Southend-on-Sea City Council

Agenda Item No.

Title:	**Annual Treasury Management Report – 2023/24**
Meeting:	Cabinet
Date:	24 June 2024
Classification:	Part 1
Policy Context:	All Corporate Priorities
Key Decision:	No
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Executive Councillor:	Councillor Collins – Cabinet Member for Finance, Assets and Investments

1. Executive Summary

1.1. The Annual Treasury Management Report covers the treasury activity for the period from April 2023 to March 2024 and reviews performance against the Prudential Indicators for 2023/24.

2. Recommendations

That Cabinet;

2.1. **Approves the Annual Treasury Management Report for 2023/24 and the outturn Prudential Indicators for 2023/24.**

2.2. **Notes that the financing of 2023/24 capital expenditure of £50.066m has been funded in accordance with the schedule set out in Table 1 of section 4.**

2.3. **Notes that Capital Financing and Treasury Management were carried out in accordance with statutory requirements, good practice and in compliance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Prudential Code during 2023/24.**

2.4. **Notes the following in respect of the return on investment and borrowing;**

- **The loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk.**

- **£6.319m of interest and income distributions for all investments were earned during 2023/24 at an average rate of 4.59%. This is 0.37% under the average SONIA rate (Sterling Overnight Index Average) and 0.43% under the average bank base rate. Also, the value of the externally managed funds decreased by a net of £1.651m due to the changes in the unit price, giving a combined return of 3.39%. (Section 7).**

- **The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained at £347.3m (Housing Revenue Account (HRA): £74.2m, General Fund (GF): £273.1m) throughout 2023/24.**

- **The level of financing for 'invest to save' schemes decreased from £8.22m to £8.03m by the end of 2023/24.**

3. Background

3.1. The CIPFA Prudential Code requires the Council to set Prudential Indicators for its capital expenditure and treasury management activities and to report on them after the end of the financial year.

3.2. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this Code. The Code requires the reporting of treasury management activities to:

- Review actual activity for the preceding year (this report); and
- Forecast the likely activity for the forthcoming year (in the Treasury Management and Prudential Indicators Report in February).

3.3. The Prudential Code is the key element in the system of capital finance that was introduced from 1st April 2004 as set out in the Local Government Act 2003. The Code has been developed to support Local Authorities in taking capital investment decisions and to ensure that these decisions are supported by a framework which ensures proportionality, prudence, affordability and sustainability.

3.4. To demonstrate compliance with these objectives of proportionality, prudence, affordability and sustainability each local authority is required to produce a set of prudential indicators and to update these annually as part of setting the Council's budget.

4. Prudential Indicators

4.1. Appendix A provides a schedule of the prudential indicators. Due to the updated Prudential Code, the indicators in tables 6, 8 and 9 are additional to the indicators reported in the 2022/23 Annual Treasury Management Report.

4.2. Capital Expenditure

The first of these is the amount of capital expenditure in the year on long term assets. The table below shows this and the ways it has been financed.

Table 1: Capital Expenditure and Financing

	2023/24 Revised Budget £000s	**2023/24 Actual £000s**	**2023/24 Variance £000s**
Total Capital Expenditure	**56,126**	**50,066**	**(6,060)**
Financed by:			
Borrowing[1]	15,752	13,701	(2,051)
Invest to Save Financing[1]	2,730	2,225	(505)
Capital Receipts	3,184	2,896	(288)
Capital Grants Utilised	18,240	17,211	(1,029)
Major Repairs Reserve	7,503	7,377	(126)
Other Revenue/ Capital Reserve Contributions	7,170	5,673	(1,497)
Other Contributions	1,547	983	(564)
Total Financing	**56,126**	**50,066**	**(6,060)**

Note 1 - this relates to both internal and external borrowing but for 2023/24 this was only internal borrowing and no external borrowing was undertaken.

The capital expenditure financed by all types of funding was lower than budgeted but the largest underspend is the capital expenditure financed by borrowing. This is mainly due to schemes which have been deferred to later years following the comprehensive cross-party capital challenge sessions chaired by the Leader.

As at 31 March 2024 actual borrowing by the HRA was £101.086m, comprising £74.168m external borrowing and £26.918m internal borrowing.

The HRA can also finance its capital spend from the major repairs reserve, from grants and directly from the HRA by way of revenue contributions to capital.

4.3. Capital Financing Requirement (CFR)

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a measure of the Council's debt position and represents capital expenditure up to the end of 2023/24 which has not yet been charged to revenue. The process of charging the capital expenditure to revenue is a statutory requirement and is done by means of the Minimum Revenue Provision (MRP). The Council's CFR is shown in table 2 and is a key prudential indicator.

Table 2: Capital Financing Requirement (CFR)

	31st March 2024 Revised Budget £000s	31st March 2024 Actual £000s
Balance 1st April 2023	443,157	443,157
Plus: capital expenditure financed by borrowing	18,482	15,926
Plus: fixed assets subject to finance leases	0	106
Less: finance lease disposals	0	(25)
Less: Capital receipts used to repay borrowing	0	(3,777)
Less: Minimum Revenue Provision	(5,902)	(5,589)
Balance 31st March 2024	455,737	449,798

The CFR is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position by either borrowing to the CFR, choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or borrowing for approved future increases in the CFR (borrowing in advance of need). The Section 151 Officer currently manages the Council's actual borrowing position in the second of the above CFR scenarios.

Of the sum in table 2 above, the Council has already addressed the theoretical need to borrow by having undertaken external borrowing and credit arrangements of £357.238m and by internally borrowing the remaining £92.560m.

4.4. Treasury Position on Borrowing and Investments

The overall treasury position at 31 March 2024 compared with the revised budget is set out in the table below.

Table 3: Treasury Position

	31 March 2024 Revised Budget	31 March 2024 Actual	
	Principal £000s	Principal £000s	Average Rate (%)
Total gross Debt[#] (excluding ECC transferred debt)	358,800	357,238	3.47

[#] This includes PWLB borrowing of £347.332m with the balance being invest to save financing and finance leases (as these are credit arrangements).

In order to ensure that borrowing levels are prudent over the medium term, the Council's gross external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR for 2023/24 plus the expected changes to the CFR over 2024/25 and 2025/26. The table below shows that the Council has complied with this requirement.

Table 4: CFR compared to Gross Borrowing Position

	31 March 2024 Revised Budget £000s	31 March 2024 Actual £000s
Gross borrowing position	358,800	357,238
Estimated Capital Financing Requirement at 31 March 2026		483,260

4.5. Authorised Limit, Operational Boundary and Ratio of Financing Costs

In addition to ensuring that the gross borrowing position is lower than the CFR, the Council is required to set gross borrowing limits. These are detailed below with the actual positions during the year.

Table 5: Borrowing limits

	2023/24 (£000s)
Authorised Limit	400,000
Operational Boundary	390,000
Maximum gross borrowing position during the year	357,603
General Fund financing costs as a proportion of net revenue stream	10.18%

The Authorised Limit is the “Affordable Borrowing Limit” required by the Local Government Act 2003. This is the outer boundary of the Council’s borrowing based on a realistic assessment of the risks. The table above demonstrates that during 2023/24 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. The Council has maintained borrowing within the boundary throughout 2023/24.

The indicator “financing costs as a proportion of net revenue stream” identifies the cost of capital (i.e. borrowing costs) as a proportion of the Council’s budget requirement. For the General Fund the actual figure in 2023/24 was 10.18%, which is lower than the revised budget in 2023/24 of 10.48%.

4.6. Net Income from Commercial and Services Investments to Net Revenue Stream

Net income from commercial and service investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as investment properties. The costs, which may be netted off, comprise investment management costs and any other direct revenue costs of investment.

This indicator is intended to show the financial exposure of the authority to the loss of income, should that occur. The table below shows the actual compared to the budgeted indicator.

Table 6: Net Income from Commercial and Services Investments to Net Revenue Stream

	Budget 2023/24 %	***Actual 2023/24 %***
Net Income from Commercial and Services Investments to Net Revenue Stream	2.44	2.12

4.7. Maturity structure of borrowing (against maximum position)

The table on the next page shows the upper limits for which the Council delegates its length of borrowing decisions to the Executive Director (Finance and Resources)/Section 151 Officer in 2023/24 and the actual maturity structure of the borrowing as at 31st March 2024.

Table 7: Maturity Structure of Borrowing

	Upper limit %	**Outstanding debt maturity at 31st March 2024 %**
Under 12 months	20	2
12 months and within 24 months	30	0
24 months and within 5 years	40	10
5 years and within 10 years	60	22
10 years and within 20 years	60	17
20 years and within 30 years	80	3
30 years and above	80	46

The percentages in each category for the upper limits do not add up to 100% as they do not represent an actual allocation.

4.8. Long Term Treasury Management Investments

Some of the Council's investments are managed internally by the Council. Part of this cash balance is utilised to smooth out the day-to-day movements on the cash flow. It is not therefore the intention that this part of the balance would be invested for more than 365 days. The rest of the cash balance is invested to achieve the optimum returns consistent with the effective control of risk. During 2023/24 no internally managed fund were invested for periods over 365 days.

Some of the Council's investments are managed by external fund managers. These investments do not have a fixed maturity date and are invested for periods over 365 days.

This table below shows the amounts invested for periods over 365 days against the 2023/24 limit set as part of the budget round.

Table 8: Long Term Treasury Management Investments

Limit	***Limit 2023/24 £m***	***Actual 2023/24 £m***
Fixed-rate investments with maturities over one year	25	0
Enhanced cash funds	7.5	5.0
Short-dated bond funds	25	14.7
Property funds	50	28.3

4.9. Liability Benchmark

The liability benchmark is not a single measure but consist of four balances:

- Loans Capital Financing Requirement: calculated in accordance with the definition in the Prudential Code. This excludes any part of the Capital Financing Requirement related to other long-term liabilities rather than borrowing.

- Existing loan debt outstanding: the authority's existing loans that are still outstanding.

- Net loans requirement: the authority's gross loan debt less treasury management investments at the financial year-end.

- Liability benchmark (or gross loans requirement) equals net loans requirement plus a short-term liquidity allowance. A short-term liquidity allowance means an adequate (but not excessive) allowance for a level of excess cash to be invested short term to provide access to liquidity if needed.

Table 9: Liability Benchmark

	Budget 2023/24 £m	***Actual 2024/25 £m***
Capital Financing Requirement (excluding other long-term liabilities	456.112	447.624
Loan debt outstanding	358.800	357.238
Net loans requirement	242.754	243.624
Liability benchmark (or gross loans requirement)	267.754	268.624

The loan debt outstanding exceeds the gross loans requirement which indicates there is excess cash available for investment.

5. Treasury Management Strategy

5.1. During 2023/24 the Council complied with all of the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low risk approach.

5.2. The Council is aware of the risks of passive management of the treasury portfolio that has been followed by some councils and has taken steps to monitor the proactive management of the debt and investments over the year with the support of its treasury management advisers. For example, our strategy is to have a mixture of in-house and externally managed funds. The in-house funds range from call accounts and money market funds to meet short term cash flow requirements, to notice accounts and fixed term deposits for monies that are invested for periods of up to one year depending on liquidity requirements. The externally managed funds range from an enhanced cash fund, short-dated bond funds and property funds to invest monies into the medium and longer term.

5.3. Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's in-house investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

5.4. The bank base rate increased incrementally from 4.25% to 5.25% during the year which positively impacted the investment return on monies being managed in-house.

5.5. The monies being managed by external fund managers were all impacted by the prevailing market conditions to varying extents. The income distributions held up well across the fund managers, with higher returns achieved the shorter the term of the underlying assets. The enhanced cash fund had higher income distributions than the short-dated bond funds, which in turn had higher income distributions than the property funds.

5.6. The externally managed funds were impacted in different ways with regard to the value of the units. The value of the enhanced cash fund was affected favourably by the prevailing market conditions but to a lesser extent than the short-dated bond funds. However, there were decreases in the property fund unit values due to continuation of lower property valuations across many sectors, with the impact depending on the mix of properties in each fund. Even though the property funds reduced in value by £2.159M it should be noted that this was a far smaller reduction than the decrease during 2022/23 of £6.555M. Due to the current circumstances the Lothbury property fund was impacted more than the Patrizia fund. (See paragraphs 9.5 to 9.10.)

5.7. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve is used to capture all the changes in the unit value of the funds so they do not affect the General Fund balance. (See sections 7, 8 and 9 for the performance of the externally managed funds.

5.8. Long term interest rates from the Public Works Loans Board (PWLB) fluctuated throughout 2023/24 in response to economic events: 10 year PWLB rates between 4.23% and 5.56%; 25 year PWLB rates between 4.58% and 5.96% and 50 year PWLB rates between 4.27% and 5.74%. These rates are after the PWLB ‘certainty rate’ discount of 0.20%.

5.9. No new PWLB loans were taken out during 2023/24.

5.10. The level of PWLB borrowing at £347.332m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council’s prudential indicators and is proportionate, prudent, affordable and sustainable.

6. Borrowing

PWLB and short-term borrowing

6.1. The table below summarises the PWLB borrowing activities during the financial year 2023/24:

Table 10: PWLB borrowing

Quarter	Borrowing at beginning of quarter (£m)	New Borrowing (£m)	Re-financing (£m)	Borrowing repaid (£m)	Borrowing at end of quarter (£m)
April to June 2023	347.3	0.0	0.0	0.0	347.3
July to September 2023	347.3	0.0	0.0	0.0	347.3
October to December 2023	347.3	0.0	0.0	0.0	347.3
January to March 2024	347.3	0.0	0.0	0.0	347.3*

* All PWLB loans are fixed rate maturity loans.

6.2. The Council's outstanding PWLB borrowing as at 31st March 2024 was:

- Southend-on-Sea City Council £347.3m*
- ECC transferred debt £8.8m

* £273.1m General Fund and £74.2m Housing Revenue Account.

6.3. Repayments in 2023/24 were:

- Southend-on-Sea City Council £0.000m
- ECC transferred debt £0.428m

6.4. Outstanding debt relating to services transferred from Essex County Council (ECC) on 1st April 1998, remains under the management of ECC. Southend City Council reimburses the debt costs incurred by the County. The debt is recognised as a deferred liability on our balance sheet.

6.5. The table on the next page summarises our PWLB borrowing and ECC transferred debt position as at the end of 2023/24:

Table 11: Debt position

	31 March 2024		31 March 2023	
	Principal (£000s)	Average Rate (%)	Principal (£000s)	Average Rate (%)
-PWLB – Fixed	347,332*	3.46	347,332*	3.46
-ECC Transferred Debt	8,788	1.87	9,216	2.33

* £273.1m General Fund and £74.2m Housing Revenue Account.

6.6. Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate.

6.7. In November 2007 the PWLB changed its structure of interest rates so that any early repayment of PWLB debt has a higher repayment rate applied. No PWLB restructuring was carried out in 2023/24 due to the higher cost of PWLB repayments making it uneconomical and giving no benefit to the Council.

6.8. The total PWLB interest payments during the year were £12.021m, which is the same as the original budget. It had been assumed in the budget that the Council would not take out any loans during 2023/24 and no new loans were taken out.

6.9. During the year no short-term borrowing was undertaken for cash flow purposes.

Funding for Invest to Save Schemes

6.10. Capital projects have been completed on energy efficiency improvements at the new Beecroft Art Gallery, replacement lighting on Southend Pier, lighting replacements at University Square Car Park and LED lighting at the Priory Park workshop which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.

6.11. To finance these projects in total the Council has taken out interest free loans of £0.161m with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for periods of five years with equal instalments to be repaid every six months. There are no revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.016m of these loans were repaid during the year. At 31 March 2024 the loans regarding the lighting replacements at University Square Car Park and replacement lighting on Southend Pier have been fully repaid. The total loan amounts outstanding for the energy efficiency improvements at the new Beecroft

Art Gallery and LED lighting at the Priory Park workshop is £0.003m and these are due to be repaid during 2024/25 and 2025/26 respectively.

6.12. At the meeting of Cabinet on 23rd June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance 'invest to save' finance from L1 Renewables Ltd. Repayments of £0.173m were made during the year and the balance outstanding at 31 March 2024 was £8.029m.

7. Investments

7.1. The table below summarises the Council's investment position at the end of 2023/24 (the average rates for the externally managed funds include the changes in unit price):

Table 12: Investment position

	31 March 2024	2023/24		31 March 2023	2022/23	
	Principal (£000s)	Average Balance (£000s)	Average Rate (%)	Principal (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts #	19,038	23,542	4.64	19,017	23,740	2.27
Money Market Funds	14,000	31,148	5.08	21,000	39,285	2.03
Notice accounts	10,000	2,842	5.75	0	18,377	0.70
Fixed Term Deposits	22,500	30,615	5.17	27,500	22,787	2.96
Total investments managed in-house	**65,538**	**88,147**	**5.02**	**67,517**	**104,189**	**2.06**
Enhanced Cash Funds	5,034	4,996	5.49	4,962	4,983	0.74
Short Dated Bond Funds	14,697	14,308	7.06	14,262	14,366	(2.37)
Property Funds	28,345	29,703	(3.54)	30,504	35,551	(15.19)
Total externally managed funds	**48,076**	**49,007**	**0.47**	**49,728**	**54,900**	**(10.39)**
Total investments@	**113,614**	**137,154**	**3.39**	**117,245**	**159,089**	**(2.24)**

This includes the council's main current account.
@ This excludes the cash held by schools.

7.2. In summary the key factors to note are:

- An average of £88.1m of investments were managed in-house. These earned £4.434m of interest during the year at an average rate of 5.02%. This is 0.06% above the average SONIA Rate and 0.01% below the average bank base rate.

- An average of £5.0m was managed by an enhanced cash fund manager. During the year this earned £0.203m in income distributions at an average rate of 4.07% and the value of the fund increased by £0.071m at an average rate of 1.42%, giving a combined return of 5.49%.

- An average of £14.3 was managed by two short-dated bond fund managers. During the year these earned £0.575m in income distributions at an average rate of 4.02% and the value of the funds increased by £0.437m at an average rate of 3.04%, giving a combined return of 7.06%.

- An average of £29.7m was managed by two property fund managers. During the year these earned £1.107m in income distributions at an average rate of 3.73% and the value of the funds decreased by £2.159m at an average rate of –7.27%, giving a combined return of –3.54%.

- In total the value of the externally managed funds decreased by a net of £1.651m due to the changes in the unit price. This is set out in the table below:

Table 13: Externally managed funds – changes in unit price

Fund	Table Number	Amount (£m)
Payden Sterling Reserve Fund	16	0.071
AXA Sterling Credit Short Duration Bond Fund	17	0.210
Royal London Investment Grade Short Dated Credit Fund	18	0.227
Patrizia Hanover Property Unit Trust	19	(0.782)
Lothbury Property Trust	20	(1.377)
Total net decrease due to changes in unit price		**(1.651)**

7.3. In line with the capital finance and accounting regulations a Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the externally managed funds and these will not impact the revenue account, with only the income distributions impacting that. As a total over all the investments, £6.319m of interest and income distributions were received during the year. The total investment income (including the movement on the unit price of externally managed funds) was £4.668m, giving a combined return of 3.39%.

7.4. Overall, the actual rate on investment interest and income distributions earned in 2023/24 (excluding movements on the unit price of externally managed funds) was 4.59% compared to a forecast of 2.78% which was included in the budget. This forecast was based on the best estimates of balances and future interest rates at the time the budget was set and did not envisage the further successive bank base rate rises as a reaction to the rate of inflation not reducing as quickly as hoped.

7.5. The Council earned a total of £6.319m of interest and investment income through the investment of surplus funds both in-house and with the fund managers. The interest earned was £3.083m higher than the budgeted figure of £3.236m. This was due to the bank base rate increasing faster and by more than expected, due to the Bank of England's response to the rate of inflation being slower to reduce than expected. These forecasts were based on the best estimates at the time the budget was set.

7.6. The Council's investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, which has been implemented in the 2023/24 Annual Treasury Management Investment Strategy approved by the Council on 23 February 2023. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.7 The majority of the cash balances held by the Council are required to meet short term cash flow requirements and therefore throughout the year monies were placed 8 times into Money Market Funds. In the light of the banking crisis and the prevailing financial market conditions there has been greater emphasis on counterparty risk and the security of the principal sums invested.

The table below shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 14: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
Blackrock	Money Market Fund (Various Counterparties)	5	57
Aberdeen Liquidity Fund	Money Market Fund (Various Counterparties)	2	20
Goldman Sachs	Money Market Fund (Various Counterparties)	1	5
Total		**8**	**82**

7.8 In addition to the above, use was also made of call accounts during the year, because they provide instant access to funds. This meant that funds were available for unexpected cash flow events to avoid having to pay higher rates to borrow from the market. During 2023/24 an average of £23.5m was held in such accounts.

7.9 During 2023/24 for cash balances that are not needed to meet immediate or very short term cash flow requirements an average of £2.8m was invested in the following notice account:

- a 35-day notice account with Santander.

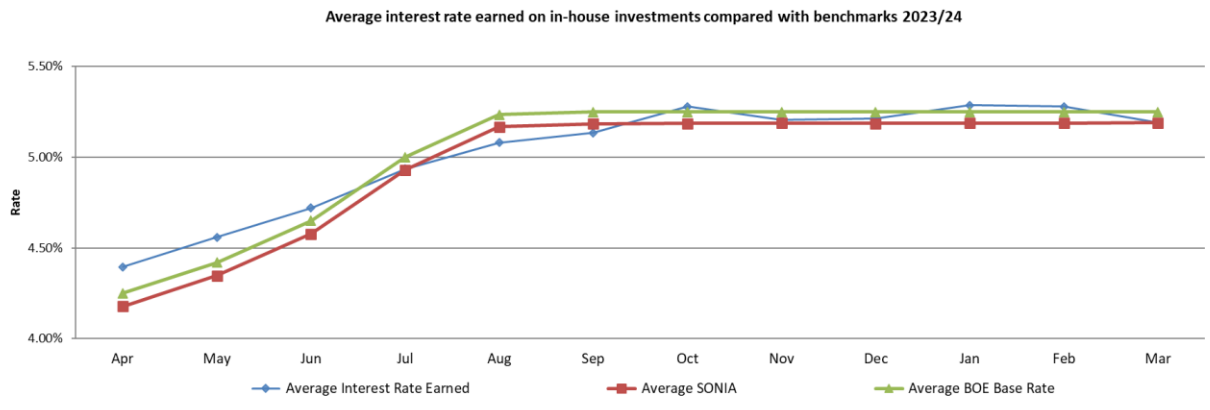
7.10 An average of £30.6m was also invested in fixed term deposits, with the length of deposit depending on the liquidity requirements. The table below shows the fixed term deposits held during the year:

Table 15: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK Plc	21/10/2022	23/10/2023	367	5.00	5
Santander UK Plc	14/11/2022	14/11/2023	365	4.95	10
Lloyds Bank Corporate Markets	29/12/2022	29/06/2023	182	4.33	2.5
Lloyds Bank Corporate Markets	29/12/2022	29/09/2023	274	4.71	10
National Bank of Kuwait (International) plc	17/05/2023	16/05/2024	365	5.27	12.5
Lloyds Bank Corporate Markets	29/09/2023	27/09/2024	364	5.87	10

7.11 The in-house performance during the year is compared to the average SONIA rate. The graph below shows the Council's performance month by month compared to this benchmark and to the average bank base rate.

Graph1: In-house investment performance compared to benchmarks



7.12 Averaged over the year, performance on in-house managed funds was 0.06% above the average SONIA rate for the year and 0.01% below the average base rate for the year. This was due to the interest rates on the Council's main current account having a rate below the bank rate throughout the year. The balances held in this account are held at instant access so that they are available for unexpected cash flow events to avoid having to pay higher rates to borrow from the market.

7.13 There were three interest rate rises during 2023/24 and although the rate of inflation began to reduce towards the latter part of 2023/24, it still remains above the Bank of England's target rate. Uncertainty remains over the timing of when any interest rate cuts will be made by the Bank of England as it seeks to meet their inflation target of 2%.

7.14 During the year the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £5.0m was invested in these funds during the year. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 16: Payden Sterling Reserve Fund

2023/24	£m	Investment return (%)
Value of fund at start of year	4.962	
Increase in fund due to value of unit price	0.071	1.42
Value of fund at end of year	5.033	
Income distributions	0.203	4.07
Combined investment income (income distribution plus change in fund value due to unit price)	0.274	5.49

8. Short Dated Bond Funds

8.1. Throughout the year medium term funds were invested in two short dated bond funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

8.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one to five year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the price of bonds in the fund so these funds are invested over the medium term with the aim of realising higher yields than short term investments.

8.3. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that the investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the income distributions will impact that and not the change in the unit price.

8.4. An average of £7.3m was managed by AXA Investment Managers UK Limited. The table on the next page shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 17: AXA Sterling Credit Short Duration Bond Fund

2023/24	£m	Investment return (%)
Value of fund at start of year	7.286	
Increase in fund due to value of unit price	0.210	2.87
Value of fund at end of year	7.496	
Income distributions*	0.274	3.75
Combined investment income (income distribution plus change in fund value due to unit price)	0.484	6.62

*Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2024/25.

8.5. An average of £7.0m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 18: Royal London Investment Grade Short Dated Credit Fund

2023/24	£m	Investment return (%)
Value of fund at start of year	6.975	
Increase in fund due to value of unit price	0.227	3.23
Value of fund at end of year	7.202	
Income distributions	0.301	4.29
Combined investment income (income distribution plus change in fund value due to unit price)	0.528	7.52

9. Property Funds

9.1. Throughout the year long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property Trust.

9.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.

9.3. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that the investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the income distributions will impact that and not the change in unit price.

9.4. An average of £18.8m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 19: Patrizia Hanover Property Unit Trust

2023/24	£m	Investment return (%)
Value of fund at start of year	19.111	
Decrease in fund due to value of unit price	(0.782)	(4.15)
Value of fund at end of year	18.329	
Income distributions*	0.702	3.73
Combined investment income (income distribution plus change in fund value due to unit price)	(0.080)	(0.42)

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2024/25.

9.5. An average of £10.9m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 20: Lothbury Property Trust

2023/24	£m	Investment return (%)
Value of fund at start of year	11.393	
Decrease in fund due to value of unit price	(1.377)	(12.69)
Value of fund at end of year	10.016	
Income distributions*	0.405	3.73
Combined investment income (income distribution plus change in fund value due to unit price)	(0.972)	(8.96)

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2024/25.

9.6. As reported in the quarter three report, the termination date of the Lothbury fund had been postponed from 31 December 2023 to 31 March 2024. Discussions continued between Lothbury and another property fund, UBS Triton, regarding the proposed merger, with Heads of Terms being agreed and UBS conducting advanced-stage due diligence on the Lothbury Fund and its assets.

9.7. During quarter four, a further EGM was convened on 29 February 2024 to seek approval from the unitholders to further postpone the termination date until 30 June 2024, to allow the merger discussions to conclude. The extension proposal resolution did not pass and the termination date remained as 31 March 2024.

9.8. More than 15% of the unitholders requested a further EGM to extend the termination date of 31 March 2024 for up to a further 60 days to allow those investors who wish to roll their Lothbury Fund units into the UBS Triton Property Unit Trust, to do so. Another EGM was held on 28 March 2024 and the resolution was passed.

9.9. As work continued to implement that resolution, the valuations for the fund's student accommodation assets were subject to a Material Valuation Uncertainty Clause due to the need for enhanced surveys to be carried out to ascertain the extent of any fire safety risks. It was not suggested that any risks could not be mitigated, just that those enhanced surveys were yet to be commissioned and would take some time to complete. Given the material uncertainty clause the view from both UBS and Lothbury was that it would be impossible for Lothbury to discharge its fiduciary duty to treat investors equally and to follow the terms of the resolution. The decision was made to proceed to termination of the fund on 30 May 2024, which was the date set in the resolution were it not possible to implement the terms of the resolution. This means that all unitholders will rank equally in terms of termination of the fund and distribution of fund proceeds.

9.10. Given the due diligence already undertaken, there was still a desire to accommodate rolling investors and Lothbury and UBS have been working on a mechanism to allow an efficient transfer of distribution proceeds directly into UBS Triton for those investors who wish to do so. The Council has opted to have its fund distributions re-directed to the Triton fund in exchange for units in that fund. The initial distribution was completed in the first week of June from the proceeds of the asset disposals that had taken place to that date. As the disposal programme progresses it is the intention of the fund managers that further distributions will be in the first week of each month.

10. Reasons for Decisions

10.1. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2023/24 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

11. Other Options

11.1. There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

12. Financial Implications

12.1. The financial implications of Treasury Management are dealt with throughout this report.

13. Legal Implications

13.1. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code.

14. Carbon Impact

14.1. None arising from this report.

15. Equalities

15.1. None arising from this report.

16. Consultation

The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

17. Background Papers

None.

18. Appendices

Appendix A - Prudential Indicators 2023/24

Report Authorisation

This report has been approved for publication by:		
	Name:	Date:
S151 Officer	Joe Chesterton	07/06/2024
Monitoring Officer	Susan Zeiss	12/06/2024
Executive Director(s)	Joe Chesterton	07/06/2024
Relevant Cabinet Member	Councillor Collins	11/06/2024

Prudential Indicators 2023/24

Table No.	Figures are for the financial year unless otherwise titled in italics	2023/24 Budget	2023/24 Actual
1	Capital Expenditure	£56.126m	£50.066m
2	Capital Financing Requirement (CFR)	£455.737m	£449.798m
3, 4	Gross Borrowing at 31 March	£358.800m	£357.238m
5	Authorised Limit *(against maximum position)*	£400.000m	£400.000m
5	Operational Boundary	£390.000m	£390.000m
5	Ratio of financing costs to net revenue stream	10.48%	10.18 %
6	Net Income from Commercial and Services Investments to Net Revenue Stream	2.44%	2.12%
7	Maturity structure of fixed rate borrowing: *(against maximum position)*		
	Under 12 months	20%	2%
	12 months to 2 years	30%	0%
	2 years to 5 years	40%	10%
	5 years to 10 years	60%	22%
	10 years to 20 years	60%	17%
	20 years to 30 years	80%	3%
	30 years and above	80%	46%
	Total	N/A	100%
8	Long Term Treasury Management Investments		
	Fixed-rate investments with maturities over one year	25	0
	Long term investments with no fixed maturity date:		
	Enhanced cash fund	7.5	5.0
	Short-dated bond funds	25	14.7
	Property funds	50	28.3
9	Liability benchmark		
	Capital Financing Requirement (excl. other long-term liabilities	£456.112m	£447.624m
	Loan debt outstanding	£358.800m	£357.238m
	Net loans requirement	£242.754m	£243.624m
	Liability Benchmark (or gross loans requirement)	£267.754m	£268.624m