Cabinet

Report of Head of Finance

Author: Emma Creed

Telephone: 07598 546182

Textphone: 18001 07598 546182

E-mail: emma.creed@southandvale.gov.uk

Cabinet member responsible: Andy Crawford

Tel: 07427 880274

E-mail: andy.crawford@whitehorsedc.gov.uk

To: Cabinet

DATE: 18 October 2024

Treasury Outturn 2023/24

Recommendations

That Cabinet:

(a) notes the treasury management outturn report 2023/24,

(b) is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and

recommends Council to

(c) approve the treasury management outturn report 2023/24; and

(d) approve the actual 2023/24 prudential indicators within the report

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes
Signing off officer	Anna Winship	Pat Connell	Chloe Bunting	Lorne Grove

Purpose of Report

1. This report, written as at 31 March 2024, fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities and that the councils' prudential indicators are reported to the councils at the end of the year. The report provides details of the treasury activities for the financial year 2023/24.

2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management.

Strategic Objectives

3. Effective treasury management is required to help the councils meet their strategic objectives.

Background

4. The councils' treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice require a report to be provided to the councils at the end of the financial year.

5. This report provides details on the treasury activity and performance for 2023/24 against prudential indicators and benchmarks set for the year in the 2023/24 Treasury Management Strategy (TMS), approved by each council in February 2023. Each council is required to approve this report.

6. Link Asset Services are the councils' retained treasury advisors.

7. There are three types of investment, the performance of which is covered in this report

    a. True treasury investments – these are investments for the management of temporary cashflow balances. These include loans to other local authorities or approved financial institutions. It also includes longer term investments in externally managed pooled funds such as CCLA Property Fund.

    b. Non-treasury loans – these are loans to third parties, which earn a return, but they do not fall under the strict definition of a treasury investment.

    c. Direct property investments – both councils have investment properties let on commercial basis. The primary purpose of holding these assets is for investment purposes and they are not part of regeneration schemes.

8. The councils continue to invest with regard for security, liquidity and yield, in that order.

Economic conditions and factors effecting investment returns during 2023/24

9. At the start of the financial year UK Bank Base Rate was 4.25 per cent. Bank Rate moved up in stepped increases of 0.25 or 0.50 per cent, reaching 5.25 per cent by August 2023. It remained at this level until the end of the financial year.

10. The expectation in the treasury management strategy for 2023/24 was that Bank Rate would increase to 4.50 per cent during the year, before reducing to 4 per cent in March 2024. However, it increased to 5.25 per cent. The Bank of England signalled in March 2024 that the next move in Bank Rate would be down as inflation was moving down significantly from its 40-year double digit highs.

11. The increases in Base Rate allowed both councils to place deposits at above budgeted interest rates and generate investment returns above the budget forecasts. However, existing longer-term deposits placed prior to the start of the financial year pulled the average portfolio return down below the market rate benchmark.

12. Link Asset Services provide a regular forecast of interest rates, the latest is reproduced in **appendix A**. The forecast made on 28 May 2024 sets out a view that interest rates will begin to be cut in the near term as inflation decreases back down to the Bank of England's target of two per cent.

13. This forecast shows that Base Rate is expected to fall to five per cent by September 2024 and continue to fall until it reaches three per cent by September 2026.

14. The Treasury Management Strategy makes clear that investment priority is given to the security of principal in the first instance. As a result, investments have only been made with counterparties of high credit quality and relatively low risk.

Summary of investment activities during 2023/24

15. Both councils are required by the Prudential Code to report on the limits set each year in the TMS. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive, they may impair the opportunities to reduce costs/improve performance. These limits are shown in **appendix B**.

16. The performance of the two councils is summarised in the tables below.

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	172,224	15,000	187,224	8,265	195,488
2	Budgeted investment income	4,614	623	5,237		
3	Actual investment income	8,113	623	8,737	395	9,132
4	surplus/(deficit) (3) - (2)	3,499	0	3,499		
5	Rate of return (3) ÷ (1)	4.71%	4.15%	4.67%	4.79%	4.67%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	160,217	4,839	165,056
2	Budgeted investment income	3,943		
3	Actual investment income	6,792	154	6,945
4	surplus/(deficit) (3) - (2)	2,848		
5	Rate of return (3) ÷ (1)	4.24%	3.18%	4.21%

17. Both South and Vale exceeded treasury budgeted investment income this year in terms of actual income against.

18. Detailed reports on the treasury activities for each council and performance for 2023/24 against prudential indicators and benchmarks set for the year are contained in **appendix C** – South and **appendix D** – Vale.

19. A detailed list of both councils' treasury investments as at 31 March 2024 is shown in **appendix E**.

Debt activity during 2023/24

20. During 2023/24, there has not been a need for either council to borrow and both councils continue to take a prudent approach to their debt strategy. The prudential indicators and limits set out in appendix B provide the scope and flexibility for the council to borrow in the short-term if such a need arose for cash flow purposes to support the councils in the achievement of their service objectives.

Financial Implications

21. The treasury investments arranged in 2023/24 generated £8.1 million of investment income for South and £6.7 million for Vale. Income earned from investments supports the councils' medium term financial plans and contributes to the councils' balances or supports the in-year expenditure programmes.

Legal Implications

22. There are no significant legal implications. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the DLUHC Local Government Investment Guidance provides assurance that the councils' investments are, and will continue to be, within their legal powers.

Climate and ecological impact implications

23. To comply with the treasury management professional guidance, the Council's investments must prioritise security, liquidity and yield in that order. Environmental, Social and Governance (ESG) factors represent a fourth consideration in the decision-making process and whilst this is something that the councils are exploring it is in the context of the need to comply with the priorities outlined in the guidance.

24. The councils had no direct investments during the financial year with companies engaged in environmentally harmful activities. The councils' externally managed

pooled investment fund managers are founding members of the Net Zero Asset Managers Initiative.

Equalities implications

25. This report is for information only and therefore there are no equalities implications.

Risks

26. During the financial year, the councils operated within the treasury limits and Prudential Indicators set out in their Treasury Management Strategies approved by Council in February 2023.

Conclusion

27. Despite a turbulent operating environment, both councils continued to make investments during 2023/24 that maintained security and liquidity and took advantage of the increases in interest rates in line with the parameters of their respective treasury management strategies.

Background Papers

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DLUHC Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2023/24 – Councils in February 2023.

Appendices

A. Interest rate forecasts
B. Prudential indicators
D. Vale – treasury activities 2023/24
E. Treasury investments as at 31 March 2024
F. Glossary of terms

Appendix A

Link Group interest rate forecasts

Link Group Interest Rate View	28.05.24							
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20

Appendix B

Prudential limits (indicators) as at March 2024

Prudential indicators as at 31 March 2024				
	Vale		South	
	Original estimate £m	Actual position £m	Original estimate £m	Actual position £m
Authorised limit for external debt				
Borrowing	30	0	30	0
Other long-term liabilities	5	0	5	0
	35	0	**35**	**0**
Operational boundary for external debt				
Borrowing	25	0	25	0
Other long-term liabilities	5	0	5	0
	30	**0**	**30**	**0**
Investments				
Interest rate exposures				
Limits on fixed interest rates %	100%	96%	100%	87%
Limits on variable interest rates £k	100%	4%	100%	13%
Maximum principal sums invested > 364 days				
Upper limit for principal sums invested > 364 days £k	50	21	50	18
Limit to be placed on investments to maturity				
1 - 2 years	NA	NA	NA	NA
2 - 5 years	NA	NA	NA	NA
5 years +	NA	NA	NA	NA

Prudential indicators – explanatory note

Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case, scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short-term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

Interest rate exposures

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

Investments

Interest rate exposure

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

Principal sums invested

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Appendix D

VWHDC detailed treasury performance in 2023/24

Council treasury investments as at 31 March 2024

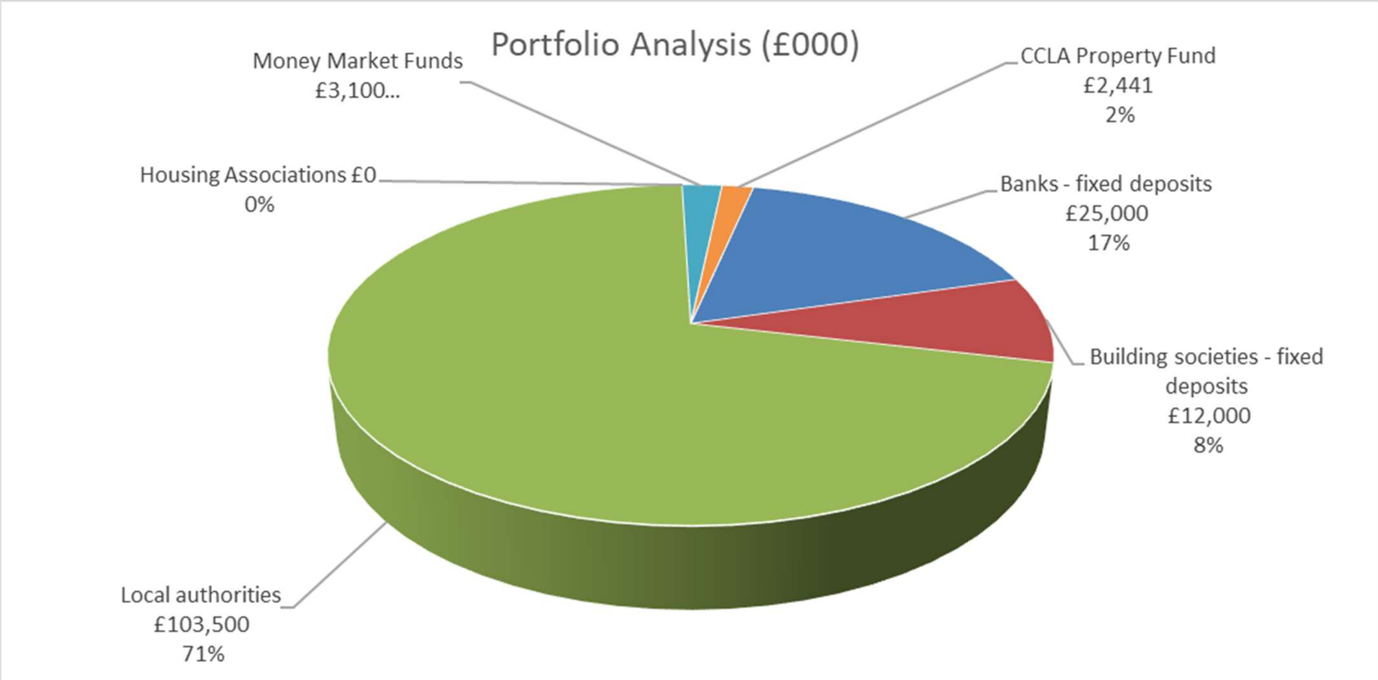
1. The council's treasury investments analysed by age as at 31 March 2024 were as follows:

Table 1: maturity structure of investments at 31 March 2024:	**£000**	**% holding**
Money market fund	3,100	2%
Cash available within 1 week	**3,100**	**2%**
Up to 3 months	36,000	25%
4-6 months	46,500	32%
6 months to 1 year	40,000	27%
Over 1 year	18,000	12%
Total cash deposits	**143,600**	98%
CCLA Property Fund	2,441	2%
Total investments	**146,041**	**100%**

2. The majority of the funds invested were held in the form of fixed interest rate and term cash deposits. These provide some certainty over the investment return.

3. The investment profile is organised to ensure sufficient liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities.

4. The chart below shows in percentage terms how the portfolio above is spread across investment types:



Treasury investment income

5. The total interest earned on treasury investments during 2023/24 was £6.79 million compared to the original budget estimate of £3.94 million as shown in table 2 below:

Table 2: Investment interest earned by investment type			
Investment type	**Annual Budget £000**	**Actual Interest £000**	**Variation £000**
Fixed term and call	3,878	6,664	2,785
CCLA Property Fund	65	128	63
Total Interest	**3,943**	**6,792**	**2,848**

6. The actual rate of return achieved was £2.8 million higher than the original budget. This was primarily due to UK interest rates rising to a higher level than anticipated when the budget was set.

7. The actual average rate of return on internally managed treasury deposits for the year was 4.22 per cent (1.54 per cent in 2022/23).

Performance measurement

8. A list of treasury investments as at 31 March 2024 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £160 million. Table 3 below shows in summary the performance of the council's treasury investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to

assess and monitor the council's treasury investment performance for each type of investment.

The £160 million does not represent the council's usable cash backed reserves, which at 31 March 2024 totalled £57 million including capital grants received in advance of spend. The difference represents the council's working capital balance and timing of cashflows.

Table 3: Treasury investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	5.12%	4.22%	-0.90%	3 Month SONIA
Property related funds (CCLA)*	(1.29%)	1.07%	2.36%	IPD balanced property unit trust index
* Returns include income and capital growth				

9. Daily cashflow balances are managed in-house with the portfolio of fixed-term deposits, call accounts and money market fund balances benchmarked against the three-month SONIA rate, which was an average of 5.12 per cent for 2023/24. The performance for the year of 4.22 per cent was below the benchmark by 0.90 per cent as existing deposits prior to the rise in market rates brought down the average portfolio returns.

10. The CCLA property fund initial principal investment of £2 million (April 2013) decreased in value during 2023/24 from £2.54 million to £2.44 million. Dividends received in the year totalled £0.13 million. Both the fall in capital value and the interest earned are included in the performance of -3.9 per cent achieved above. The capital loss is however not realised and so for comparison purposes, the actual rate of return of income received during the year is 5.12 per cent.

Land and Property

11. The council holds a portfolio of investment properties, which includes land, offices and shops that are let on a commercial basis. These assets are valued on an annual basis and had an average net book value of £4.8 million during 2023/24 (£5.1 million as at 31 March 2023). Income generated was £0.15 million (£0.24 million in 2022/23). This is equivalent to a gross return of 3.18 per cent.

12. Due to movement in property values and the exclusion of whole life costs, these rates of return should not be taken as a direct comparison with other classes of investment.

Liquidity and yield

13. The council uses short-term investments to meet daily cash-flow requirements and also aims to invest a proportion of the portfolio in longer-term instruments where possible.

14. The average daily balance held in short-term notice accounts during 2023/24 was £18.9 million.

Appendix E

Vale of White Horse District Council investments at 31 March 2024

Counterparty	Deposit Type	Maturity Date	Principal	Rate
LB Barking & Dagenham	Fixed	14-Apr-25	5,000,000	variable
Suffolk County Council	Fixed	31-Oct-25	5,000,000	5.45%
Gravesham Borough Council	Fixed	17-May-27	3,000,000	variable
Walsall Metropolitan Borough Council	Fixed	28-Feb-29	5,000,000	4.40%
Central Bedfordshire Council	Fixed	09-Apr-24	5,000,000	6.75%
Close Brothers Ltd	Fixed	16-Apr-24	5,000,000	5.00%
Gravesham Borough Council	Fixed	24-Apr-24	3,000,000	0.30%
Blackpool Borough Council	Fixed	11-Jun-24	5,000,000	6.50%
Rotherham MBC	Fixed	25-Jun-24	5,000,000	variable
Moray Council	Fixed	26-Apr-24	5,000,000	4.50%
London Borough of Haringey	Fixed	26-Jun-24	5,000,000	5.75%
Newcastle Building Society	Fixed	27-Jun-24	3,000,000	5.25%
Rushmoor Borough Council	Fixed	01-Jul-24	5,000,000	4.70%
Rushmoor Borough Council	Fixed	30-Jul-24	2,500,000	5.85%
LB Barking & Dagenham	Fixed	30-Jul-24	5,000,000	5.50%
Blackpool Borough Council	Fixed	05-Aug-24	5,000,000	5.60%
Lloyds Bank Corporate Markets (NRFB)	Fixed	13-Aug-24	5,000,000	6.17%
Nottingham Building Society	Fixed	14-Aug-24	3,000,000	6.00%
Merthyr Tydfil CBC	Fixed	14-Aug-24	5,000,000	6.00%
Goldman Sachs International Bank	Fixed	21-Aug-24	5,000,000	6.32%
National Counties Building Society	Fixed	05-Sep-24	3,000,000	6.00%
Nottingham Building Society	Fixed	05-Sep-24	3,000,000	5.95%
Manchester City Council	Fixed	25-Sep-24	5,000,000	5.70%
Wrexham County Borough Council	Fixed	02-Oct-24	5,000,000	5.60%
Standard Chartered	Fixed	09-Oct-24	5,000,000	5.81%
Worcestershire County Council	Fixed	28-Oct-24	5,000,000	5.75%
Aberdeen City Council	Fixed	13-Nov-24	5,000,000	5.60%
Goldman Sachs International Bank	Fixed	19-Dec-24	5,000,000	5.29%
Aberdeen City Council	Fixed	09-Jan-25	5,000,000	5.60%
North Ayrshire Council	Fixed	29-Jan-25	5,000,000	5.65%
Kirklees Metropolitan Council	Fixed	18-Mar-25	5,000,000	0.80%
Goldman Sachs	MMF		1,100,000	variable
LGIM	MMF		2,000,000	variable
CCLA	Property fund		2,440,974	
GRAND TOTAL			**146,040,974**	

Appendix F

GLOSSARY OF TERMS

Basis point (BP)	1/100th of 1%, i.e. 0.01%
Base rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
[Cash] Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)

Credit Default Swap (CDS)	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
Capital Financing Requirement (CFR)	The amount the council has to borrow to fund its capital commitments.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	[Department for] Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
Debt Management Account Deposit Facility (DMADF)	Deposit Account offered by the Debt Management Office, guaranteed by the UK government
European Central Bank (ECB)	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
European and Monetary Union (EMU)	The Economic and Monetary Union (EMU) is an umbrella term for the group of policies aimed at converging the economies of all member states of the European Union.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital appreciation. Equity values can decrease as well as increase.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.

GDP	Gross Domestic Product.
[UK] Gilt	Registered UK government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
LIBID	London inter-bank bid rate (phased out in December 2021)
LIBOR	London inter-bank offered rate (phased out in December 2021)
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
SONIA	Sterling Overnight Index Average (SONIA) is the effective interest rate paid by banks for unsecured transactions in the UK sterling market. The rate is published by the Bank of England.
Sovereign Issues (excl UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.

Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.