

## Audit Committee – 28 July 2023

<b>Title of paper:</b>	Annual Investment Strategy 2023/24 revision	
<b>Director(s)/ Corporate Director(s):</b>	Ross Brown, Corporate Director of Finance and Resources and Section 151 Officer	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Antony Huggett, Interim Senior Accountant – Treasury Management	
<b>Other colleagues who have provided input:</b>	Shabana Kausar, Director of Finance Jean Stevenson, Interim Finance Team Leader – Technical Finance	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Recommendation(s):</b>		
<b>1.</b>	To consider revisions to the Annual Investment Strategy for 2023/24, attached as Appendix 1, and, in particular: <ul style="list-style-type: none"> <li>a. the increase to counterparty limits;</li> <li>b. other technical changes.</li> </ul>	

### 1. Reasons for recommendations

- 1.1 The Audit Committee holds the responsibility for providing the effective scrutiny of treasury management policies and practices. The approval of a Treasury Management Strategy by Full Council is a legal requirement. The Annual Investment Strategy is incorporated into the Treasury Management Strategy and therefore also requires Full Council approval. This report sets out the proposed revisions to the Annual Investment Strategy for 2023/24.
- 1.2 The Annual Investment Strategy includes details on how the Council will invest its cash balances across different counterparties and financial instruments.
- 1.3 Approval of an Annual Investment Strategy is a legal requirement, to comply with:
  - Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year incorporating an Annual Investment Strategy.
  - guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April and any subsequent revisions to it.
- 1.4 The Treasury Management Code of Practice and Prudential Code (2021 editions) are both adopted by the Council. There is a requirement for authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity, policies and practices. It is considered that the City Council's Audit Committee is the most appropriate body for this function.
- 1.5 The Annual Investment Strategy was based on the TMS projections for investment balances of between £100m to £200m in 2023/24. At 31 March 2023 investment balances were £308m and they are expected to be in the range £300m to £400m in 2023/24. Therefore, in order for the Council to continue to invest with high quality

counterparties paying the most competitive investment rates, the following changes are recommended:

CounterParty Limits	Current	Revised
	£m	£m
Banks and other institutions	20	30
Money Market Funds	30	40
Country	40	60

- 1.6 The AIS also clarifies that for UK banks split into ring-fenced and non-ring fenced banks then each entity will be treated separately for determining counterparty limits. This recognises that each entity is separately capitalised without recourse to each other unlike previously.
- 1.7 There is also a change to the interest earned by the HRA on its share of cash balances which will now be the average interest rate earned for the year on the Council's investments instead of the 3 month Treasury bill rate. This has the effect of HRA and General Fund balances benefitting from the actual investment returns achieved by the Council.
- 1.8 The Treasury Panel reviewed these changes on 14 June 2023 and they have also been reviewed the Council's treasury adviser Link Group.

## 2. Background

- 2.1 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.
- 2.2 The Annual Investment Strategy (AIS) as set out in **Appendix 1** sets the operational and strategic parameters for how treasury management activity will take place in the year.
- 2.3 The Treasury Management budget for 2023/24 includes a budget of £4.1m for investment income which is a product of the application of the AIS.
- 2.4 Treasury management and capital functions are governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the requirements of these codes (as updated in 2021) as part of its Treasury Management Policy Statement.
- 2.5 The Treasury Management Strategy (TMS) 2023/24 was approved by Full Council on 6 March 2023 and revisions to it will be considered for approval by Full Council on 13 November 2023.

## 3. Background papers other than published works or those disclosing exempt or confidential information

- 3.1 None

## 4. Published documents referred to in compiling this report

- Treasury Management in the Public Services Code of Practice 2021–CIPFA
- Prudential Code 2021-CIPFA
- Treasury Management in the Public Services Guidance Notes 2021 - CIPFA
- Statutory guidance on local government investments 3rd Edition 2018
- Treasury Management Strategy 2023/24 Full Council 6 March 2023