



## AUDIT & GOVERNANCE COMMITTEE

Monday, 10 July 2023

<b>Subject</b>	TREASURY MANAGEMENT 2022/23 OUTTURN & 2023/24 QUARTER 1 REPORT
<b>Report by</b>	Councillor Vince Langdon-Morris Cabinet Member with Responsibility for Resources and Value for Money
<b>Supporting Officer</b>	Lorraine Rogers Acting Chief Finance Officer and Section 151 Officer <a href="mailto:lorraine.rogers@eastsoffolk.gov.uk">lorraine.rogers@eastsoffolk.gov.uk</a>  Chris Bally Chief Executive <a href="mailto:Chris.bally@eastsoffolk.gov.uk">Chris.bally@eastsoffolk.gov.uk</a>

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is <b>NOT</b> in the public interest to disclose the exempt information.	Not applicable
<b>Wards Affected:</b>	All Wards

## Purpose and high-level overview

### **Purpose of Report:**

The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

The Authority's treasury management strategy for 2023/24 was approved at a meeting on 25<sup>th</sup> January 2023. The Authority has previously borrowed and currently invests 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 Authority's treasury management strategy.

### **Options:**

To comply with the CIPFA Treasury Management code the report is required to be produced and presented to members, and consequently, no other options have been considered.

### **Recommendation/s:**

1. That having commented on the 2022/23 Outturn Report incorporating the 2023/24 Quarter 1 Report on the Council's Treasury Management activity, the Audit and Governance Committee note its contents.
2. That the revised Treasury Management Investment Strategy in Appendix B be approved

## Corporate Impact Assessment

### **Governance:**

The report complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management code to provide information and scrutiny on the Councils Treasury Management function.

### **ESC policies and strategies that directly apply to the proposal:**

East Suffolk Council Strategic Plan

### **Environmental:**

No impacts.

### **Equalities and Diversity:**

No impacts.

### **Financial:**

Management of the Council's cash flows; banking; and capital market transactions.

<b>Human Resources:</b> No impacts.
<b>ICT:</b> No impacts.
<b>Legal:</b> No impacts.
<b>Risk:</b> Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the “management of the Council’s cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.” This Council has adopted the Code and complies with its requirements.

<b>External Consultees:</b>	None
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### Strategic Plan Priorities

Select the priorities of the <a href="#">Strategic Plan</a> which are supported by this proposal: <i>(Select only one primary and as many secondary as appropriate)</i>		Primary priority	Secondary priorities
<b>T01</b>	<b>Growing our Economy</b>		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
<b>T02</b>	<b>Enabling our Communities</b>		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being, and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
<b>T03</b>	<b>Maintaining Financial Sustainability</b>		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input type="checkbox"/>
<b>T04</b>	<b>Delivering Digital Transformation</b>		

P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
<b>T05</b>	<b>Caring for our Environment</b>		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education, and influence	<input type="checkbox"/>	<input type="checkbox"/>
<b>XXX</b>	<b>Governance</b>		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>How does this proposal support the priorities selected?</b>			
The investment activity of the Treasury Management function supports the financial stability of the Council with any increase in return on investment providing additional income above budget to the general fund.			

## Background and Justification for Recommendation

<b>1 Background facts</b>	
1.1	<p>The Treasury Management Policy Statement for 2022/23 requires an Outturn report on the Treasury Management function to be produced annually.</p> <p>The report reviews performance of the treasury management function including prudential indicators for 2022/2 and incorporates a quarter 1 review of 2023/24.</p> <p><b>2022/23 Summary:</b></p> <ul style="list-style-type: none"> <li>• East Suffolk Council's short-term Investments totalled £73m, long term investments totalled £24.9m and liquidity investments totalled £15m as at 31st March 2023</li> <li>• Total Investments as at 31st March 2023 was £112.9m</li> <li>• Interest received on investment balances during the year totalled £2.59m.</li> <li>• East Suffolk Council operated within its approved Prudential Indicator Limits for 2022/23.</li> </ul> <p><b>2023/24 Summary to date:</b></p> <ul style="list-style-type: none"> <li>• Total investments at 30<sup>th</sup> June 2023 totalled £118.56m.</li> <li>• These investments are summarised as Short-term Investments £68.00m, Long-term Investments £24.89m and Liquidity Investments £25.67m.</li> <li>• Interest received to 30<sup>th</sup> June 2023 totals £0.25m.</li> </ul>

## 2 Current position

### 2.1 TREASURY MANAGEMENT OUTTURN 2022/23

### 2.2 BORROWING

During 2022/23 the Council did not enter any new external borrowing arrangements.

The Councils loan portfolio for 2022/23 can be seen in the table below and is summarised by £60.40m attributable to the HRA which includes £58m of Self-Financing loans taken out in 2011/12 and £5.25m of General Fund loans.

Loans as at 31 <sup>st</sup> March 2023	Principal £m	Rate Range %	Maturity Range (years)
PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans	65.65	3.01 - 8.38	1.0- 40.0
<b>Total</b>	<b>65.65</b>	<b>3.01 - 8.38</b>	<b>1.0 - 40.0</b>

### 2.3 INVESTMENT ACTIVITY

The average cash balances held during the year was £149.02m with investment income received of £2.59m which exceeded the planned budget of £1.54m. This is mainly due to further short-term investments in the last quarter of 2022/23 benefiting from the continues upward trajectory in the Bank of England base rate combined with increased market competition during February and March.

	Balance at 1 <sup>st</sup> April 2022	Investment made	Investments repaid	Balance at 31 <sup>st</sup> March 2023
<b>INVESTMENTS</b>	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	107.50	250.30	-244.91	112.89

Details of the Councils investment balances at 31<sup>st</sup> March 2023 are shown in the table below.

Counterparty	Type of investment	Principal Balance	Duration	Start Date	Effective Maturity	Interest Rate
Bank 1	Instant Access	5,000,000	Overnight	N/A	N/A	2.15%
		<b>5,000,000</b>				
DMO	Fixed Term	5,000,000	6 Months (182 days)	02/12/2022	02/06/2023	3.400%
		<b>5,000,000</b>				
Local Authority - Peterborough C	Fixed Term	5,000,000	1 Year	14/04/2022	13/04/2023	1.20%
Local Authority - London Boroug	Fixed Term	5,000,000	1 Year	29/06/2022	28/06/2023	1.35%
Local Authority - London Boroug	Fixed Term	5,000,000	1 Year	27/07/2022	26/07/2023	1.60%
Local Authority - Darlington Borc	Fixed Term	5,000,000	364 days	01/09/2022	31/08/2023	2.30%
Local Authority - Cheltenham Bo	Fixed Term	3,000,000	6 months	13/10/2022	13/04/2023	3.00%
Local Authority - Suffolk County	Fixed Term	5,000,000	1 year	30/09/2022	29/09/2023	3.15%
Local Authority - Epping Forest D	Fixed Term	2,000,000	6 months	03/10/2022	14/04/2023	3.55%
Local Authority - Epping Forest D	Fixed Term	4,000,000	9 months	18/10/2022	18/07/2023	4.10%
Local Authority - London Boroug	Fixed Term	5,000,000	6 months	14/11/2022	15/05/2023	3.40%
Local Authority - Kirklees Council	Fixed Term	5,000,000	6 months	15/12/2022	15/06/2023	3.60%
Local Authority - North Lanarksh	Fixed Term	5,000,000	5 months	20/02/2023	20/07/2023	3.94%
Local Authority - West Berkshire	Fixed Term	2,000,000	6 months	23/02/2023	23/08/2023	3.95%
Local Authority - Fareham Borou	Fixed Term	5,000,000	6 months	23/02/2023	23/08/2023	3.96%
Local Authority - London Boroug	Fixed Term	5,000,000	6 months	15/03/2023	15/09/2023	4.40%
Local Authority - Harlow District	Fixed Term	2,000,000	114 days	08/03/2023	30/06/2023	4.30%
Local Authority - Blackpool Coun	Fixed Term	5,000,000	3 months	27/03/2023	27/06/2023	4.30%
		<b>68,000,000</b>				
Money Market Fund (MMF)	Instant Access	10,000,000	Overnight	N/A	N/A	3.35%
		<b>10,000,000</b>				
Pooled Property Fund 1	Notice - Long Term	9,035,485	N/A	29/11/2017	N/A	3.91%
Pooled DIF 1	Notice - Long Term	4,502,353	N/A	25/11/2019	N/A	3.91%
Pooled DIF 2	Notice - Long Term	4,551,806	N/A	17/10/2019	N/A	2.60%
		<b>18,089,643</b>				
Local Authority - Watford Council		5,000,000	2 Years	29/09/2021	29/09/2023	0.20%
East Suffolk Services Ltd		1,800,000	10 years	02/03/2023	02/03/2033	7.35%
		<b>6,800,000</b>				
		<b>112,889,643</b>				

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2022/23.

Investments during the year included call accounts, deposits with UK Banks and Building Societies and Local Authorities, CCLA and NinetyOne. During the year there were no investments placed with counterparties outside of the UK. Externally Managed Pooled Funds: £19.90m of investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

#### 2.4 COMPLIANCE WITH PRUDENTIAL INDICATORS

The Council complied with its Prudential Indicators for 2022/23, these were approved by Full Council on 26<sup>th</sup> January 2022. The Prudential Indicators for 2022/23 can be found at Appendix A.

### 3 How to address current situation

#### 3.1 TREASURY MANAGEMENT QUARTER 1 REVIEW 2023/24

The East Suffolk Council Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 25<sup>th</sup> January 2023.

**3.2 DAILY CASH MANAGEMENT**

The Council’s counterparty list (investment list) is continuously reviewed and updated taking into account published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council’s Treasury Advisors, Arlingclose.

**3.3 INVESTMENT PORTFOLIO 2023/24**

The Council held £118.56m of investments at the 30<sup>th</sup> June 2023; the table below illustrates the maturity of investments over the forthcoming months and the average interest rate achieved on the investment.

	1st April 2023 £m	1st April Interest Rate %	30th June 2023 £m	30th June Interest Rate %
Call Accounts (Liquidity Funds)	18.77	3.40%	15.67	1.70%
Money Market Funds	10.00	3.35%	10.00	4.76%
Term Investments: upto 12 months	73.00	1.20% - 4.40%	68.00	1.60% - 4.60%
Term Investments: over 12 months	6.80	0.20% - 7.35%	6.80	0.20% - 7.35%
Property Investment Fund	9.04	4.49%	9.04	4.49%
Multi Asset Fund	9.75	3.36% - 3.82%	9.05	3.36% - 3.82%
<b>Total</b>	<b>127.36</b>		<b>118.56</b>	

**3.4 COMPLIANCE**

The Acting Chief Finance Officer reports that all treasury management activities undertaken during the first quarter of the financial year complied fully with the principles in the TM Code and the Authority’s approved Treasury Management Strategy.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

	2023/24 Quarter 1	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
<b>Borrowing</b>	£65.57m	£153m	£155m	Yes

Compliance with specific investment limits is demonstrated in the table below.

	2023/24 Q1 Maximum	30.6.2023 Actual	2023/24 Limit per Counterparty	Complied Yes/No
Any single organisation, except the UK Government	£525m	£76m	£25m	Yes
Unsecured investments with building societies	£15m	£0	£15m	Yes
Money Market Funds	£20m	£10m	£20m	Yes
Strategic Pooled funds	£60m	£18.09m	£20m	Yes
Subsidiaries	£10m	£1.6m	£10m	Yes

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.6.2023	2023/24 Target	Complied Yes/No
Portfolio average credit score	<b>4.8</b>	<b>4</b>	<b>Yes</b>

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	30.06.2023 £m	Impact of a +/- 1%	2023/24 Target £m	Complied Yes/No
sums subject to variable interest rates:				
Investments	15.00	-0.1/0.1	-0.15/0.15	Yes
Borrowing	0	0	-0.15/0.15	Yes

**Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:



3.5	<p><b>REVISED TREASURY MANAGEMENT INVESTMENT STRATEGY</b></p> <p>Following a review of the Treasury Management Strategy for 2023/24 a revised strategy at appendix B includes a requirement for any loans to businesses, subsidiaries, charities, parish councils and housing associations be approved by the Chief Finance Officer/S151 Officer rather than the Audit &amp; Governance Committee as previously adopted. Any new in year approvals will be reported back as part of the quarterly monitoring report to the Audit &amp; Governance Committee. This refinement to the policy aligns the process with the Financial Procedure rules included within the Councils constitution.</p>	Price risk indicator Q1	2023/24
		Limit on principal invested beyond year end	£5.0m
		Actual principal invested beyond year end	£1.8m
		Complied	Yes

#### 4 Reason/s for recommendation

4.1	The CIPFA Treasury Management code requires a report to be produced and noted by the Audit & Governance Committee of the Treasury Management outturn position for the previous financial year and a quarterly update on the current year.
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## Appendices

### Appendices:

<b>Appendix A</b>	Prudential Indicators Outturn position for 2022/23
<b>Appendix B</b>	Investment Strategy 2023/24

### Background reference papers:

None

## East Suffolk Council - Compliance with Prudential Indicators 2022/23

### 1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE

- 1.1 This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and in particular to consider the impact on the Council Tax and in the case of the HRA, housing rent levels.

	2022/23	2022/23	2022/23
	Estimated £m	In Year Forecast	Outturn £m
<b>Capital Expenditure</b>			
Non-HRA	43.15	39.94	<b>25.11</b>
HRA	24.64	6.64	<b>3.74</b>
<b>Total Capital Expenditure</b>	<b>67.79</b>	<b>46.58</b>	<b>28.85</b>

- 1.2 The £14.83m variance on non-HRA and the £2.9m HRA variance relates to programme delivery being deferred until 2023/24. These are reported as part of the Councils Outturn report for 2022/23.

### 2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM

- 2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost. The variances are primarily related to how the expenditure has been financed, with both the non-HRA and HRA benefiting from increased external financing and Reserve financing.

	2022/23	2022/23
	Estimated %	Outturn %
<b>Ratio of Financing Costs to Net Revenue Stream</b>		
Non-HRA	8.30	<b>1.61</b>
HRA	16.84	<b>14.74</b>

### 3 CAPITAL FINANCING REQUIREMENT

- 3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium-term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

3.2 The Council met this requirement in 2022/23.

	2022/23	2022/23
	Estimated £m	Outturn £m
<b>Capital Financing Requirement</b>		
Non-HRA	70.44	<b>69.31</b>
HRA	60.40	<b>60.40</b>
<b>Total</b>	130.84	<b>129.71</b>

#### 4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

4.1 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and provides headroom over and above for unusual cash movements. This limit was set at £175m for 2022/23, with the actual total borrowing being £65.65m.

4.2 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e., not worst case) levels of borrowing activity and was set at £173m for 2022/23 with the actual borrowing amount being £65.65m.

4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits.

#### 5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e., fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2022/23	2022/23
	Estimated %	Outturn %
<b>Upper Limit for Fixed Rate Exposure</b>	100	<b>100</b>
<b>Upper Limit for Variable Rate Exposure</b>	50	<b>0</b>

#### 6 MATURITY STRUCTURE OF FIXED RATE BORROWING

6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period and in particular in the course of the next ten years.

6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

<b>Maturity structure of fixed rate borrowing</b>	<b>Upper limit %</b>	<b>Lower limit %</b>	<b>Actual Borrowing as at 31 March 2023 £m</b>	<b>Percentage of total as at 31 March 2023 %</b>
under 12 months	50	0	<b>0</b>	<b>0</b>
1 year and within 2 years	50	0	<b>2.0</b>	<b>3</b>
2 years and within 5 years	75	0	<b>10.0</b>	<b>15</b>
5 years and within 10 years	75	0	<b>10.0</b>	<b>15</b>
10 years and within 20 years	75	0	<b>40.64</b>	<b>62</b>
20 years and above	100	0	<b>3.0</b>	<b>5</b>

6.3 All borrowing has been taken in conjunction with advice from the Council's Treasury Management Advisors.

## **7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS**

7.1 The Council has £9.35m invested in a long-term property fund, £9.05m invested in long-term multi asset income fund, £5m invested with local authorities and £1.8m with East Suffolk Services.

## Investment Strategy Report 2023/24

### Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to regenerate and provide service delivery in the locality.

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

### Treasury Management Investments

The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £100 million and £130 million during the 2023/24 financial year.

**Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

**Further details:** Full details of the Council's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

### Service Investments: Loans

**Contribution:** The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

**Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows.

Category of borrower	31.3.2023 actual			2023/24
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Approved Limit £000
Subsidiaries	1,800	0	1,800	10,000
Suppliers	0	0	0	0
Local businesses	0	0	0	10,000
Local charities & Community Groups	0	0	0	500
Parish Councils	0	0	0	500
Housing associations	0	0	0	5,000
Residents	0	0	0	0
Employees	0	0	0	0
<b>TOTAL</b>	<b>1,800</b>	<b>0</b>	<b>1,800</b>	<b>26,000</b>

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements.
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.
- All loans require the approval of the Chief Finance Officer/S151 Officer.

**Reporting:**

- In year loans will be reported within the next available quarterly Treasury Management reporting to the Audit & Governance committee.

### **Service Investments: Shares**

**Contribution:** The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

**Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Category of company	31.3.2023 actual			2023/24
	Amounts invested £000	Gains or losses £000	Value in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	5,000
Suppliers	0	0	0	500
Local businesses	0	0	0	500
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,000</b>

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements.
- External Advisor Assessment – All service investment shares will be subject to assessment by the Council’s External Treasury Advisor.
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.
- All service investment shares require the approval of the Chief Finance Officer/S151 Officer.

### **Reporting:**

- In year service investment shares will be reported within the next available quarterly Treasury Management reporting to the Audit & Governance committee.

**Liquidity:** The maximum period for which funds may be prudently committed is for 5 years, after which subject to satisfactory review this may be renewed annually for a 1-year period.

**Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government

guidance. The limits above on share investments are therefore also the Councils upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

### **Regeneration/Service Investments: Property**

**Contribution:** The Council invests in local property to facilitate regeneration and provide service delivery. The income from these investments will repay any borrowing used in the purchase and to provide a maintenance budget without putting further pressure on the Councils finances.

*Table 1: Property held for investment purposes in £ millions.*

Property	Actual	31.3.2023 Actual	
	Purchase cost £000	Gains or (losses) £000	Value in accounts £000
Investment Property – shop Lowestoft	166	34	200
Investment Property – shop Lowestoft	1,433	-1,113	320
Investment Property – shop Lowestoft	2,358	-1,438	920
Investment Property - Business Park Beccles	2,355	194	2,549
Investment Property - Business Centre Lowestoft	965	335	1,300
<b>TOTAL</b>	<b>7,277</b>	<b>-1,988</b>	<b>5,289</b>

**Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The fair value of the Council’s investment property portfolio is no longer sufficient to provide security against loss. However, the Council fully expects the fair value to increase following significant works to the adjoining car park, with the fair value expected to increase to that nearing the original purchase price.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by assessing the viability of the cost of financing the investment against the return on investment in terms of receivable income. Investments that are subject to short leases are unlikely to be considered due to the high risk of potential voids.

**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market



conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed; the Council ensures that borrowing is on an equal instalment basis and that revenue budgets cover the cost of the loan repayment.

### **Loan Commitments and Financial Guarantees**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

The Council does not have any current financial guarantees and all loans are through the Public Works Loan Board (PWLB).

### **Capacity, Skills, and Culture**

**Elected members and statutory officers:** It is important that the members and officers involved in the Treasury Management function have appropriate capacity, skills, and information to enable them to take informed decisions on specific investments, to assess the risk and strategic objectives and to ensure that the Council’s risk exposure is managed. Periodically the Council’s external Treasury advisors, Arlingclose will hold member training sessions which will provide members with a raft of technical advice specifically designed for the Council’s environment. Additionally, Officers have a wide range of information available to them from various sources such as the Chartered Institute of Public Finance and Accountancy (CIPFA), Arlingclose and Room 151. Officers will also attend a number of courses/seminars throughout the year and have periodical strategic meetings with the Council’s treasury advisors.

**Property Investment deals:** Officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local Authorities operate and have access to a number of external bodies who can provide specific advice and direction.

**Corporate governance:** All of the Council’s procedures provide a corporate governance arrangement that ensure accountability and for decision making on investment activities and ensure that the Council’s Chief Finance Officer/Section 151 Officer is fully briefed on the Council’s investment position at any one time.

### **Investment Indicators**

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council’s total risk exposure as a result of its investment decisions.

**Total risk exposure:** The first indicator shows the Council’s total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

*Table 2: Total investment exposure in Emillions*

	<b>31.03.2023 Actual £000</b>	<b>31.03.2024 Forecast £000</b>	<b>31.03.2025 Forecast £000</b>
<b>Total investment exposure</b>			
Treasury management investments	112.90	120.00	120.00
<b>TOTAL INVESTMENTS</b>	<b>112.90</b>	<b>120.00</b>	<b>120.00</b>
Guarantees issued on loans	65.65	65.49	65.33

<b>TOTAL EXPOSURE</b>	<b>-47.25</b>	<b>-54.10</b>	<b>-54.67</b>
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**How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

*Table 3: Investments funded by borrowing in £millions.*

<b>Investments funded by borrowing</b>	<b>31.03.2023 Actual £000</b>	<b>31.03.2024 Forecast £000</b>	<b>31.03.2025 Forecast £000</b>
Property Investments	2.64	2.48	2.32

**Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

*Table 4: Investment rate of return (net of all costs)*

<b>Investments net rate of return</b>	<b>2022/23 Actual</b>	<b>2023/2024 Forecast</b>
Short & Long Term Treasury Management investments	2.29%	2.50%
Long Term Treasury Management property investments	4.49%	3.50%
Long Term Treasury Management multi asset investments	3.59%	2.70%
Property Asset Investments	10.91%	8.00%
<b>ALL INVESTMENTS</b>	<b>21.28%</b>	<b>16.70%</b>