

Supplemental Item for Governance Committee

Tuesday 16 July 2024 at 6.30pm
in Council Chamber, Council Offices,
Market Street, Newbury

Part I

Page No.

7 **Treasury Management Annual Report**

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To provide an overview of the treasury management activity for financial year 2023/24 as at 31st March 2024.

Sarah Clarke .

Sarah Clarke

Service Director (Strategy & Governance)

For further information about this item, or to inspect any background documents referred to in Part I reports, please contact Ben Ryan (Democratic Services Officer)

e-mail: Benjamin.Ryan@westberks.gov.uk

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Treasury Outturn Report Financial Year 2023/24

Committee considering report:	Governance Committee
Date of Committee:	
Portfolio Member:	Councillor Iain Cottingham
Date Head of Service agreed report: <i>(for Corporate Board)</i>	31.5.2024
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	G4520

1 Purpose of the Report

The Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2023/24 as at 31st March 2024.

2 Recommendation

The Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2023/24 as at 31st March 2024 and is deemed the Council’s annual treasury report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council’s annual budget. The Council did not take on new external borrowing in the reporting period and focused on utilising internal resources and cash flows in order

	to mitigate interest rate risk due to the rising interest rate environment.			
Human Resource:	Not applicable			
Legal:	The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve an annual treasury management strategy, a mid-year and outturn review. This report satisfies the requirement.			
Risk Management:	All investments are undertaken with a view to minimising the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets parameters to ensure this. Key treasury indicators are adopted as part of the annual strategy and compliance with these indicators is detailed in section 7 of this report.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		

B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:	X			The treasury function supports the delivery of the Council Strategy through the financing of the Council's approved Capital Programme and monitoring of Council cash flows.
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director for Resources and s151 Officer.			

4 Executive Summary

- 4.1 The Council's Investment and Borrowing Strategy for 2023/24 was approved by Council in March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.
- 4.2 Recent economic instability has been reflected in significant increases to Local Government borrowing from the PWLB (Public Works and Loans Board), with rates for a 25 year annuity loan now on average at between 5% - 5.5% compared to a historic average of 2.5%. In a rising interest environment, the Council will face risks of increased cost on any new external borrowing undertaken to support delivery of planned capital works, in addition to general cost inflationary pressures. The Council's chief objective

when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. During the current financial year officers have sought to mitigate risk through a strategy of minimising undertaking long term borrowing in respect of PWLB financing and, instead focusing on supporting delivery of the capital programme through short term borrowing and cash balances. The strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, has reduced risk and keep interest costs low.

- 4.3 The Council is a long-term borrower, i.e. in order to finance future planned capital expenditure and to maintain liquidity levels of £10 million the Council is required to regularly borrow on a regular basis. The table below shows the increasing loans requirement to support planned capital expenditure and maintain liquidity over the mis term.

Liability Benchmark	31.3.24	31.3.25	31.3.26
	Actual	Forecast	Forecast
	£000	£000	£000
Loans Capital Financing requirement	£283,063	£305,140	£336,956
Less: Balance sheet resources	-£51,363	-£48,363	-£49,863
Net loans requirement	£231,700	£256,776	£287,092
Plus: Liquidity allowance	£10,000	£10,000	£10,250
Liability benchmark	£241,700	£266,776	£297,342

- 4.4 During 2023/24 the level of loans undertaken with the PWLB was minimised and short-term borrowing from the Local Authority market was maximised in accordance with the approved Investment & Borrowing Strategy. The table below details the Councils borrowing position as at 31st March 2023.

Borrowing position as at 31 March 2024	31/03/2023	Net Movement	31/03/2024
	Balance		Balance
	£m		£m
Public Works Loan Board	(186.3)	(20.3)	(206.6)
Community Bond	(0.6)	0.2	(0.4)
Short term borrowing from	(3.0)	(39.0)	(42.0)
Total Borrowing	(189.9)	(59.1)	(249.0)

- 4.5 In November 2023 the Council's Executive agreed a revised Property Investment Strategy focused on disposing of the commercial property portfolio over the longer term. Through generation of capital receipts from disposal of the portfolio the requirement for capital financing via debt can be minimised reducing the resulting revenue costs. The commercial property portfolio is valued at £40.8 million in the draft 2023/24 accounts, post disposal of one retail asset (Sainsburys, Northallerton). By focusing on alternative capital financing through application of capital receipts and maximising access to the short term Local Authority market the Council is reducing exposure to interest rate risk and ultimately pressure on the Councils' General Fund.
- 4.6 The high cost environment for capital financing remains a risk for the Council, however, the Council has made provision to capital financing within the revenue budget and Medium Term Financial Strategy. The Council monitors the Treasury management

performance through a number of adopted indicators, compliance against these indicators is detailed in section 7 of this report. The Section 151 Officer overall is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

5 Supporting Information

Introduction

- 5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 5.2 The Council's treasury management strategy (known as the Investment & Borrowing Strategy), for 2023/24 was approved by Council in March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Investment and Borrowing Strategy.

Background

- 5.3 On 31st March 2024, the Council had net borrowing (i.e. gross external borrowing less net investments) of £231.7 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below which is based on the Council's 2023/24 draft financial statements.

Balance Sheet Summary	31/03/2024
	Actual
	£m
General Fund CFR	292.9
Less: Other Debt Liabilities: Waste Private Finance Initiative	9.8
Loans CFR	283.1
External Borrowing	249.0
Internal Borrowing	34.1
Usable Reserves	42.7
Working Capital	8.7
Net Investments	17.3

Borrowing Position as at 31st March 2024

- 5.4 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. During 2023/24 the Council primarily focused on short-term borrowing through utilising the Local Authority

market. This approach reduced the Council's exposure to interest rate risk in what is a high cost borrowing environment due to the economic climate. However, at the year end the Local Authority market retracts due to falls in net collectable rates (Council Tax and business rates), therefore at the yearend the Council under a series of small loans of £5 million each (£25 million in total) over an average loan period of 12- 18 months. The duration of loan spread enables the Council to manage cashflows and continues to reduce interest rate risk. The expectation is that the cost of borrowing will fall towards the second half of financial year 2024/25. By entering into shorter term loans the Council will have the flexibility to refinance at a lower rate in the future and reduce exit penalties from existing financing. At 31st March 2024 the Council held £206.6 million of loans. Outstanding loans on 31st March are summarised in the table below.

Borrowing position at 31 March 2024	31/03/2023	Net Movement	31/03/2024
	Balance		Balance
	£m	£m	£m
Public Works Loan Board	(186.3)	(20.3)	(206.6)
Community Bond	(0.6)	0.2	(0.4)
Local Authorities (Short-Term)	(3.0)	(39.0)	(42.0)
Total Borrowing	(189.9)	(59.1)	(249.0)

- 5.5 In respect of a comparator of the Council's weighted average interest rate for borrowing the table below shows the year-on-year average. The undertaking of debt financing from the PWLB has increased the weighted average, however, as noted previously the duration of loans sourced in 12-18 months and does not expose the Council to a long-term interest rate exposure risk should rates fall as anticipated.

West Berkshire Council weighted average interest rate for borrowing	31/12/2023	31/03/2024	31/03/2024
	Weighted Average	Weighted Average	Weighted Average
	Rate	Rate	Maturity
	%	%	(years)
Public Works Loan Board	3.36	3.60	26.17
Community Bond	1.20	1.20	1.54
Local Authorities (Short-Term)	5.69	5.97	0.66
Total Borrowing	3.52	4.00	26.57

Other Debt Activity as at 31st March 2024

- 5.6 Although not classified as borrowing, the Council also has a Private Finance Initiative (PFI) liability in respect of the Padworth Waste Recycling Facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £9.8 million as at 31st March 2024 compared to £10.7 million as at 31st March 2023. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

Investment Activity as at 31st March 2024

- 5.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date, the Council's

investment balances vary due to timing differences between income and expenditure, as detailed in the table below.

Investment Summary	31/03/2023	Net Movement	31/03/2024	31/03/2024	31/03/2024
	Balance		Balance	Income Return	Weighted Average Maturity
	£m		£m	%	(Days)
Banks & Building Societies (Unsecured)	5.3	0.3	5.6	3.22	1
Government (Incl. Local Authorities)	1.0	(1.0)	0.0	4.68	0
Money Market Funds	14.4	(2.7)	11.7	4.96	1
Total Investments	20.7	(3.4)	17.3	4.64	1

5.8 Both the CIPFA TM Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Non Treasury Investments as at 31st March 2024

5.9 The definition of investments in the CIPFA TM Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return. At the 31 March 2024 the Council held £53.7 million of such investments in directly owned property.

5.10 Property that the Council has borrowed specifically to fund the purchase is valued in the draft 2023/24 accounts at £40.8 million. During the financial year the Council disposed of one retail asset (Sainsbury's, High Street, Northallerton), generating a capital receipt of £6 million (asset valuation in the 2022/23 draft accounts was £6.8 million, the valuation was based at 31st December 2022). The Council is foregoing an annual gross income of £437k (pre capital financing costs), relating to the asset. The disposal was in line with the revised Property Investment Strategy that was agreed by the Council's Executive in November 2023. The remaining commercial property portfolio is valued as follows as at 31st March 2024 and has reduced in value over the reporting year by £4.6 million.

Names and address of property	Property type	Valuation at 31 Dec 2022 £'000	Valuation at 31 March 2024 £'000	Movement £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	4,155	4,155	0
79 Bath Road, Chippenham	Retail Warehouse	9,250	9,250	0
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,675	1,585	-90
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	5,825	5,495	-330
303 High Street and 2 Waterside South, Lincoln	Retail	2,900	2,550	-350
3&4 The Sector, Newbury Business Park	Office	14,950	11,100	-3,850
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,700	6,700	0
TOTAL		45,455	40,835	-4,620

5.11 The Council holds a further £12.8 million of investment property where the purchase has not been directly funded through borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998. Asset valuations are as follows:

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Names and address of property	Property type	Valuation at 31 Dec 2022 £'000	Valuation at 31 Dec 2023 £'000	Movement £'000
The Stone Building, The Wharf, Newbury	Café	25	25	0
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	35	40	5
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1,750	1,800	50
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1,000	1,050	50
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70	70	0
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	375	375	0
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	520	520	0
London Road Industrial Estate, Newbury	Industrial	9,350	9,000	-350
TOTAL		13,125	12,880	-245

5.12 The estimated rate of return on these investments for 2023/24 is summarised in the tables below. The rate of return is based on the latest valuation of the properties included in the Council's draft 2023/24 accounts. The estimated net income for 2023/24 is based on the revenue outturn as at 31st March 2024.

Directly Owned Property: 'Commercial Property	£'000
Valuation at 31 March 2023	52,290
Valuation at 31 March 2024	40,835
Loss on change in market value during 2023/24	-11,455
23/24 net income	3,063
23/24 rate of return excluding MRP and interest	-16.0%
MRP costs 23/24	-857
Interest costs 23/24	-1,529
Outturn, net of MRP and interest	676
22/23 rate of return, after MRP and interest	-20.6%

Directly Owned Property: 'Investment Property	£'000
Valuation at 31 March 2023	13,125
Valuation at 31 March 2024	12,880
Loss on change in market value during 2023/24	-245
23/24 net income	525
23/24 rate of return excluding MRP and interest	2.1%

5.13 The rate of return shown in tables above does not include any change in value of the properties during the period. Due to the nature of direct investment in property there is additional risk (upside and downside) that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and no rental income being recovered adversely impacting on achievable rates of return. These risks have historically been managed through allocation of General Fund Reserve to Earmarked Reserves as part of annual budget setting processes. However, for financial year 2023/24 no such provision has been made due to pressure on the Council's overall reserve position. In financial year 2023/24, the commercial property portfolio has seen a net decrease in value over the reporting period, driven by downturns on valuations for retail warehousing and office space. The Council has approved a revised Property Investment Strategy with a change of focus from management of the portfolio to longer term disposal, reducing the Council's financial exposure to loss of income through voids and costs associated with maintain the assets.

Proposals

No proposals are made within this report. The report is to note only.

6 Other options considered.

Not applicable.

7 Conclusion

7.1 The Council measures the financial performance of its treasury management activities the tables below show the overall performance of borrowing and investments over the reporting period:

Borrowing performance	Actual Interest Cost 01/04/23-31/03/24	Budgeted Interest Cost 01/04/23- 31/03/24	(Over)/Under	Actual Interest Rate @ 31/04/2024
	£'000	£'000	£'000	%
Short term borrowing	(523)	(9)	(514)	5.97
Public Works Loan Board	(7,233)	(6,825)	(408)	3.60
Community Bond	(9)	0	(9)	1.20
Total Borrowing	(7,765)	(6,834)	(931)	4.00
PFI Debt	(651)	(731)	79	6.10
Total Debt	(8,416)	(7,564)	(852)	

Investment Performance	Actual Interest Received 01/04/23- 31/03/24	Budgeted Interest Income 01/04/23- 31/03/24	Over/(Under)	Actual Interest Rate YTD
	£'000	£'000	£'000	%
Short-Term Investments	335	503	(168)	4.68
Cash and Cash Equivalents	769	5	764	4.62
Total Treasury Investments	1,104	508	596	4.64

7.2 Compliance: The S151 Officer is required to report on compliance against the adopted CIPFA TM Code and the Council's approved Investment and Borrowing Strategy. The Council's performance against adopted benchmarks is as follows:

- (a) Compliance with the authorised limit and operational boundary for external debt. The Council is required to ensure that capital financing is reasonable and affordable in the long term. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Within the operational boundary and authorised limit allowance was made to allow to debt financing of the planned capital programme, existing financing, PFI liabilities and anticipated further lease financing with the adoption of IFRS 16 Leases. The Council remained compliant with the operational boundary and authorised limit during the reporting period.

Debt Limits	Maximum during period £m	31/03/2024	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
		Actual £m	£m	£m	
Borrowing	(249.0)	(249.0)	(359.6)	(373.6)	Yes
PFI and Finance Leases	(10.7)	(10.0)	(11.0)	(13.2)	Yes
Total Debt	(259.7)	(258.9)	(370.6)	(386.8)	Yes

- (b) Compliance with approved Investment Counter Party Limits. The Council may invest its surplus funds with any of the counterparty types detailed in the approved Investment & Borrowing Strategy, subject to specified limits. During the reporting period the Council has not breached the approved counter party limits. Should a limit be breached it is reported to the Council's Treasury Management Group as part of monthly performance reporting.

Counterparty Limits	Maximum Invested	31/03/2024 Actual Invested	2023/24 Individual Counterparty Limit	Complied?
	£m	£m	£m	Yes/No
The UK Government (Debt	22.0	0.0	Unlimited	Yes
UK Local Authorities (including Police, Fire Authorities and similar bodies)	0.0	0.0	8.0	Yes - Individual Limit per counterparty has
UK Building Societies (ranked 1-	0.0	0.0	8.0	Yes
UK Building Societies (ranked	0.0	0.0	6.5	Yes
UK Building Societies (ranked	0.0	0.0	5.0	Yes
UK Banks and other financial	9.0	5.6	8.0	Yes
Money Market Funds (Sterling denominated)	22.1	11.7	8.0	Yes - Individual Limit per counterparty has
Other non-local authority UK	0.0	0.0	8.0	Yes
Registered Providers, Charities	0.0	0.0	2.5	Yes
Council owned companies	0.0	0.0	5.0	Yes
Council owned joint ventures	0.0	0.0	5.0	
Strategic pooled funds	0.0	0.0	8.0	Yes
Real estate investment trusts	0.0	0.0	8.0	

- 7.3 The Council measures and manages its exposures to treasury management risks using the Maturity Structure of Borrowing. This indicator is set to control the Council's exposure to refinancing risk.

Maturity Structure	31/03/24 Actual	Upper Limit	Lower Limit	Complied?
Under 12 Months	18.77%	30.00%	0.00%	Yes
12 Months and within 24 Months	11.85%	30.00%	0.00%	Yes
24 Months and within 5 Years	5.14%	30.00%	0.00%	Yes
5 Years and within 10 Years	11.02%	30.00%	0.00%	Yes
10 Years and within 15 Years	10.84%	30.00%	0.00%	Yes
15 Years and within 20 Years	5.18%	30.00%	0.00%	Yes
20 Years and within 25 Years	5.38%	30.00%	0.00%	Yes
25 Years and within 30 Years	2.74%	30.00%	0.00%	Yes
30 Years and within 35 Years	2.62%	30.00%	0.00%	Yes
35 Years and within 40 Years	0.83%	30.00%	0.00%	Yes
40 Years and within 45 Years	25.59%	30.00%	0.00%	Yes
45 Years and within 50 Years	0.02%	35.00%	0.00%	Yes

- 7.4 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

8 Appendices

There are no appendices to this report.

Officer details:

Name: Shannon Coleman-Slaughter
Job Title: Service Director for Finance, Property & Procurement. Deputy s151 Officer
Tel No: 01635 503225
E-mail: Shannon.colemanslaughter@westberks.gov.uk

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