



Committee	Audit and Governance Committee
Date	11/03/2024
Subject	Treasury Management 2023/24 Quarter 3 Report
Cabinet Member	Councillor Vince Langdon-Morris Cabinet Member with responsibility for Resources and Value for Money
Report Author(s)	Julian Sturman Specialist Accountant – Capital & Treasury Management julian.sturman@eastsoffolk.gov.uk
Head of Service	Lorraine Rogers Chief Finance Officer and Section 151 Officer lorraine.rogers@eastsoffolk.gov.uk
Director	Chris Bally Chief Executive chris.bally@eastsoffolk.gov.uk

Key Decision?	No
Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	N/A
---	-----

Purpose/Summary

The Treasury Management Policy Statement for 2023/24 requires quarterly reporting on the Treasury Management function to be produced to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code. The report reviews performance of the treasury management function for quarter 3 of 2023/24.

Recommendation(s)

That the Audit & Governance Committee

1. Approve the quarter 3 report on the Council's Treasury Management activity for 2023/24.
2. Approve the Annual Minimum Revenue Provision Statement 2024/25 in Appendix A.

Strategic plan

How does this proposal support Our Direction 2028?

Environmental Impact	The Council has committed to delivering positive climate, nature and environmental impacts through the decisions we make and the actions we take. Ensuring the Councils cashflows are invested securely to support the Councils overall budget position in turn enable the commitment, ensuring where possible that environment and energy efficient processes, materials and equipment are used in the Councils spending plans.
Sustainable Housing	Ensuring the Councils cashflows are invested securely to support the commitments of both the General Fund and Housing Revenue Account specifically the commitment to sustainable housing.
Tackling Inequalities	Ensuring the Councils cashflows are sufficient to support the Councils budget position which provides a regeneration programme, enabling business and charities providing direct services to residents of East Suffolk to locate in Council owned assets.
Thriving Economy	Ensuring the Councils cashflows are sufficient to support the Councils budget position providing economic development and regeneration activity and in turn enabling residents of East Suffolk to benefit from and contribute to a thriving economy. Specifically, the Council is committed to delivering the Towns Fund Deal project including the regeneration of the Towns Seafront.
Our Foundations / governance of the organisation	At the heart of the Treasury strategies is good financial management and governance which underpins the Councils spending commitments within the Councils Medium Term Financial Strategy (MTFS).

Justification for recommendations

1. Background

1.1. The CIPFA Prudential code requires quarterly reporting of the Treasury Management function to the Audit & Governance Committee.

2. Introduction

2.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has both an investment and borrowing portfolio 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 financial risk are therefore central to the Council's prudent financial management.

2.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code).

3. Proposal

3.1. **Economic background:** UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.

3.2. The BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25-basis point rate rise.

3.3. Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

3.4. **Credit review:** Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

3.5. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

3.6. 2023/24 Quarter 3 Summary:

- Total investments at 31st December 2023 totalled £119.89m
- These investments are summarised as Short-term Investments £71m, Long-term Investments £19.89m and Liquidity Investments £29m.
- Interest on Investments to 31st December totalled £2.7m.

3.7. 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.

3.8. **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.

3.9. 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 £97.89m and £131.89 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 December 2023 £m	31st December Interest Rate %
Call Accounts (Liquidity Funds)	18.77	3.40%	19.00	2.10% - 3.50%
Money Market Funds	10.00	3.35%	10.00	5.25%
Term Investments: upto 12 months	73.00	1.20% - 4.40%	71.00	4.48% - 5.80%
Term Investments: over 12 months	6.80	0.20% - 7.35%	1.80	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		119.89	

3.10. Inter Local Authority investments have maintained in relatively high yield during the third quarter of 2023/24, mainly due as a consequence of the Bank of England base rate level but also due to market competition in Local Authorities requiring short-term borrowing for cashflow purposes.

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

DMO (Central Government) Investments - Short Term

	<u>Amount</u>	<u>Duration</u>	<u>Start Date</u>	<u>End Date</u>	<u>Rate</u>
DMO	5,000,000	33 days	06/12/2023	08/01/2024	5.190%
DMO	<u>5,000,000</u>	3 months	18/12/2023	19/03/2024	5.210%
	<u>10,000,000</u>				

Local Authority Investments - Short Term

	<u>Amount</u>	<u>Duration</u>	<u>Start Date</u>	<u>End Date</u>	<u>Rate</u>
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 Council	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%
Southampton City Council	5,000,000	9 months	01/09/2023	09/05/2024	5.80%
Uttlesford District Council	5,000,000	10 months	21/09/2023	15/07/2024	5.80%
Ashford Borough Council	5,000,000	7 months	27/09/2023	29/04/2024	5.55%
Plymouth City Council	5,000,000	9 months	10/11/2023	12/08/2024	5.55%
Uttlesford District Council	4,000,000	8 months	13/11/2023	15/07/2024	5.60%
Epping Forest District Council	2,000,000	78 days	15/11/2023	01/02/2024	5.50%
Epping Forest District Council	2,000,000	3 months	15/11/2023	16/02/2024	5.50%
Aberdeen City Council	<u>5,000,000</u>	6 months	11/12/2023	11/06/2024	5.60%
	<u>61,000,000</u>				

3.12. The interest on investments to the 31st December totals £2.7m against an original budget of £1.6m for 2023/24.

3.13. **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.

3.14. 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.

3.15. The PWLB borrowing rates for the period April to December 2023 are shown below.

	31/03/2023	31/12/2023
1-year PWLB certainty rate, maturity loans	4.78%	5.13%
5-year PWLB certainty rate, maturity loans	4.31%	4.19%
10-year PWLB certainty rate, maturity loans	4.33%	5.37%
20-year PWLB certainty rate, maturity loans	4.70%	4.90%
50-year PWLB certainty rate, maturity loans	4.41%	4.67%

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

	31 st August 2023 Principal £m	Repayments during Q3 £m	31 st December 2023 Principal £m
PWLB Fixed Rate Maturity/EIP Loans	65.57	-0.08	65.49

3.17. **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.

	2023/24 Quarter 3	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
Borrowing	£65.49m	£173m	£175m	Yes

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

	2023/24 Q3 Maximum	31.12.2023 Actual	2023/24 Limit per Counterparty	Complied Yes/No
Any single organisation, except the UK Government	£525m	£61m	£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

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

3.20. 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.

	31.12.2023	2023/24 Target	Complied Yes/No
Portfolio average credit score	4.8	4	Yes

3.21. 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.

	31.12.2023 £m	2023/24 Target £m	Complied Yes/No
sums subject to variable interest rates:			
Total cash available within 3 months	57.00	30.00	Yes

3.22. 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 Q3	2023/24	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£5.0m	£5.0m	£5.0m	£5.0m
Actual principal invested beyond year end	£1.8m	£0	£0	£0
Complied	Yes	Yes	Yes	Yes

3.23. Minimum Revenue Provision Statement 2024/25: Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The statement in appendix A sets out the Councils principal strategy for accounting for borrowing/leases in 2024/25.

4. Financial Implications

4.1. The management of the Councils Treasury Management functions feeds directly into the Councils Medium Term Financial Strategy (MTFS).

5. Legal Implications

5.1. There are no legal implications for this report.

6. Risk Implications

6.1. Non-compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA's) Prudential Code.

7. Options

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

8. Recommendations

8.1. That the Audit & Governance Committee approves the quarter 3 report on the Council's Treasury Management activity for 2023/24 and the Annual Minimum Revenue Provision Statement 2024/25 in Appendix A.

9. Reasons for Recommendations

9.1. Approval of the quarterly Treasury Management activity by the Audit & Governance Committee is a requirement under the CIPFA Prudential Code.

10. Conclusions/Next Steps

10.1 The quarterly Treasury Management reports will form part of the Treasury Management Outturn report compiled in the preceding financial year and presented to Full Council.

Areas of consideration comments

Section 151 Officer comments:

The report complies with the required CIPFA prudential code ensuring that the Treasury Management activity for the Council is reviewed by an appropriate Committee.

Monitoring Officer comments:

This report complies with the Council's Constitution which requires the review and monitoring of the Council's Treasury Management policies and practices by the Council's Audit and Governance Committee.

Equality, Diversity and Inclusion/EQIA:

There are no direct implications arising from this report.

Safeguarding:

There are no direct implications arising from this report.

Crime and Disorder:

There are no direct implications arising from this report.

Corporate Services implications:

There are no direct implications arising from this report.

Residents and Businesses consultation/consideration:

There are no direct implications arising from this report.

Appendices:

Appendix A	Annual Minimum Revenue Provision Statement 2024/25
-------------------	--

Background reference papers:

None
