



Treasury Management and Investment Sub-Committee

16th July 2024

Treasury Management Outturn Report 2023/24

Report by:

ACCOUNTANCY SERVICES MANAGER (Section 151 officer)

Officer Contact:

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Purpose

Under statute and the CIPFA Code of Practice on Treasury Management (“the Code”), Members are required to receive a report on the Treasury Management activities that took place in 2023/24.

Recommendations

Recommend the Treasury Management Outturn Report 2023/24 to Full Council.

1. Introduction

- 1.1. The CIPFA Code of Practice for Treasury Management sets out the requirements for oversight by the Council of its treasury management operations. As part of the Code, the Council is required to receive an annual report on the performance of the treasury management function which highlights the effects of decisions taken and the circumstances of any non-compliance with the Code and the Council’s Treasury Management Strategy.

2. Background

2.1. The Council can expect to have cash to invest, arising from its revenue and capital balances, and collection of local taxes. This cash can be usefully invested to produce a return to help support services or internally borrowed to fund the capital programme. The activities around the management of this cash and borrowing are known as 'Treasury Management'.

2.2. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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"

2.3. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance.

2.4. The Council's investment priorities as required by Government regulations are in order of priority:

- (a) The security of Capital
- (b) The liquidity of its investments; and
When these are satisfied
- (c) Yield

DLUHC and CIPFA both advise that absolute certainty of security of capital and liquidity does not have to be achieved before seeking yield from investments. An appropriate balance of all three should be sought and that balance is determined by the Council in its Treasury Strategy.

2.5. The operation of Treasury Management is not without risk and the Council could suffer losses if one of its counterparties had financial difficulties.

2.6. The Council formally reviews its investment holdings in the following ways:

- Treasury Management Strategy report in February
- Treasury Outturn report in July
- A half-year update in November
- Treasury Management sub-committee to monitor Treasury Activity during the financial year.

The review of the year's activities is set out in the following appendices:

Appendix A – Economic Environment Update

Appendix B – Borrowing and Actual Investment Activity compared to the Approved 2023/24 Strategy

3. Summary of Review

- 3.1. During the financial year, there were no breaches of the Treasury Management Strategy.
- 3.2. The economic environment for the financial year was marked by high inflation and rising interest rates.
- 3.3. The Council's investment holdings on the 31st of March 2024 were £25.8m compared to £41.5m on 31st March 2023. Of the £25.8m, there were long term holdings in external fund of £15.3m, leaving £10.5m in money market deposits or short duration funds.
- 3.4. Projections of year end cash made during January and February identified a significant risk of insufficient liquid investments in the last few weeks of March. As sufficient liquidity is a key requirement to enable the Council to function, officers undertook £5m of short-term borrowing, maturing early in the new financial year. The borrowing was within approved parameters.
- 3.5. Notice was given during 2023 to withdraw from the CCLA property fund with the maturity date of 4th June. The valuation of the fund on the 31st May was £6.04m. A realised gain of £1.04m was achieved on the 4th June when the Council's investment was repaid.
- 3.6. Interest earnings from investments for the year were £2.88m, which was £1.59m more than the budget, predominantly due to larger average cash balances. Higher interest rates also contributed to increased returns. The Bank of England base rate increased from 4.25% to 5.25% in the year.
- 3.7. The overall return on investments for 2023/24 was 5.2% compared to 4.3% in the previous year. The budget had assumed 4.2%.
- 3.8. The Council held investments in 4 pooled funds at the end of 2023/24 generated total income returns of £757k, a return of 4.96%. Capital values were marginally higher than previous year and it can be expected that over the next couple of years capital values will recover as the interest rate environment changes.

4. Conclusion

- 4.1. It should be noted that the Council's Treasury Management has operated within approved parameters, has resulted in no realised losses, and delivered income of £2.88m which has helped to offset financial cost pressures.

List of appendices:

Appendix A – Economic Environment Update

Appendix B – Borrowing and Actual Investment Activity compared to the Approved 2023/24 Strategy

Background papers:

None

Corporate Implications

Legal/Constitutional: None

Financial: As detailed in report.

Potential impact on climate change and the environment: Any fund managers will be required to consider ESG (Environmental, Social and Governance) factors in their investment process. All the fund managers would be expected to have signed up to the UN Principles for Responsible Investment (PRI). PRI argues that active participation in ESG and exercising shareholder rights on this basis can help to improve the performance of companies which may otherwise not address such concerns and so being an engaged corporate stakeholder is a more effective way to bring about change in corporate behaviour on ethical issues.

Further requirements from those identified above are not practical given the limited ability to directly influence any immediate change in the financial markets.

Contribution toward achieving a net zero carbon position by 2030: None.

Personnel: None

Risk Management: All treasury management activity requires a careful consideration of risk and reward.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: None

Relevant Policies and Strategies:

Treasury Management Strategy 2023/24

Appendix A – Economic Environment Update

Introduction

The interplay of various economic factors including interest rate expectations, property prices and economic growth all affect the performance of the Council's investments.

Economic factors

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East; UK interest rates throughout 2023/24 have continued to be volatile right across the duration periods.

The Bank of England (BoE), in their March 2024 meeting, left interest rates at 5.25% for the fifth time in a row. The Bank's recent communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target.

The UK economy has started to recover from a shallow recession in the second half of 2023. Recent data suggests an improvement in the economy with GDP growth of 0.6% in the quarter to March 2024 following declines of 0.3% and 0.1% in the previous quarter.

Unemployment was 4.3% in January to March 2024 with estimated job vacancies in UK at 898,000 and annual growth in employees' average regular earnings of 6% in January to March 2024. With utility prices falling in April 2024, the CPI measure of inflation was at 2.3% in April declining from 3.2% in March. This was above the Bank of England target of 2% for CPI.

The Council benefitted from higher interest rates with its liquid cash held in money market funds that trend to match closely the base rate.

Stock market prices influence the unrealised value of the Council's fund investments. Equity markets started the financial year with volatility but settled somewhat. Towards the end of the calendar year there was optimism in most financial markets, which rallied as investors believed that interest rates were nearing their peak in the US. Plus, European Central Bank signalling that there would be no further rate hikes. The first quarter of 2024 saw strong performance for risk assets driven primarily by global economic data.

Interest rate cuts driven by lower inflation, were expected in the first half of 2024. From the Council's perspective, the cuts would improve the unrealised value of the Council's funds. However, the cuts have been slower to materialise than expected. A recovery in the non-property fund values is likely, but income from these funds may fall slightly depending on the mix of shares and bonds they are holding.

Property capital markets have been subdued with low volumes of transactions, resulting in lack of observable prices causing the market to be cautious. Property valuations are falling as investors look for higher yields to compensate for the higher risks to the property sector. Office accommodation has been the most troubled sector

in a challenging market due to a combination of changing working practices and more stringent environmental standards adding to landlord costs. Valuations are likely to remain under pressure.

Other factors

The mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investments funds ends 31st March 2025 unless further extension is granted.

Local authority activity in the money markets appears much reduced. This has had the impact of reducing availability of funds to borrow (if needed) and increasing interest paid by local authorities.

Appendix B – Borrowing and Actual Investment Activity compared to the Approved Strategy for 2023/24

External borrowing

1. The Council has the freedom to borrow in the following circumstances:

- Short-term borrowing to manage liquidity.
- Long-term borrowing only to fund capital expenditure if no other capital resources exist e.g. the Council has spent its capital receipts or expects to do so imminently.

2. The Council borrowed £5m externally towards the end of 2023/24 to ensure there was sufficient year end liquidity to meet Council operational needs. The loan rate was 5.6% and was borrowed from another local authority. The period of the loan was 16th February to 2nd April, has now been repaid.

This was within the authorised borrowing limit set out in the capital strategy, as shown below

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit – total external debt	£40m	£50m	£65m	£65m
Operational boundary – total external debt	£0.5m	£11.0m	£33.0m	£35.0m

3. Finance leases are deemed by Government to be a type of borrowing in the Council's Accounts and Treasury reporting must identify that the Council has borrowed money when they are used. At 31st March 2024, the Council had outstanding finance lease liabilities of £1,272K, used to acquire vehicles and equipment to deliver existing services.

4. Liability Benchmark:

This indicator is a tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and so aids long-term planning. The liability benchmark is a calculation of the cumulative amount of external borrowing the Council must hold to fund its capital plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Ref.	Liability Benchmark	31/03/23 Actual (£m)	31/03/24 Actual (£m)	31/03/25 Forecast (£m)	31/03/26 Forecast (£m)	31/03/27 Forecast (£m)
1	Capital Financing Requirement (CFR)	35	38	56	63	69
2	Less: Balance sheet resources	76	59	18	15	11
3	Net loans requirement (Negative shows surplus cash/ Positive are external borrowing requirement)	-41	-21	38	48	58
4	Plus: Liquidity allowance.			5	5	5
5	Liability benchmark (Total forecast external borrowing) (Negative shows net surplus cash/ Positive are external borrowing requirement)	-41	-21 Broadly £25.8m investment less £5m external loan	43 Forecast- Externally borrowed	53 Forecast - Externally borrowed	63 Forecast - Externally borrowed

The Liability benchmark was a new prudential indicator introduced for 2023/24.

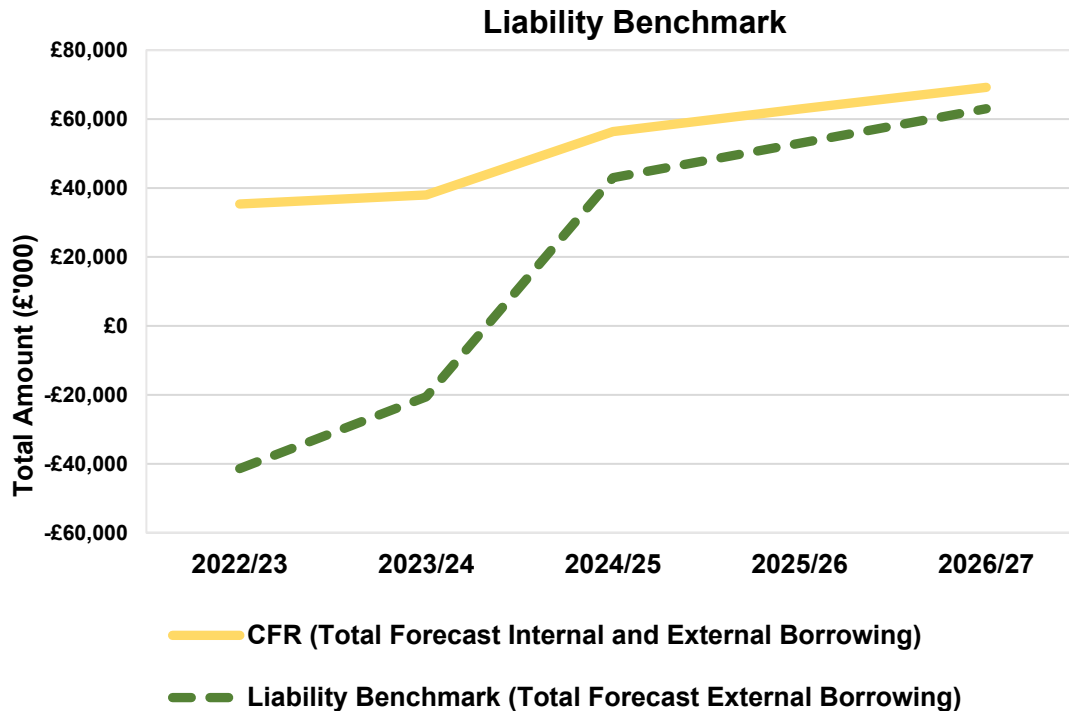
The table above shows

Ref/row 1 our capital financing requirement, being total external and internal borrowing needed to fund the capital programme. At 31/03/24 the capital programme needed £38m of borrowing.

Ref 3 is a forecast of net external borrowing expected/required. A positive figure means external borrowing is forecast to be required, however, further allowance must be made to ensure the Council has a minimum level of liquidity cash available (row 4).

Ref /row 5 shows the forecasts identify total year end external borrowing of £43m for 2024/25 and £53m for 2025/26.

The liability benchmark is shown graphically on the next page.



Investments

5. Officers with appropriate knowledge and training invest the Council's cash balances. Link Treasury Services were used as advisers on treasury management to help inform the decision-making process.
6. The Council's cash is invested in the following priority order, in accordance with statutory guidance:
 - i) Security – protecting the capital sum invested from loss
 - ii) Liquidity – ensuring the funds invested are available for expenditure when needed
 - iii) Yield – subject to achieving proper security and liquidity, to pursue a yield on investments to support service provision

The regulations and CIPFA both advise that absolute certainty of security of capital and liquidity does not have to be achieved before seeking yield from investments. An appropriate balance of all three should be sought and that balance is determined by the Council in its Treasury Strategy.

7. The Council uses cash-flow planning in order to manage its in-house investments. This allows officers to separate in-house funds in to two categories:
 - Shorter term, lower yielding investments – these investments are invested for relatively short durations, normally 3-6 months, in order to ensure that the maturity profile of investments matches the peaks and troughs in the Council's

liquidity needs – particularly for the final 2 months of the year where council tax income falls significantly due to the 10 monthly instalments most residents choose to pay in.

- Longer term, higher yielding investments – these are investments of ‘core cash’ or also known as ‘balance sheet resources’ which the Council does not require for operational purposes within the short to medium term. Core cash comes from the Council having for example reserves, such as the General revenue balance. These core cash balances can be invested for a year or more in appropriate counterparties in-order-to generate higher yields without causing liquidity issues.

8. During 2023/24 the Council’s investment portfolio decreased from £41.5m to a closing balance of £25.8m. The movement is mainly due spend on the capital programme.

Compliance with Treasury Management Strategy

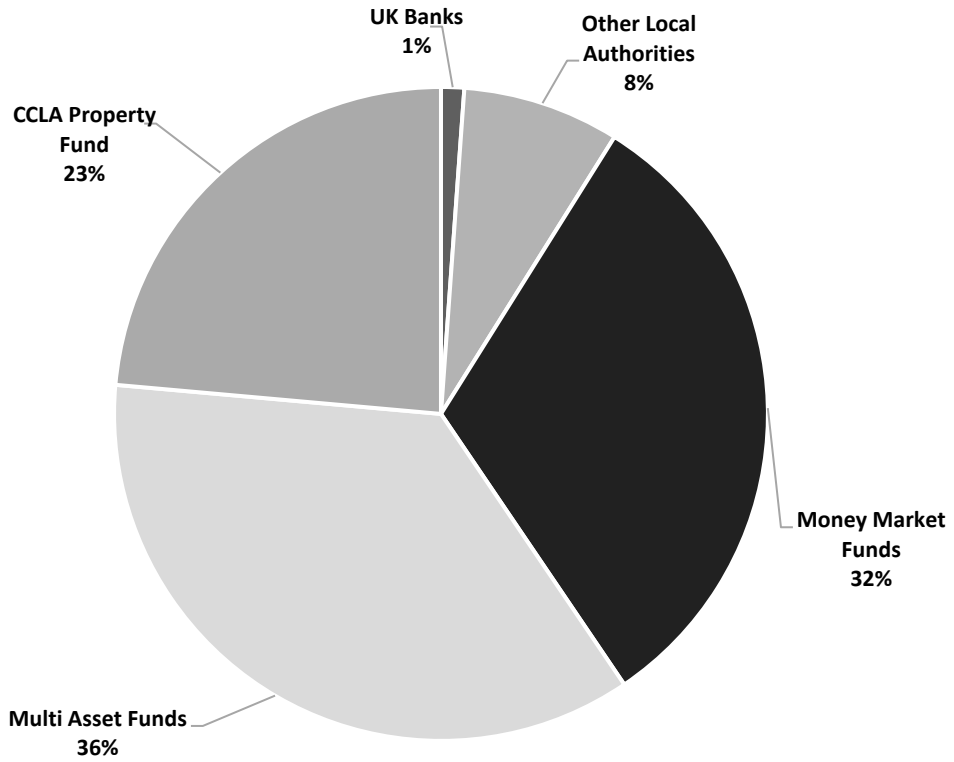
9. A summary of the approved treasury management strategy, together with actual outcomes is presented below:

- | | |
|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| a. To ensure that there are no breaches of the approved counterparty limits or durations | No breach occurred. |
| b. To maintain a target balance of £3m of short notice funds to manage liquidity | The Council held balances within target of available cash within 35 days parameters. |
| c. To maintain long term investments within set limit of £20m | Long term investments holding were within parameters |

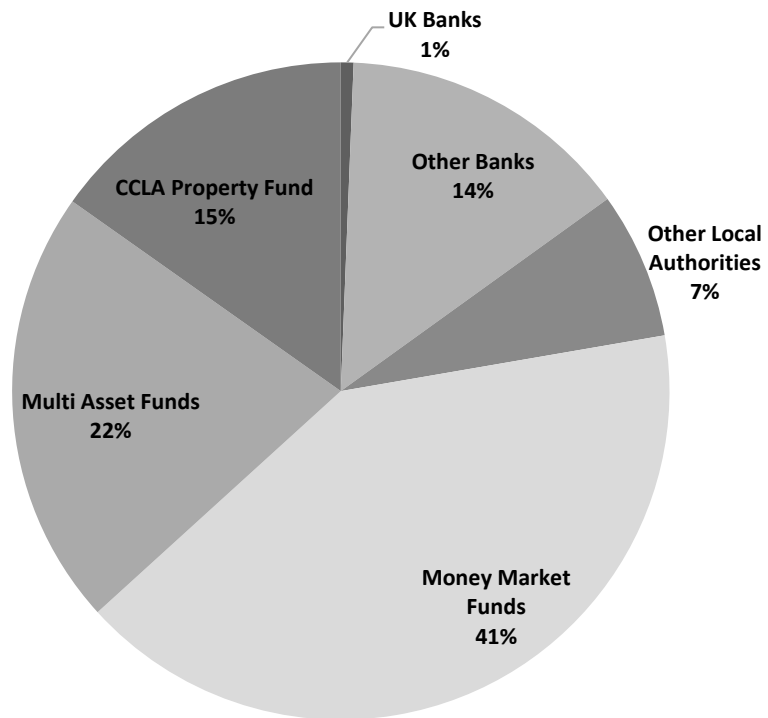
The total bail in risk (direct and pooled) moved by 9% from 78% to 69% mostly due to year end cash movements and the portfolio shrinking in overall value.

Exposure	2021/22	2022/23	2023/24
Bail In Risk -Direct investment	44%	15%	1%
Bail In Risk – Pooled Fund Managers and Money Market Funds	33%	63%	68%
Exempt from Bail In (including CCLA property)	23%	22%	31%
Total	100%	100%	100%

Investment at 31/03/24 By Sector



Investment at 31/03/23 By Sector



Counter Party

Money Market Funds & Long-Term Funds

	Credit Rating (Fitch)	Sum Invested (31/03/2024)	Limits 2023/24
Black Rock Money Market Fund	AAAmf	£10,090	£6,000,000
Insight Money Market Fund	AAAmf	£42,960	£6,000,000
Federated Money Market Fund	AAAmf	£6,000,000	£6,000,000
Deutsche Money Market Fund	AAAmf	£36,030	£6,000,000
Invesco Money Market Fund	AAAmf	£19,790	£6,000,000
BNP Paribas Money Market Fund	AAAmf	£2,031,770	£6,000,000
CCLA Property Fund	N/A	£6,072,000	£8,000,000
Aegon Multi Asset Fund	N/A	£3,318,480	Total of £10,000,000
Ninety-One Multi Asset Fund	N/A	£2,972,050	
CCLA Multi Asset Fund	N/A	£2,953,210	

Banks & Building Societies

Natwest	A+	£294,400	£3,000,000
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Local Authorities

Derby City Council	N/A	£2,000,000	£10,000,000
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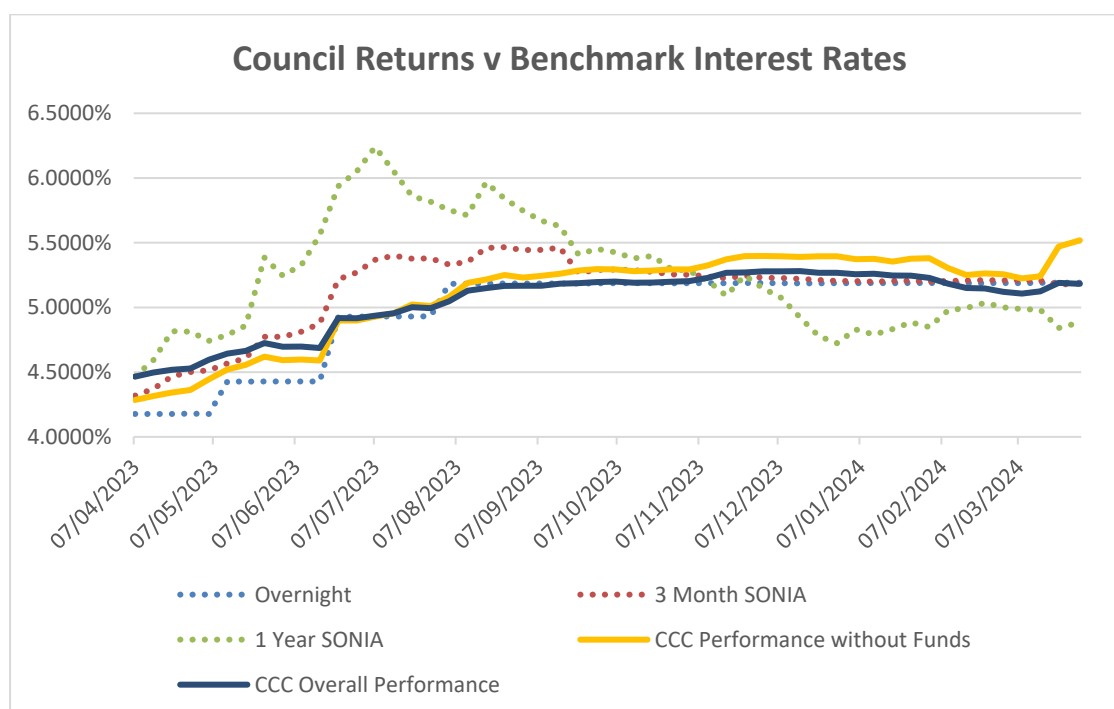
Total Investments

£25,750,780

Return on investments

10. UK Interest rates has been at their highest levels since 2008 and they began the year at 4.25% and ended at 5.25%. The budgeted average return was 4.2%.

The below table highlights Sterling Overnight Rate (SONIA) as a comparison against the returns the City Council generated.



The Council earned a total of £2,883k in investment income during the 2023/24 financial year, which was £1,593k additional income over the £1,290k budget. This was mainly due to higher-than-average cash balances but also partly due to higher interest rates.

	Market investments (excluding CCLA and Multi Asset Funds)	Multi Asset Funds Income & CCLA Property Fund Yield (Based on April 2023 Valuation)	All Investments Income Yield
	Year ending 31/03/2024		
Average yield	5.52%	4.96%	5.18%

The yields above have used the opening balance for the year for calculations purposes.

10.1 Funds

The City Council held funds in 3 Multi-Asset Funds during the financial year and also maintained its investment in the CCLA Property Fund. The total balance invested makes up part of the Council's core cash that it is expected to hold for the long term.

Income returns on the 4 funds are outlined below along with the closing capital value of the fund, initial investment value and unrealised gain or loss.

Fund	Initial Investment Value £	1/04/2023 Investment Value £	31/03/2024 Investment Value £	Unrealised +Gain/(Loss) (since inception) £	Income Return (Based on 1 st April 2023 Valuation)
CCLA Property Fund	5,000,000	6,318,537	6,072,074	1,072,074	5.03%
CCLA DIF	3,100,000	2,814,794	2,953,210	(146,790)	3.50%
Aegon DIF	3,600,000	3,147,286	3,318,477	(281,523)	6.48%
Ninety One DIF	3,300,000	2,984,782	2,972,055	(327,945)	4.56%

Total Income from the 4 funds above during 2023/24 was £756,650.

The unrealised gain on all the fund assets during the financial year 2023/24 was £50k. The valuation of the funds has been affected by the higher interest rates and global economy. These remain long term investments where valuations would be expected to pick up over the next few years as interest rates stabilise. The fund portfolio has a net overall unrealised gain of £316K when comparing to initial investment value. However, since year end the CCLA property fund has been repaid and a gain of £1.041m realised.

The valuation of the Council's investment in the CCLA Property Fund decreased by £246k in the year, leaving the Council's unrealised gain at £1,072k on its initial investment. The Fund has a minimum 180-day redemption period and the Council served notice at the end of November 2023 with redemption to be on the 4th June 2024. As noted, the investment has now been repaid.

The valuations of the Council's investment in the 3 Multi Asset Funds also changed throughout the year, with an overall increase in value across the 3 of £297k but with the unrealised loss to £756k on its initial investment at year end. These investments are seen as medium to long term investments over a 3-to-5-year period and so capital values will fluctuate up and down during this investment horizon.

The income generating performance of the CCLA Diversified Investment Fund (DIF) was disappointing and the fund manager has merged this fund with larger one to improve returns, officers are monitoring the position.

Conclusion

The Council has operated within its Treasury Management Framework. This has enabled the Council to safeguard its financial assets and produce a good level of return relative to the prevailing market interest rates and other local authorities (as measured by Links benchmarking).