



AUDIT & GOVERNANCE COMMITTEE

Monday, 11 September 2023

Subject	Treasury Management 2023/24 Quarter 2 Report (Mid Year)
Report by	Councillor Vince Langdon-Morris Cabinet Member with responsibility for Resources and Value for Money
Supporting Officer	Lorraine Rogers Acting Chief Finance Officer and Section 151 Officer lorraine.rogers@east Suffolk.gov.uk
Director	Chris Bally Chief Executive chris.bally@east Suffolk.gov.uk

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

Purpose and high-level overview

Purpose of Report:

The Treasury Management Policy Statement for 2023/24 requires mid-year report on the Treasury Management function to be produced. The report reviews performance of the treasury management function for the first half of 2023/24.

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:

That the quarter 2 (Mid Year) report on the Council's Treasury Management activity for 2023/24 be noted.

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 Council's 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.

Human Resources:

No impacts.

ICT:

No impacts.

Legal:

No impacts.

Risk:

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.

External Consultees: None

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: <i>(Select only one primary and as many secondary as appropriate)</i>		Primary priority	Secondary priorities
T01	Growing our Economy		
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"/>
T02	Enabling our Communities		
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"/>
T03	Maintaining Financial Sustainability		
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"/>
T04	Delivering Digital Transformation		
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"/>
T05	Caring for our Environment		
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"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>How does this proposal support the priorities selected?</p> <p>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.</p>			

Background and Justification for Recommendation

1 Background facts	
1.1	The UK economy continued to be more resilient than anticipated, growing 0.2% in the second quarter compared to expectations for 0%. The Monetary Policy Committee (MPC) mentioned resilience alongside persistent inflation as an upside risk in their August commentary, this adds to the view that Bank Rate will increase further.
1.2	The underlying picture is more difficult to discern as a stronger June was driven by more working days compared to May (Coronation Bank Holiday) and warm weather, whilst ongoing industrial action likely had a negative impact.
1.3	CPI inflation rose by 6.8% year-on-year in July 2023. Although this reading was slightly above expectations, CPI has fallen to a 17-month low, as the effects of the lower utility price cap become apparent.
1.4	Concerns over the path of core inflation remain well-founded as the stronger-than-expected rebound in services price inflation in July's figures (+7.4% vs Bank of England's estimate +7.3%) together with continuing robust wage growth remains consistent with the view that a further 25 basis point rise in Bank Rate is coming.

2 Current position	
2.1	TREASURY MANAGEMENT QUARTER 2 (Mid year) 2023/24
2.2	<p>DAILY CASH MANAGEMENT</p> <p>The report reviews performance of the treasury management function for the first half of 2023/24.</p> <p>2023/24 Quarter 2 Summary:</p> <ul style="list-style-type: none"> • Total investments at 31st August 2023 totalled £123.32m • These investments are summarised as Short-term Investments £68m, Long-term Investments £24.89m and Liquidity Investments £30.43m. • Interest on Investments to 31st August totalled £914k.

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.

2.3 INVESTMENT PORTFOLIO 2023/24

CIPFA revised TM Code defines treasury management investments as 'those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business'.

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During this year, the Councils investment balances ranged between £100.4m and £134.4 million due to timing differences between income and expenditure. The investment position is shown in table below.

	1st April 2023 £m	1st April Interest Rate %	31st August 2023 £m	31st August 2023 Interest Rate %
Call Accounts (Liquidity Funds)	18.77	3.40%	20.43	2.00%
Money Market Funds	10.00	3.35%	10.00	5.10%
Term Investments: upto 12 months	73.00	1.20% - 4.40%	68.00	1.60% - 5.60%
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%
Total	127.36		123.32	

Inter Local Authority investments have increased in yield during the first half of 2023/24 as a consequence of the Bank of England base rate increases and market competition.

The table below details the local authority and Central Government investments to 31st August 2023.

DMO Investments - Short Term

	<u>Amount</u>	<u>Duration</u>	<u>Start Date</u>	<u>End Date</u>	<u>Rate</u>
DMO	5,000,000	31 days	01/08/2023	01/09/2023	5.12%
DMO	5,000,000	4 months	17/08/2023	18/12/2023	5.41%
DMO	5,000,000	2 weeks	23/08/2023	06/09/2023	5.13%

15,000,000

Local Authority Investments - Short Term

	<u>Amount</u>	<u>Duration</u>	<u>Start Date</u>	<u>End Date</u>	<u>Rate</u>
Suffolk County Council	5,000,000	1 year	30/09/2022	29/09/2023	3.15%
London Borough of Southwark	5,000,000	6 months	15/03/2023	15/09/2023	4.40%
Central Bedfordshire Council	5,000,000	6 months	21/04/2023	23/10/2023	4.20%
Kirklees Council	5,000,000	6 months	15/05/2023	15/11/2023	4.25%
Blackpool Council	5,000,000	3 months	27/06/2023	27/09/2023	4.30%
Eastleigh Borough Council	3,000,000	9 months	16/05/2023	16/02/2024	4.60%
Cheshire East Council	5,000,000	6 months	28/06/2023	04/01/2024	4.48%
North Lanarkshire Council	5,000,000	8 months	20/07/2023	20/03/2024	4.60%
Stockport Metropolitan Borough Co	5,000,000	6 months	28/07/2023	29/01/2024	5.35%
London Borough of Newham	5,000,000	9 months	31/07/2023	30/04/2024	5.60%
London Borough of Newham	5,000,000	6 months	17/08/2023	19/02/2024	4.50%

53,000,000

Local Authority Investments - Long Term

Watford Borough Council	5,000,000	2 Years	29/09/2021	29/09/2023	0.20%
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5,000,000

The interest on investments to the 31st August totals £914k against a budget of £700k (to 31st August). The forecast is that the current year budget of £1.68m will be exceeded as a direct result of the increase in investment rates since budget setting.

2.4 **BORROWING**

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council therefore avoids this activity in order to retain its access to PWLB loans.

As outlined in the treasury strategy, the Councils 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 Councils long-term plans change being a secondary objective. The Councils borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

Over the April-August period, short-term rates rose by 1.08% to 6.08% and long-term rates rose by 0.98% to 5.53% (based on a 20 year loan).

No new additional borrowing was taken out during the period to the 31st August 2023. In line with the current loan portfolio repayment terms an £80k repayment was made during in May 2023 and £383.16 in August 2023.

	31st March 2023 Principal £m	Repayments during Q1 & Q2 £m	31st August 2023 Principal £m
PWLB Fixed Rate Maturity/EIP Loans	65.65	-0.08	65.57

2.5

COMPLIANCE

The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the TM Code and the Councils approved Treasury Management Strategy.

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

	2023/24 Quarter 2	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
Borrowing	£65.57m	£173m	£175m	Yes

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

	2023/24 Q2 Maximum	31.08.2023 Actual	2023/24 Limit per Counterparty	Complied Yes/No
Any single organisation, except the UK Government	£525m	£64.8m	£25m	Yes
Unsecured investments with building societies	£15m	£0	£15m	Yes
Money Market Funds	£20m	£10m	£20m	Yes
Strategic Pooled funds	£60m	£20.57m	£20m	Yes
Real Estate Investment Trusts	£0	£0	£10m	Yes

The Authority 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.

	31.08.2023	2023/24 Target	Complied Yes/No
Portfolio average credit score	4.8	4	Yes

Liquidity: The Council 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.

	31.08.2023 £m	2023/24 Target £m	Complied Yes/No
sums subject to variable interest rates:			
Total cash available within 3 months	60.00	30.00	Yes

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

Interest rate risk indicator	31.08.2023 Actual	2023/24 Target	Complied Yes/No
Upper limit on one year revenue impact of a 1% <u>rise</u> in interest rates	£-91.4k	£150k	Yes
Upper limit on one year revenue impact of a 1% <u>fall</u> in interest rates	0	£150k	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Councils 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:

Price risk indicator Q2	2023/24	2024/25	2025/26	2026/27
Limit on term investment principal invested beyond year end	£5.0m	£5.0m	£5.0m	£5.0m
Actual term investment principal invested beyond year end	£0	£0	£0	£0
Complied	Yes	Yes	Yes	Yes

3 How to address current situation

- 3.1 The Council continues to operate its Treasury Management function within the key principles of security, liquidity, and yield.
- 3.2 The Council will explore other opportunities in Treasury Management investments in line with the Treasury Management Code and any new borrowing requirements will be evaluated against the most appropriate method of borrowing ensuring that cost of borrowing is kept to a minimum.

4 Reason/s for recommendation

- 4.1 The updated CIPFA Treasury Management code requires a Mid Year report to be produced on the Treasury Management function and noted by Committee.

Appendices

Appendices:
None

Background reference papers:
None