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|---|---|---|
| **Meeting:** | **Audit and Governance Committee**<br>**Cabinet**<br>**Council** | **Date: 15 June 2024**<br>**17 July 2024**<br>**18 July 2024** |
| **Subject:** | **Treasury Management Update – Annual Report 2023/24** | |
| **Report Of:** | **Cabinet Member for Resources** | |
| **Wards Affected:** | **All** | |
| **Key Decision:** | **No** **Budget/Policy Framework: No** | |
| **Contact Officer:** | **Richard Wintour, Accountancy Manager**<br>**Email: richard.wintour@gloucester.gov.uk** | <br>**Tel: 396439** |
| **Appendices:** | **1. Prudential and Treasury Indicators**<br>**2. Interest Rate Forecasts** | |

**FOR GENERAL RELEASE**

## 1.0 Purpose of Report

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1st Oct 2023 to 31st March 2024 and therefore, ensures this Council is implementing best practice in accordance with the Code.

1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Link Asset Services.

1.3 The body of the report provides an overview of the Councils performance for the financial year 2023/24;

- **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
- **Appendix 2** Interest Rate Forecast.

## 2.0 Recommendations

2.1 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.

2.2 Cabinet is asked to **RESOLVE** that the contents of the report be noted.

2.3 Council is asked to **RESOLVE** that the contents of the report be noted.

## 3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 21st March 2024. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.1 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

3.2 The average level of funds available for investment purposes during the year to was £21.74m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

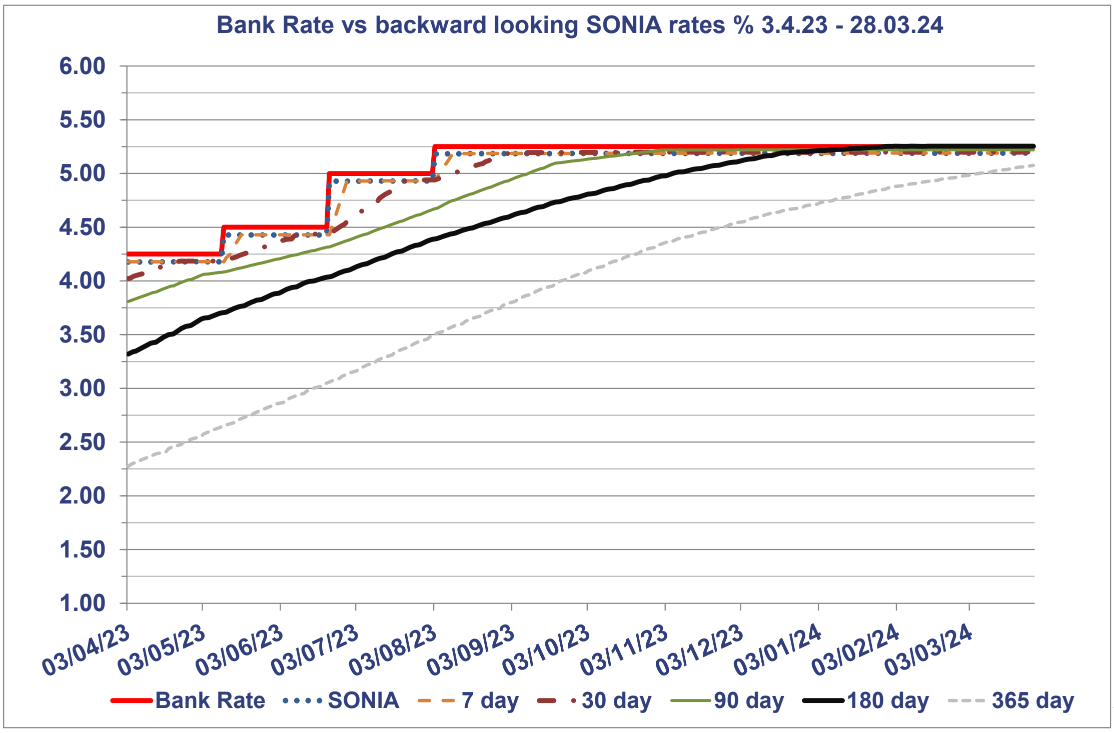
3.3 The Council holds £11.189m core cash balances for investment purposes (i.e. funds available for more than one year), the majority of these funds are held with the CCLA.

**Investment performance for the financial year to date as at 31st March 2024**

| Benchmark | Benchmark Return | Council Performance | Investment Interest Earned |
|---|---|---|---|
| **7 day** | 4.96% | 4.87% | £737,634 |
| **1 month** | 4.93% | N/A | N/A |
| **3 month** | 4.73% | N/A | N/A |
| **6 month** | 4.09% | N/A | N/A |
| **12 month** | 3.93% | N/A | N/A |

As illustrated, the Council underperformed the benchmark by 9bps on 7 day investment returns.

**Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2023/24**




FINANCIAL YEAR TO QUARTER ENDED 28/03/2024

| | Bank Rate | SONIA | 7 day | 30 day | 90 day | 180 day | 365 day |
|---|---|---|---|---|---|---|---|
| High | 5.25 | 5.19 | 5.19 | 5.20 | 5.22 | 5.25 | 5.08 |
| High Date | 03/08/2023 | 28/03/2024 | 28/03/2024 | 26/03/2024 | 25/03/2024 | 22/03/2024 | 28/03/2024 |
| Low | 4.25 | 4.18 | 4.18 | 4.02 | 3.81 | 3.32 | 2.27 |
| Low Date | 03/04/2023 | 04/04/2023 | 11/04/2023 | 03/04/2023 | 03/04/2023 | 03/04/2023 | 03/04/2023 |
| Average | 5.03 | 4.96 | 4.96 | 4.93 | 4.84 | 4.64 | 3.93 |
| Spread | 1.00 | 1.01 | 1.01 | 1.18 | 1.41 | 1.94 | 2.80 |

Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.

The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December

2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

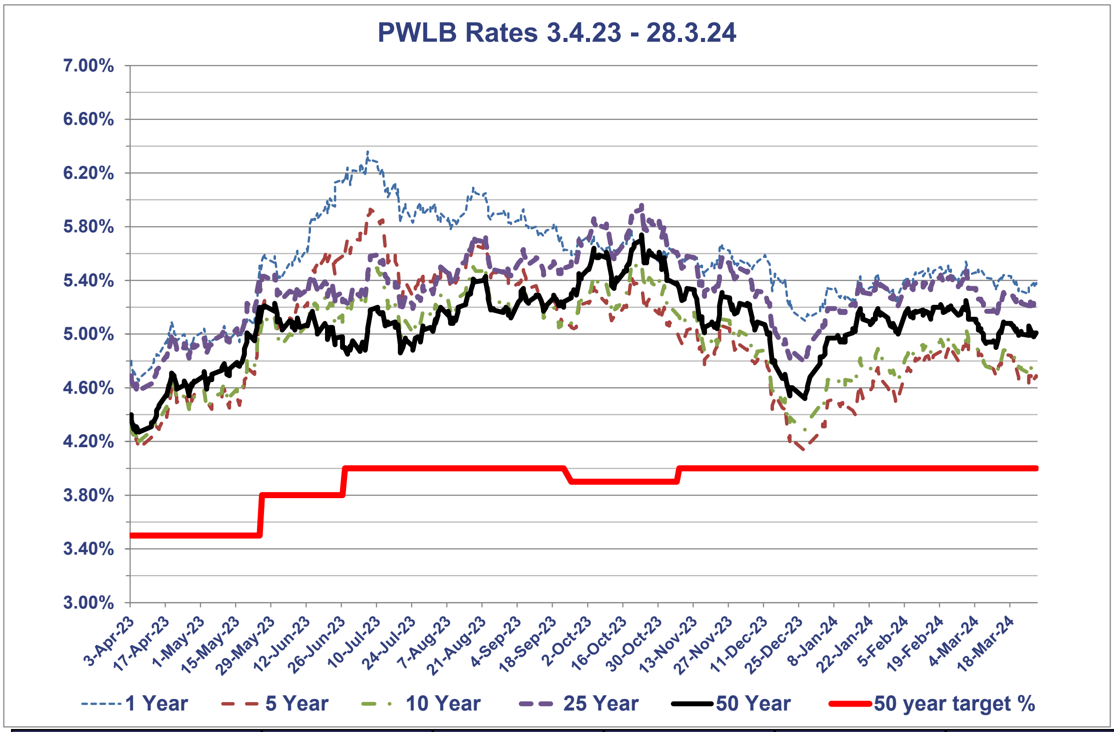
While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

## 4.0 New Borrowing

4.1 In the second half of 2023/24 two lots of new long-term borrowing was undertaken. £20m for the Kings Square (The hub) redevelopment and Food Dock as well as £2m for the purchase of multiple temporary accommodation properties.

4.2 Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages, and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.




| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| **Low** | 4.65% | 4.13% | 4.20% | 4.58% | 4.27% |
| **Date** | 06/04/2023 | 27/12/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| **High** | 6.36% | 5.93% | 5.53% | 5.96% | 5.74% |
| **Date** | 06/07/2023 | 07/07/2023 | 23/10/2023 | 23/10/2023 | 23/10/2023 |
| **Average** | 5.54% | 4.99% | 4.97% | 5.34% | 5.08% |
| **Spread** | 1.71% | 1.80% | 1.33% | 1.38% | 1.47% |

## 5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

## 6.0 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

## 7.0 Other

7.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

7.2 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

**8.0 Social Value Considerations**

8.1 This report notes the treasury management performance of the Council. There are no anticipated Social Value considerations from this report as it is reporting performance and not making investment decisions.

**9.0 Environmental Implications**

9.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report.

**10.0 Financial Implications**

10.1 Contained in the report

(Financial Services have been consulted in the preparation this report.)

**11.0 Legal Implications**

11.1 There are no legal implications from this report

(Legal Services have been consulted in the preparation this report.)

**12.0 Risk & Opportunity Management Implications**

12.1 There are no specific risks or opportunities as a result of this report

**13.0 People Impact Assessment (PIA):**

13.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

**14.0 Other Corporate Implications**

<u>Community Safety</u>

14.1 None

<u>Sustainability</u>

14.2 None

<u>Staffing & Trade Union</u>

14.3 None