Cabinet

Report of Head of Finance

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To: Cabinet

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Treasury Management Outturn 2022/23

Recommendations

That Cabinet:

(a) notes the treasury management outturn report 2022/23,

(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 2022/23; and

(d) approve the actual 2022/23 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 2022/23.

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

Corporate 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 2022/23 against prudential indicators and benchmarks set for the year in the 2022/23 Treasury Management Strategy (TMS), approved by each council in February 2022. 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 2022/23

9. At the start of the financial year UK Bank Base Rate was 0.75 per cent following three consecutive interest rate rises in the last quarter of 2021/22. At each of the Monetary Policy meetings during 2022/23 interest rates were further increased by 0.25, 0.50 or 0.75 per cent with Base Rate reaching 4.25 per cent by year-end. [At the time of writing (July 2023) rates have increased further to five per cent.]

10. Link Asset Services provide a regular forecast of interest rates, the latest forecast is reproduced in **appendix A**. The forecast made on 26 June 2023, sets out a view that both short and long-dated interest rates will be elevated for a while, as the Bank of England 'seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market'.

11. This forecast shows that Base Rate is expected to peak at 5.5 per cent in September 2023 before falling back to 5.25 per cent around June 2024. Rates are expected to continue to reduce each quarter until September 2025 and reach 2.5 per cent during

the last quarter of 2025/26.

12. 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.

13. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

14. In April Bank Rate was 0.75 per cent, (0.5 per cent above the budget forecast), moving up in stepped increases it, reached 4.25 per cent by the end of the financial year. The expectation for interest rates within the treasury management strategy for 2022/23 was that Bank Rate would increase from 0.25 per cent in April 2022 to 0.75 per cent by March 2023.

15. Interest rate forecasts initially suggested only gradual rises in rates during 2022/23 but by August it had become clear that inflation was moving up towards 40 year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, increasing Bank Rate at each meeting. The CPI measure of inflation remained above 10 per cent throughout the second half of 2022-23, falling to 8.7 per cent in April 2023. It is currently 7.9 per cent and is expected to fall back towards four per cent by the end of the financial year, however there remain significant risks to the central forecast.

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

Summary of investment activities during 2022/23

17. 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**.

18. 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	177,022	15,000	192,022	8,207	200,227
2	Budgeted investment income	1,154	623	1,777		
3	Actual investment income	3,166	623	3,789	418	4,207
4	surplus/(deficit) (3) - (2)	2,012	0	2,012		
5	Rate of return (3) ÷ (1)	1.79%	4.15%	1.97%	5.09%	2.10%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	166,887	5,070	171,956
2	Budgeted investment income	489		
3	Actual investment income	2,574	237	2,811
4	surplus/(deficit) (3) - (2)	2,085		
5	Rate of return (3) ÷ (1)	1.54%	4.68%	1.63%

19. Both South and Vale exceeded treasury budgeted investment income this year in terms of actual income against budget, and rates of return on their in-house managed portfolios. This was a result of interest rates increasing above the rates anticipated in the budget.

20. Detailed reports on the treasury activities for each council and performance for 2022/23 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.

21. A detailed list of both councils' treasury investments as at 31 March 2023 is shown in **appendix E**.

Debt activity during 2022/23

22. During 2022/23, 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

23. 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.

24. In order to comply with 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.

25. 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.

Financial implications

26. The treasury investments arranged in 2022/23 generated £3.2 million of investment income for South during the year and £2.6 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

27. 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.

Risks

28. During the financial year, the Council's operated within the treasury limits and Prudential Indicators set out in their Treasury Management Strategies approved by Council in February 2022.

Conclusion

29. Despite a turbulent operating environment, both councils continued to make investments during 2022/23 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.
- DCLG Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2022/23 – Councils in February 2022.

Appendices

A. Interest rate forecasts
B. Prudential limits
C. SODC – Treasury activities 2022/23
D. VWHDC – Treasury activities 2022/23
E. Treasury investments as at 31 March 2023
F. Glossary of terms