b>	That losses or gains are made due to fluctuations in the prices of currency.	The Council does not engage in any significant non-sterling transactions.

4.	<b>Credit and Counterparty Risk</b>	That the entity holding Council funds is unable to repay them when due.	This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.
5.	<b>Refinancing Risk</b>	That the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher.	The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.
6.	<b>Legal and Regulatory Risk</b>	That the Council operates outside its legal powers.	This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.
7.	<b>Fraud, Error and Corruption</b>	The risk that losses will be caused by impropriety or incompetence.	This risk is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds
8.	<b>Market Risk</b>	That the price of investments held fluctuates, principally in secondary markets.	The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure. The Council's investment in Royal London Asset Management, relating to the Croxley Park reserve, is held for the long term which enables the Council to reduce the risk of needing to divest when prices fall.

### 3.0 **Recommendations**

3.1 That the Committee notes the Treasury Management Annual Report.

#### **Further information:**

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#### **Report approved by:**

Hannah Doney, Head of Finance

### 4.0 **Detailed proposal**

4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: “the management of the local authority’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”.

4.2 The Council’s 2022/23 Treasury Management Policy, as approved by Council on 25 January 2022, has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.

4.3 This report provides the Committee with an overview of Treasury Management performance for 2022/23 including the actual prudential and treasury indicators as prescribed by the Prudential Code for Capital Finance (revised 2021) and the Treasury Management Code of Practice (revised 2021).

4.4 The Council has appointed treasury advisors to assist with our treasury management, Link Treasury Services Ltd, part of Link Group.

4.5 The economic environment has a significant impact on treasury management activity and performance. Information on interest rates for investments and borrowing is contained in the main body of the report. In addition, a commentary on wider economic performance during 2022/23 has been provided by Link Group and is at Appendix 1 to this report.

### 4.6 **The Council’s Capital Expenditure and Financing**

4.6.1 The Council’s capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

4.6.2 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.6.3 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	<b>2021/22 Actual £m</b>	<b>2022/23 Original Budget £m</b>	<b>2022/23 Actual £m</b>
Capital Expenditure	30.532	79.210	33.356
Financed in Year	(4.504)	(14.828)	(10.775)
<b>Unfinanced Capital Expenditure</b>	<b>26.028</b>	<b>64.382</b>	<b>22.581</b>

#### **4.7 The Council's Overall Borrowing Need**

4.7.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.7.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

4.7.3 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet

capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.7.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

4.7.5 The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 25 January 2022.

4.7.6 The Council's CFR for the year is shown below and represents a key prudential indicator. The CFR must include finance leases on the balance sheet, which increase the Council's borrowing need. No external borrowing is required against these schemes as a borrowing facility is included within the contract. The Council's investment in Croxley Business Park is a finance lease.

Capital Financing Requirement	2021/22	2022/23	2022/23
	Actual	Original Budget	Actual
	£m	£m	£m
Opening CFR relating to Capital programme	56.434	98.970	81.632
Add unfinanced Capital Expenditure (as above)	26.028	65.632	22.581
Less MRP	(0.830)	(0.179)	(1.243)
Less repayment of capital loans	0.000	(2.000)	(17.937)
<b>Closing CFR relating to Capital programme</b>	<b>81.632</b>	<b>162.423</b>	<b>85.033</b>
Opening CFR relating to Finance Lease	232.942	228.994	228.994
MRP on Finance Lease	(3.948)	(3.948)	(3.948)
<b>Closing CFR relating to Finance Lease</b>	<b>228.994</b>	<b>225.046</b>	<b>225.046</b>
<b>Total Opening CFR</b>	<b>289.376</b>	<b>327.964</b>	<b>310.626</b>
<b>Total Closing CFR</b>	<b>310.626</b>	<b>387.469</b>	<b>310.079</b>
Movement in the CFR	21.250	59.505	(0.547)

Note 1: The CFR may be subject to revision following the completion of the 2020/21 and 2021/22 audits.

Note 2: The CFR in relation to Croxley Park is not equal to the finance lease liability held on the Council's balance sheet as the Council has opted to charge MRP over the useful economic life of the asset (60 years) rather than the length of the lease (40 years).

## 4.8 Limits to Borrowing Activity

4.8.1 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

4.8.2 in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2021/22 Actual £m	2022/23 Original Budget £m	2022/23 Actual £m
Gross borrowing position	277.994	334.626	305.046
CFR	310.626	387.469	310.079
Under funding of CFR (internal borrowing)	32.632	52.843	5.033

4.8.3 The **authorised limit** is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

4.8.4 The **operational boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.8.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

2022/23	Capital Investment	Finance Lease	Total
Authorised limit	£170.000m	£231.000m	£401.000m
Maximum gross borrowing position during the year	£80.000m	£228.994m	£308.994m
Operational boundary	£165.000m	£226.000m	£391.000m
Average gross borrowing position	£62.081m	£227.020m	£289.101m
Financing costs as a proportion of net revenue stream (net income)	-4.66%	-12.53%	-17.20%

4.8.6 External borrowing is well below the operational boundary for external debt predominantly due to re-phasing of the capital programme during the year. The difference between the CFR and external borrowing is met by internal borrowing. This is the use of cash balances (arising from working capital, earmarked reserves and general balances) to finance the expenditure on a short term basis.

#### 4.9 Treasury Position as at 31 March 2023

4.9.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's treasury position (excluding borrowing by finance leases and non treasury investments) was as follows:

Debt Portfolio	31.3.22 Principal	Rate/ Return	Average Life years	31.3.23 Principal	Rate/ Return	Average Life years
Fixed rate financing:						
PWLB	-	-	-	£15.000m	4.02%	0.45
Local Authorities	£49.000m	0.38%	0.65	£65.000m	2.26%	3.76
<b>Total debt</b>	<b>£49.000m</b>	<b>0.38%</b>	<b>0.65</b>	<b>£80.000m</b>	<b>2.59%</b>	<b>1.23</b>
<b>CFR</b>	<b>£81.632m</b>			<b>£85.033m</b>		
<b>Over / (under) borrowing</b>	<b>£32.632m</b>			<b>£5.033m</b>		
<b>Total investments</b>	<b>£144.773m</b>			<b>£110.454m</b>		
<b>Net debt / (Investments)</b>	<b>(£95.773m)</b>			<b>(£30.454m)</b>		

The maturity structure of the debt portfolio was as follows:

	31.3.22 Actual £m	2022/23 original upper limits %	31.3.23 Actual £m	31.3.23 Actual %
Under 12 months	44.000	100.0%	65.000	81.2%
12 months and within 24 months	5.000	100.0%	-	0.0%
24 months and within 5 years	-	100.0%	7.500	9.4%
5 years and within 10 years	-	50.0%	7.500	9.4%

Investment Portfolio	31.3.22	31.3.22	31.3.23	31.3.23
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	Actual £m	Actual %	Actual £m	Actual %
<b>Treasury investments</b>				
Banks	6.048	4.18%	3.934	3.56%
Local and Police authorities	0.000	0.00%	9.000	8.15%
DMADF (H M Treasury)	40.500	27.97%	13.500	12.22%
<b>Total managed in house</b>	<b>46.548</b>	<b>32.15%</b>	<b>26.434</b>	<b>23.93%</b>
Short Term Fixed Income	2.996	2.07%	7.612	6.89%
Diversified Fund	90.115	62.25%	30.758	27.85%
Managed Growth	5.114	3.53%	45.650	41.33%
<b>Total managed externally</b>	<b>98.225</b>	<b>67.85%</b>	<b>84.020</b>	<b>76.07%</b>
<b>Total Treasury Investments</b>	<b>144.773</b>	<b>100.00%</b>	<b>110.454</b>	<b>100.00%</b>
<b>Non-Treasury investments</b>				
Loans to Joint Ventures	33.952	93.40%	27.079	91.91%
Other Long Term Loans	2.375	6.50%	2.362	8.02%
Municipal Bonds Agency	0.020	0.10%	0.020	0.07%
<b>Total Non-Treasury Investments</b>	<b>36.347</b>	<b>100.00%</b>	<b>29.461</b>	<b>100.00%</b>
<b>Treasury investments</b>	<b>144.773</b>	<b>79.93%</b>	<b>110.454</b>	<b>78.94%</b>
<b>Non-Treasury investments</b>	<b>26.097</b>	<b>20.07%</b>	<b>29.461</b>	<b>21.06%</b>
<b>Total of All Investments</b>	<b>170.870</b>	<b>100.00%</b>	<b>139.915</b>	<b>100.00%</b>

The maturity structure of the treasury investment portfolio was as follows:

	31.3.22 Actual £m	2022/23 Maximum £m	31.3.23 Actual £m
Longer than 1 year	95.229	125.000	76.408
Up to 1 year	49.544	n/a	34.046
<b>Total</b>	<b>144.773</b>		<b>110.454</b>

*Note: The Diversified Fund and Managed Growth Fund are treated as short term investments for accounting purposes but regarded as long term investments for treasury management purposes as these investments are intended to be held over a period in excess of one year.*

- 4.9.2 The Council also has commercial investments in property which are governed by the Investment Guidance issued by the Department for Levelling Up, Housing and Communities. The performance of the Property Investment Portfolio is overseen by the Property Investment Board and is monitored by the Council's Finance Scrutiny Committee. As such, it is not included in this report.

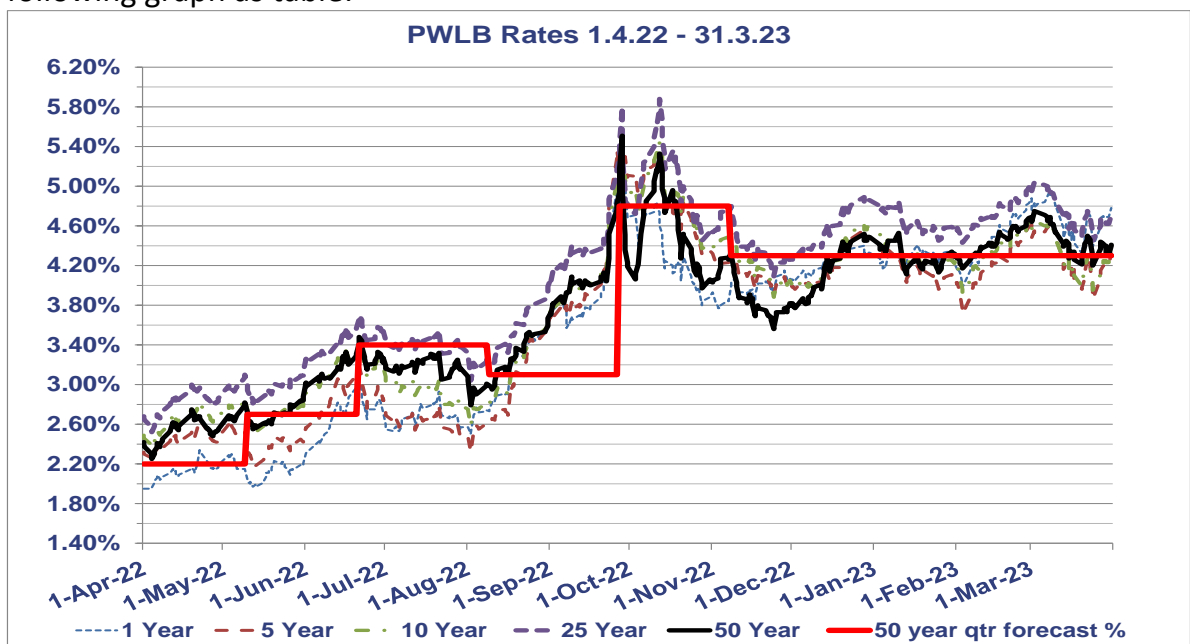
#### 4.10 The Strategy for 2022/23 – Borrowing

4.10.1 When the Capital Strategy and Treasury Management Policy was set in January 2022, interest rate forecasts indicated gradual increases in short, medium and longer-term fixed borrowing rates during 2022/23 with considerable savings to be made by borrowing at the short end of the market.

4.10.2 The forecast provided by Link Group in December 2021 is shown in the following table:

Link Group Interest Rate View		20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00	
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10	
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20	
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00	
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30	
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50	
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30	

4.10.3 This contrasts sharply with actual PWLB rates during the year as shown in the following graph as table:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

- 4.10.4 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.
- 4.10.5 A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<3 years) as appropriate.
- 4.10.6 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when it may not be possible to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 4.10.7 Against this background and the risks within the economic forecast, the Council undertook longer term borrowing from the PWLB during the year to reduce the exposure to future interest rate and refinancing risk.

#### 4.11 Borrowing Activity

- 4.11.1 During the year loans were drawn to fund the net unfinanced capital expenditure (£31.000m) and naturally maturing debt (£39.000m). The loans drawn were:

Lender	Principal	Type	Weighted Average Interest Rate	Weighted Average Maturity
PWLB	£15.000m	Fixed interest rate	4.02%	3.76 years
Local Authorities	£55.000m	Fixed interest rate	2.63%	0.44 years

- 4.11.2 The Council's total debt at 31 March 2023 was £80.000m. The Weighted Average Maturity (WAM) of the total debt portfolio is 447 days (237 days at 31 March 2022).

- 4.11.3 The weighted average interest rate payable on loans outstanding at 31 March 2023 was 2.59% compared to 0.40% on loans maturing in year. This reflects both the changing interest rate environment and the increase in WAM.
- 4.11.4 Total interest payable for the year was £0.806m. The latest budget for 2022/23 set by Council in January 2023 included an increase of £0.150m for expected pressures on borrowing costs. Higher than expected cash balances led to a delay in the timing of refinancing borrowing and increased interest receivable over the last three months of the year leading to a net underspend of £0.211m against the revised budget.
- 4.11.5 The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

#### **4.12 The Strategy for 2022/23 – Investments**

- 4.12.1 In accordance with the CIPFA Prudential Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 4.12.2 During the year, investment returns increased as central banks attempted to address persistent high inflation with tighter monetary policy, recognising that the inflationary increases seen at the end of 2021/22 were not transitory and had not peaked. The Bank of England base rate was 0.75% on 1 April and moved up in stepped increases of either 0.25% or 0.5% throughout 2022/23, reaching 4.25% by the end of the financial year.
- 4.12.3 This has led to a rebalancing of the investment landscape with short term cash deposits and other Specified Investments (investments of less than a year in duration) becoming an attractive asset class when compared to bonds, equity, and property.
- 4.12.4 This has placed greater emphasis on proactive cashflow management and forecasting, as, for the first time in over a decade, cash balances (even relatively low values held for daily liquidity) are able to generate a significant contribution to the revenue budget through interest received.

#### **4.13 Investment Activity**

- 4.13.1 The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 25 January 2022.
- 4.13.2 This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies,

supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

4.13.3 Credit rating information is supplied by our treasury consultants, Link Group, on all counterparties that comply with the Council’s criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

4.13.4 There were no changes to the Council’s counter party list during the year.

4.13.5 The policy also set out the following liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft of £nil.
- Liquid short term deposits of at least £1.000m available with a week’s notice.

4.13.6 The liquidity arrangements were adequate during the year.

4.13.7 The investment activity during the year conformed to the approved strategy with one exception:

- A technical breach of the approved counterparty limit with the Council’s own bank, Lloyds Bank Plc for a period of one night in December following the repayment of a loan from Hart Homes (Watford) Development LLP after the daily dealing had been completed. Officers were not notified by Watford Community Housing that the monies would be repaid until after the transaction had been processed.

4.13.8 The Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31.3.22 £m	31.3.23 £m
General Balances	2.000	2.000
Earmarked reserves	36.660	31.129
Provisions	10.058	16.854
Usable capital receipts	0.642	9.593
<b>Total</b>	<b>49.360</b>	<b>59.576</b>

*Note: Values are taken from the unaudited 2022/23 draft Statement of Accounts and maybe subject to change following the conclusion of the external audit.*

4.13.9 Investments held by the Council:

- The Council maintained an average balance of £21.468m of internally managed funds.

- The internally managed funds earned an average rate of return of 2.52%.
- The comparable performance indicator is the average 7 day Sterling Overnight Index Average (SONIA) rate, which was 2.23%.
- Total investment income from internally managed funds was £0.509m.
- Interest on loans to the Council's joint ventures was £1.678m

4.13.10 The Council keeps all internally managed treasury investments short term. There are no sums invested for greater than 364 days.

4.13.11 Investments held by fund managers:

The Council uses three funds managed by Royal London Asset Management (RLAM) to invest its cash balances in relation to the Croxley Business Park Reserves. The performance of the managers against the benchmark return was:

<b>Fund</b>	<b>Investments Held at 31 March 2023</b>	<b>Annualised Return*</b>	<b>Annualised Benchmark</b>
Short Term Fixed Income	£7.612m	2.13%	2.26%
Sustainable Diversified (Equity)	£30.758m	-6.07%	-5.07%
Sustainable Managed Growth (Fixed Income)	£45.650m	-8.38%	5.97%
<b>Total</b>	<b>£84.020m</b>	<b>-6.60%</b>	<b>-4.90%</b>

\*Annualised return is shown net of fees

4.13.12 These investments are held with a long-term view and performance is assessed over medium term horizon of three to five years.

## 5.0 Implications

### 5.1 Financial

5.1.1 The Shared Director of Finance comments that this report provides formal assurance on the Council's compliance with its Treasury Management Strategy during the year. The Shared Director of Finance also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached. The financial implications are set out in the main body of the report and the impact of interest rates on investment income and borrowing costs have been reported through the financial monitoring report during the year.

## 5.2 **Legal Issues** (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that there are no legal implications arising from this report.

## 5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

Having had regard to the council's obligations under s149, it is considered that there are no equalities or human rights implications.

## 5.4 **Staffing**

5.4.1 There are no staffing implications arising from this report.

## 5.5 **Accommodation**

5.5.1 There are no accommodation implications arising from this report.

## 5.6 **Community Safety/Crime and Disorder**

5.6.1 There are no community safety/crime and disorder implications arising from this report.

## 5.7 **Sustainability**

5.7.1 There are no sustainability implications arising from this report.

## **Appendices**

Appendix 1 – Economic Commentary (provided by Link Group)

Appendix 2 - Commentary on Gilt Yields and PWLB Borrowing Rates (Provided by Link Group)

## **Background papers**

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

- Capital Strategy and Treasury Management Strategy 2022/23 (published as part of the 2022/23 Budget)