Joint Audit and Governance Committee

Report of Head of Finance

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To: Joint Audit and Governance Committee, Cabinet and Council

DATE: 27 September 2022 by Joint Audit and Governance Committee

29 September 2022 (S) / 30 September 2022 (V) by Cabinet

13 October 2022 (S) / 12 October 2022 (V) by Council

Treasury Outturn 2021/22

Recommendations

That Joint Audit and Governance Committee:

1. notes the treasury management outturn report 2021/22,
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and
3. make any comments and recommendations to Cabinets as necessary.

That Cabinet:

Considers any comments from Joint Audit and Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2021/22;
2. approve the actual 2021/22 prudential indicators within the report.

Purpose of report

1. This report 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 2021/22.

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 2021/22 against prudential indicators and benchmarks set for the year in the 2021/22 Treasury Management Strategy (TMS), approved by each council in February 2021. 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 2021/22

9. At the start of the financial year UK Bank Base Rate was held at 0.10 per cent and remained unchanged until December 2021 when The Bank of England raised the rate to 0.25 per cent. There were further increases of 0.25 percent in February and

March 2022 with Base Rate reaching 0.75 per cent by year-end. [At the time of writing (August 2022) rates have increased further to 1.75 per cent.]

10. Link Asset Services provide a regular forecast of interest rates, the latest forecast is reproduced in **appendix A**. This forecast shows that Base Rate is expected to peak at 2.9 per cent in June 2023 before falling back to 2.25 per cent around March 2024 and remain at that level for the next 12 months. Labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation remaining at elevated levels well into 2023.

11. 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.

12. In line with the budget forecast, short-term investment returns remained close to zero for the first half of the financial year. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1 per cent until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessary.

13. The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the growing levels of inflation.

14. The rises in Base Rate from December 2021 allowed both councils to place deposits at above budgeted interest rates during the last quarter of the financial year and generate investment returns above the budget forecasts.

Summary of investment activities during 2021/22

15. Prudential limits (security). 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. Yield - 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	174,907	15,000	189,907	8,012	197,918
2	Budgeted investment income	1,224	623	1,847		
3	Actual investment income	1,375	623	1,998	490	2,488
4	surplus/(deficit) (3) - (2)	151	0	151		
5	Rate of return (3) ÷ (1)	0.79%	4.15%	1.05%	6.11%	1.26%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	145,589	5,091	150,680
2	Budgeted investment income	558		
3	Actual investment income	744	286	1,030
4	surplus/(deficit) (3) - (2)	187		
5	Rate of return (3) ÷ (1)	0.51%	5.62%	0.68%

17. Both South and Vale exceeded treasury budgeted investment income this year in terms of actual income against budget and rates of return against benchmark on their in-house managed portfolios. This was predominantly a result of deposits that matured in the last quarter of the financial year being reinvested at slightly higher rates than predicted. More detail on benchmarks is included in the appendices that follow this report.

18. Detailed reports on the treasury activities for each council and performance for 2021/22 against prudential indicators and benchmarks set for the year are contained in **appendix C** – South Oxfordshire DC and **appendix D** – Vale of White Horse DC.

19. A detailed list of both councils' treasury investments as at 31 March 2022 is shown in **appendix E**.

Debt activity during 2021/22

20. During 2021/22, 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 council(s) in the achievement of their service objectives.

Climate and ecological impact implications

21. There are no climate or ecological implications arising from this report, however the Council can make significant impact via future investment opportunities and operational changes. Numerous changes have already been made to ensure that climate is a key consideration in key documents and processes (such as the procurement strategy), and this will become more evident in future decision making. As opportunities to support the climate ambitions of the Councils arise, they will be considered and appropriately weighted to include any climate or ecological impacts.

Financial implications

22. The treasury investments arranged in 2021/22 generated just under £2 million of investment income for South during the year and over £700,000 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

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

Conclusion

24. Despite a difficult operating environment, both councils continued to make investments during 2021/22 that maintained security and liquidity whilst providing a return that mostly exceeded market benchmarks.

Background papers

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DCLG Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2021/22 – Councils in February 2021.

Appendices

A. Interest rate forecasts
B. Prudential limits
C. SODC – Treasury activities 2021/22
D. VWHDC – Treasury activities 2021/22
E. Treasury investments as at 31 March 2022
F. Glossary of terms