



## AUDIT & GOVERNANCE COMMITTEE

Monday, 12 September 2022

<b>Subject</b>	Treasury Management Outturn 2021/22 and Mid-Year 2022/23 Report
<b>Report by</b>	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
<b>Supporting Officer</b>	Brian Mew Chief Finance Officer and Section 151 Officer <a href="mailto:Brian.mew@eastsoffolk.gov.uk">Brian.mew@eastsoffolk.gov.uk</a> 01394 444571

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 Treasury Management Policy Statement for 2021/22 requires an annual report (Outturn) and mid-year report on the Treasury Management function to be produced annually. The report reviews performance of the treasury management function including prudential indicators for 2021/22 and incorporates a mid-year review (Quarter 2) of 2022/23

### **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 report, the Audit and Governance Committee note the Annual Report on the Council's Treasury Management activity for 2021/22 incorporating the Mid-Year review for 2022/23.
2. That having commented on the report, the Audit and Governance Committee note Prudential Indicators Outturn position for 2021/22 in Appendix B

## 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.

### **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 <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"/>

XXX	<b>Governance</b>		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p><b>How does this proposal support the priorities selected?</b></p> <p>Production of the Treasury Management Outturn and Mid-Year report is a requirement under the CIPFA Treasury Management Code demonstrating the Council's governance of its investment and loans portfolio.</p>			

## Background and Justification for Recommendation

<b>1 Background facts</b>	
1.1	<p>The Treasury Management Policy Statement for 2021/22 requires an annual report and mid-year 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 2021/22 and incorporates a mid-year review of 2022/23.</p> <p><b>2021/22 Summary:</b></p> <ul style="list-style-type: none"> <li>• East Suffolk Council's short-term Investments totalled £87.5m, long term investments totalled £40.53m and liquidity investments totalled £15.34m as at 31st March 2022</li> <li>• Total Investments as at 31st March 2022 was £143.37</li> <li>• Interest received on investment balances during the year totalled £1.08m.</li> <li>• East Suffolk Council operated within its approved Prudential Indicator Limits for 2021/22.</li> </ul> <p><b>2022/23 Summary to date:</b></p> <ul style="list-style-type: none"> <li>• Total investments at 31st August 2022 totalled £145.57m</li> <li>• These investments are summarised as Short-term Investments £80.00m, Long-term Investments £35.57m and Liquidity Investments £30.00m.</li> <li>• Interest received to 31st August 2022 totalled £0.30m.</li> </ul>

<b>2 Current position</b>	
2.1	<p><b>TREASURY MANAGEMENT OUTTURN 2021/22</b></p> <p><b>BORROWING</b></p> <p>During 2021/22 the Council did not enter any new borrowing arrangements.</p>

The debt portfolio for 2021/22 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 £5.41m of General Fund loans.

Loans as at 31 <sup>st</sup> March 2022	Principal £m	Rate Range %	Maturity Range (years)
PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans	65.81	3.01 - 8.38	2.0- 41.0
<b>Total</b>	<b>65.81</b>	<b>3.01 - 8.38</b>	<b>2.0 - 41.0</b>

## 2.2 INVESTMENT ACTIVITY

The average cash balances held during the year was £149.02m, this included Covid-19 grant being paid to local businesses. Investment income received was £1.08m which exceeded the planned budget of £650k. This is mainly due to the increased return on the Property Investment and Diversified Income investments along with an upward trend in investment rates due to the Bank of England base rate increases from December 2021.

	Balance at 1 <sup>st</sup> April 2021	Investment made	Investments repaid	Balance at 31 <sup>st</sup> March 2022
INVESTMENTS	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	129.67	238.0	-224.30	143.37

Details of the Councils investment balances at 31<sup>st</sup> March 2022 can be seen at Appendix A.

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 2021/22.

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: £20.53m 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.

## 2.3 COMPLIANCE WITH PRUDENTIAL INDICATORS

The Council complied with its Prudential Indicators for 2021/22, these were approved by Full Council on 27<sup>th</sup> January 2021. The Prudential Indicators for 2021/22 can be found at Appendix B.

### 3 How to address current situation

#### 3.1 **TREASURY MANAGEMENT MID YEAR REVIEW 2022/23**

The East Suffolk Council Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 26<sup>th</sup> January 2022 and there have been no amendments during the first half of 2022/23.

#### 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 2022/23**

The Council held £145.57m of investments at the 31<sup>st</sup> of August 2022; the table below illustrates the maturity of investments over the forthcoming months and the average interest rate achieved on the investment.

	1 <sup>st</sup> April 2022 £m	1 <sup>st</sup> April Interest Rate %	31 <sup>st</sup> August 2022 £m	31 <sup>st</sup> August 2022 Interest Rate %
<b>Call Accounts (Liquidity Funds)</b>	15.30	0.08% - 0.10%	20.00	0.08% - 0.10%
<b>Money Market Funds</b>	0.00	0.00	10.00	0.00
<b>Term Investments: 3 to 24 months</b>	107.50	0.05% – 1.0%	95.00	0.10% - 1.75%
<b>Property Investment Fund</b>	10.82	4.49%	10.82	4.49%
<b>Multi Asset Fund</b>	9.75	3.36% - 3.82%	9.75	3.36% - 3.82%
<b>Total</b>	<b>143.37</b>		<b>145.57</b>	

#### 3.4 **COMPLIANCE**

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

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

	2022/23 Q2 (to 31st August)	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied? Yes/No
Borrowing	£65.73m	£153m	£155m	Yes

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

	2022/23 Q2 (to 31st August)	31.8.22 Actual	2022/23 Limit Per Counterparty	Complied? Yes/No
Any single organisation, except the UK Government	£525m	£115m	£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.

- 3.4.4 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.
- 3.4.5 Unrated investments are assigned a score based on their perceived risk.

	Q2 (to 31st August)	2022/23 Target	Complied?
Portfolio average credit score	4.8	4	Yes

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.

- 3.4.6 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:

Interest rate risk indicator	Q2 (to 31st August)	2022/23 Target	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£-10k	£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 Authority's exposure to the risk of incurring losses by seeking early

3.4.8	repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:			
		<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	Limit on principal invested beyond year end	£40m	£30m	£30m
	Actual principal invested beyond year end	£5m	£0	£0
	Complied?	Yes	Yes	Yes

#### 4 Reason/s for recommendation

4.1	The CIPFA Treasury Management code requires a report to be produced and noted at Full Council of the Treasury Management outturn position for the previous financial year and an update on the current year on or around the mid-year point.
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## Appendices

#### Appendices:

<b>Appendix A</b>	Investment Balances as at 31/3/2022
<b>Appendix B</b>	Prudential Indicators Outturn position for 2021/22

#### Background reference papers:

None
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