Resources and Fire & Rescue Overview and Scrutiny Committee

26 June 2024

Treasury Management and Investment Outturn Reports 2023/24

Recommendation

That the Resources and Fire & Rescue Overview and Scrutiny Committee considers and endorses the Treasury Management and Investment (Non-Treasury) outturn reports for 2023/24.

1. Executive Summary

1.1 Treasury Management involves the management of the Council’s cash flows, banking, money market and capital market transactions. It focuses on effectively controlling the risks associated with these activities while pursuing optimum performance consistent with those risks.

1.2 This report sets out the activities and performance of the Treasury Management function during 2023/24, including management of Non-Treasury Investments. Details are attached at Appendix 1 and 2, and the highlights are set out in this covering report.

1.3 During 2023/24, the Council complied with its legislative and regulatory requirements in respect of Treasury Management and at all times was in compliance with the Treasury Management Strategy approved by Council in February 2023.

1.4 Through the year financial markets remained volatile. The Bank of England's interest rates, while decreasing marginally compared to the previous year, stayed relatively high, fluctuating between 4% and 5.25% throughout the year. While security and liquidity were prioritised ahead of yield/return to ensure the stability and protection of investments, the Authority was able to take advantage of the higher interest rate environment to generate significant interest yield.

1.5 The Council maintained a net investment position, with total investment exceeding total borrowings. The net investment position on 31 March 2024 was £73.3m. Total treasury investments were £346.3m, compared to £457m on 31 March 2023 a year earlier, a reduction of £110.7m. The investments comprised short term loans to other local authorities and housing associations, deposits with banks, money market funds and investments in variable net asset value funds. The reduction in investment balances reflects a deliberate strategy to borrow internally to finance the Council’s capital spend and operate with lower cash balances, in effect making more efficient use of the Council's balance sheet.

1.6 Liquid funds (funds that can be accessed very quickly) decreased by £64m during the year to £86m on 31 March 2024 and averaged £104m during the year. Sufficient liquidity has been retained throughout the year to meet the expected call on the Council's cash balances to fund spend.

1.7 Interest income of £18m was recorded from treasury investments, significantly exceeding the budget of £4.7m, this substantial additional return helped to alleviate the financial pressures the Council faced during the year. Whilst these significant additional returns are welcomed in the context of the overall Council budget, it is important to exercise caution, as the amount of net income generated is influenced by the level of cash available, prevailing interest rates, and need for external borrowing. These elements are, in turn, impacted by external economic conditions, which may be unpredictable and subject to change.

1.8 The weighted average yield earned on the Council's treasury deposits was 4.45%, an increase from the previous year's average yield of 1.58%, but it was lower than the benchmarks of 4.96% for internally managed funds (based on the 7-day backward SONIA (the Sterling Overnight Index Average) which is an interest rate benchmark administered by the Bank of England and 5.01% for externally managed funds (based on the 7-day backward SONIA compounded).

1.9 The Council's total long-term borrowing (Public Works Loan Board loans) as of 31 March 2024 was £272.9m compared to £321m on 31 March 2023. During the year, the prevailing market conditions (specifically higher gilt rates) presented an opportunity for the Council to make an early settlement of £49m against the PWLB loan debt resulting in the Council's debt reducing to £272.9m compared to the £321m at the start of the year.

1.10 The early debt payment generated a discount of £1.9 million for the Council. Due to a statutory override, this discount will be recognised in the revenue account over a ten year period, with an annual allocation of £0.19m. The statutory override mandates that such discounts must be amortised over the remaining life of the original loan, which in this case results in a ten year distribution. This saving is already included in the Council's Medium Term Financial Strategy.

1.11 At the start of the year, an option to make a discounted three-year pension prepayment was not taken after further exploration of the pension early payment business case highlighted that an equivalent return could be delivered through core Treasury Management activity.

1.12 In addition to treasury management investments made during the year, the Council also held non-treasury investments which included sums invested in fully owned local authority trading companies, namely Warwickshire Property Development Group Limited and Educaterers Limited, our schools catering company, together with the Warwickshire Investment Fund/WIF (formerly known as Warwickshire Recovery and Investment Fund/WRIF).

1.13 The activities of the WIF during the year included:

- the signing of the first **Property and Infrastructure Fund** investment of £9.1m as a loan against which a £4.1m disbursement is expected during the first quarter of 2024/25;
- cumulative drawdowns from the **Local Communities and Enterprise (LCE)** sub-fund, where loans of £1.9m have been made to sub-borrowers by the fund manager Coventry Warwickshire Reinvestment Trust (CWRT) with an active pipeline of £3.1m worth of investments yet to be assessed and approved;
- a total of 51 LCE sub-loans have been drawn down to date, creating 237 full time employment opportunities, and safeguarding 283 jobs; and
- the Business Investment and Growth Fund (BIG) strand of the WIF was discontinued during the year after having made one £0.400m investment.

1.14 With regards to WPDG:

- a refreshed business plan was approved by Cabinet in March 2024;
- two business cases were developed and approved by Cabinet in October 2023;
    - the first business case, the site of the former Manor Park School, focused on the development of new houses and extra care apartments; and
    - the second business case involved the development of business units in Southam.

2. Financial Implications

2.1 Total return on the Council's treasury investments (excluding non-treasury investments) for 2023/24 financial year was £17.99m, which is significantly more than the budget of £4.68m.

2.2 A discount of £1.9m was earned on the early repayment of the £49m PWLB loans and will be credited to the revenue account in instalments of £0.19m annually over ten years.

2.3 The overall positive performance this year has resulted in net revenue impact of a £19.5m underspend against budget. This surplus is primarily due to savings in capital financing costs and higher returns on all our investments, which will partially offset overspends in other services this year. This is a one-off surplus supported by prevailing interest rates and cannot be relied upon to be an indefinite and recurring source of additional income.

2.4 In the 2024/25 Medium Term Financial Strategy, a saving of £0.12m to increase treasury returns by 0.10% was approved. Based on current projections this target is achievable for the foreseeable future. Although interest rates are currently high, they are anticipated to fall again over the next few years. As part of maintaining the Council's overall financial sustainability it is it is essential that any additional short-term additional income is treated as a one-off windfall within the budget.

3. Environmental Implications

3.1 Pooled funds will include investment in a range of different companies which will have a range of carbon footprints and climate impacts. The impact is not currently measured but climate change is an increasingly high-profile issue in investment considerations whilst keeping in perspective the primary requirements for security, liquidity and yield.

Appendices

Appendix 1 – Treasury Management Outturn 2023/24
Appendix 2 – Investment (Non-Treasury) Outturn 2023/24

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The report was circulated to the following members prior to publication:
Local Member(s): n/a