

# Joint Audit and Governance Committee



Report of Head of Finance

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To: Joint Audit and Governance Committee

DATE: 15 October 2024

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## Treasury Outturn 2023/24

### Recommendations

That Joint Audit and Governance Committee:

- (a) notes the treasury management outturn report 2023/24,
- (b) considers whether it is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and
- (c) make any comments and recommendations to Cabinets as necessary.

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes
<b>Signing off officer</b>	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
- C. South – treasury activities 2023/24
- D. Vale – treasury activities 2023/24
- E. Treasury investments as at 31 March 2024
- F. Glossary of terms