

ANNUAL TREASURY MANAGEMENT REPORT 2022-23

Purpose

- 1 To present the Annual Treasury Management Report for the previous financial year to the WLGA Audit Committee.

Background

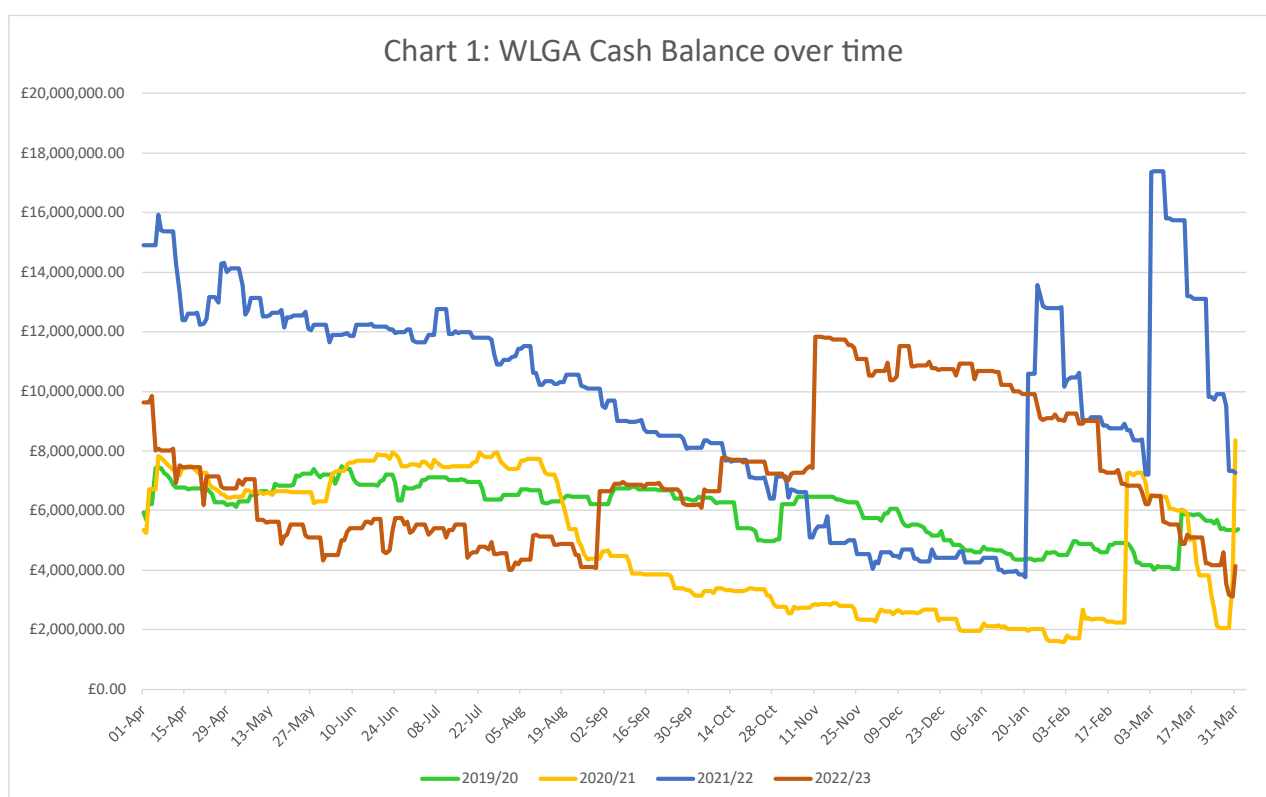
- 2 The Audit Committee received and approved the WLGA's updated Treasury Management Policy Statement at its inaugural meeting on 5th October 2017. As there are no changes to the policy the only minimum reporting requirement remains:
 - an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year; and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.
- 3 It should be noted that the WLGA does not undertake any borrowing, so the treasury management function is concerned only with managing any cash balances.
- 4 As set out in the Treasury Management Policy Statement, the primary objective of the WLGA's treasury management activities is the security of the principal sums available for investment.

Economic Background

- 5 2022-23 saw the UK economy battle with a series of challenges including Russia's illegal war on Ukraine and the cost-of-living crisis caused by spiralling inflation and rising interest rates. Gross Domestic Product (GDP) grew by 4.3% in 2022 compared with 2.1% in 2021. The Consumer Prices Index 12-month rate to March 2023 was 10.1% showing an increase of 2.3% over the last 12 months from an already high base.
- 6 The Bank of England's Monetary Policy Committee increased the base rate to 0.75% at 16th of March 2022 and continued to increase the rate throughout the year to attempt to combat spiralling inflation, reaching 4.25% on 22nd March 2023. When raising the interest rate to 5.25% in August 2023, the Bank of England forecast that interest rates would remain high (though not in a historical sense) for at least the next 2 years.

Cash Flow Patterns and Investment Strategy 2022-23

- 7 Day to day cash flows are managed by Data Cymru on behalf of the WLGA. The WLGA operates 2 bank accounts with HSBC Bank plc, a business current account, through which all transactions flow, where the balance is maintained at around £1,000 and a Business Money Manager account where the cash balances are held. As recommended by an internal audit health check the WLGA also hold a significant balance (£4.0 Million) in the CCLA's Public Sector Deposit Fund^[1]
- 8 The daily cash HSBC balances for the last four full financial years are shown in Chart 1 below. This shows that there is an annual pattern where cash balances peak in the first quarter of each financial year, as the WLGA received its income for subscriptions and year-end grant claims for the previous financial year. As the financial year progresses, regular expenditure then depletes those cash balances until around March when grants start to flow in.



Investment Performance 2022-23

- 9 The WLGA's bank accounts received interest of £84,859.56 for the period from 1st April 2022 to 31st March 2023 due to interest rates picking up significantly during the year, this is a significant rise on the less than £3,000 earned the year before.

Diversifying cash holdings with other providers

- 10 In previous years the Audit Committee has received reports recommending that the WLGA should consider dividing its cash balances across at least 1 other provider.

^[1] [Home](#) | [CCLA](#)

- 11 Looking at the options available with low interest rates across the board it was decided to invest in the CCLA's public sector deposit fund that has £1.05bn already invested, the fund is aimed at local authorities and public sector investors seeking a high level of capital security and a competitive rate of interest for their short-term investments. We can get almost instant access to our funds but with triple A rated security and market leading interest rates.
- 12 The fund is invested in a diversified portfolio of high-quality sterling denominated deposits and securities. All investments purchased have the highest available short-term credit rating and a correspondingly strong long-term rating.
- 13 We currently hold £4m with CCLA which was the maximum amount agreed by the Audit Committee that we could hold without compromising the Association's cashflow position.
- 14 At the time of writing, the interest paid on the HSBC Business Money Manager Account is 2%, whilst the CCLA Public Sector Deposit Fund is earning 5.11%.
- 15 Members are asked to consider increasing the maximum level of holdings in the CCLA Public Sector Deposit Fund up to £10million in order to achieve maximised investment income. Should Audit Committee approve this level, the Director of Resources will be in a position to instruct Finance staff to transfer monies accordingly throughout the year with the prior approval and agreement of SMT so there is continued monitoring of the levels invested.
- 16 Should Members wish to see WLGA investments diversified, we can investigate opening a 'Money Market' Interest Account with HSBC which also earns a little more than our standard deposit account now interest rates are beginning to rise. This would pose no further risk but just needs to be managed slightly more to maximise interest potential. However, it should be noted that it is unlikely to achieve the levels of performance of the CCLA account.

Recommendations

- 17 That the Audit Committee receives the Annual Treasury Management report for the WLGA for 2022-23.**
- 18 That the Audit Committee discusses and reaches a decision on the recommended maximum level (£10million) to be held in the CCLA Public Sector Deposit Fund.**
- 19 That the Audit Committee expresses a view on whether to investigate the HSBC Money Market Interest Account further.**

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