



AUDIT & GOVERNANCE COMMITTEE

Monday, 13 March 2023

Subject	Treasury Management 2022/23 Quarter 3 Report
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer brian.mew@eastsoffolk.gov.uk 01394 444571

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 Council 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 Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

The Council's treasury management strategy for 2022/23 was approved at the Full Council meeting on 26th January 2022. 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 treasury management strategy.

CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish. East Suffolk Council has adopted a soft implementation from 2022/23 with the revised reporting requirements effective from 2023/24.

Treasury risk management at the Council is conducted within the framework of the TM Code. This Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

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 3 report on the Council's Treasury Management activity for 2022/23 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
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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"/>
How does this proposal support the priorities selected?			
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

1 Background facts	
1.1	The conflict in Ukraine continues to keep global inflation elevated and the UK and global economic outlook remains weak. Political uncertainty in the UK improved in the latter part of the period following a change in government to what financial markets perceived as being more fiscally prudent.
1.2	The economic backdrop during the April to December period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on consumers' cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon. China started to lift some of its zero-Covid policy restrictions at the end of the period causing a sharp increase in infections, but also leading to questions over potential under reporting of the number of cases by the Chinese government due to how it is counting the figures.
1.3	Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank all increased interest rates over the

1.4	<p>period and committed to fighting inflation, even in the face of potential recessions in those regions.</p> <p>The Bank of England increased the official Bank Rate to 3.5% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with outsized hikes of 50bps in August and September, 75bps in November and then another 50bps in December. November's rise was voted by a majority of 7-2, with one MPC member preferring a 0.5% rise and another a 0.25% rise. The December vote was 6-3, with two members preferring to keep Bank Rate on hold at 3% while one member wanted a larger increase of 0.75%. Once again, the Committee noted that domestic inflationary pressures are expected to remain strong and continuing talk around combating inflation means further rate rises are predicted.</p>
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2 Current position

2.1	<p>TREASURY MANAGEMENT QUARTER 3 2022/23</p>
2.2	<p>DAILY CASH MANAGEMENT</p> <p>The report reviews performance of the treasury management function for the third quarter of 2022/23.</p> <p>2022/23 Quarter 3 Summary:</p> <ul style="list-style-type: none"> • Total investments at 31st December 2022 totalled £131.34m. • These investments are summarised as Short-term Investments £91m, Long-term Investments £20.34m and Liquidity Investments £20m. • Interest on Investments to 31st December totalled £938.5k. <p>The Council's counterparty list (investment list) is continuously reviewed and updated considering published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council's Treasury Advisors, Arlingclose.</p>
2.3	<p>INVESTMENT PORTFOLIO 2022/23</p>
2.4	<p>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.</p>
2.5	<p>The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During this year, the Authority's investment balances ranged between £143.37m and £131.57m due to</p>

timing differences between income and expenditure. The investment position is shown in table below.

	1st April 2022 £m	1st April Interest Rate %	31st December 2022 £m	31st December Interest Rate %
Call Accounts (Liquidity Funds)	15.30	0.08% - 0.10%	10.00	2.15%
Money Market Funds	0.00	0.03%	10.00	2.82%
Term Investments: upto 12 months	87.50	0.05% - 1.0%	86.00	0.70% - 4.10%
Term Investments: over 12 months	20.00	0.20% - 0.90%	5.00	0.20%
Property Investment Fund	10.82	4.49%	10.82	4.49%
Multi Asset Fund	9.75	3.36% - 3.82%	9.52	3.36% - 3.82%
Total	143.37		131.34	

The Council's investment portfolio is looking healthy with both the Property Investment and Multi Asset Fund still performing well.

- 2.6 Both the CIPFA 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.
- 2.7 Bank Rate has increased from 0.75% at the beginning of the period under review to 3.5% at the end.
- 2.8 The interest on investments for the quarter totals £938.5k against a revised budget of £1.25m for the financial year.
- 2.9 **BORROWING**
- 2.10 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 2.11 As outlined in the treasury strategy, 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. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 2.12 Over the October-December quarter the PWLB fixed short-term rates increased by 0.63% and the long-term rate rose 0.86%.

No new additional borrowing was taken out during the quarter. In line with the current loan portfolio repayment terms an £80k repayment was made during the quarter.

	31st March 2022 Principal £m	Repayments to 31st December 2022 £m	31st December 2022 Principal £m
PWLB Fixed Rate Maturity/EIP Loans	65.81	-0.16	65.65

2.13

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 Authority's approved Treasury Management Strategy.

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

	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied? Yes/No
Borrowing	£153m	£155m	Yes

2.14

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

	2022/23 Q3 Maximum	31.12.2022 Actual	2022/23 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	£20.57m	£20m	Yes
Real Estate Investment Trusts	£0	£0	£10m	Yes

2.15

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

2.16 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.

	31.12.2022	2022/23 Target	Complied Yes/No
Portfolio average credit score	4.8	4	Yes

2.17 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.

	31.12.2022 £m	2022/23 Target £m	Complied Yes/No
sums subject to variable interest rates:			
Total cash available within 3 months	30.88	30.00	Yes

2.18 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:

	31.12.2022 £m	Impact of a +/- 1% interest rate	2022/23 Target £m	Complied Yes/No
sums subject to variable interest rates:				
Investments	10.00	0.1	0.15	Yes
Borrowing	0	0	-0.15	Yes

2.19 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 and also to limit the expose to changing longer term investment rates. E.g., a two year fixed investment is currently available at 4.50% where as a 6 month rate is around 4.40% so it is likely that the short term rate will exceed that of the longer term rate within the next few months.

Price risk indicator Q3	2022/23	2023/24	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£10.0m	£5.0m	£5.0m	£5.0m	£5.0m
Actual principal invested beyond year end	£5m	£0	£0	£0	£0
Complied	Yes	Yes	Yes	Yes	Yes

3 How to address current situation

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|-----|---|
| 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

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| 4.1 | The updated CIPFA Treasury Management code requires a quarterly report to be produced on the Treasury Management function and noted by Committee. |
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Appendices

Appendices:

Appendix A	Summary of Existing Debt & Investment Portfolio Position as at 31 December 2022
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Background reference papers:

Date	Type	Available From
January 2023	Arlingclose Q3 Template	Financial Services

Summary of Existing Debt & Investment Portfolio Position as at 31 December 2022

Debt Portfolio:

Type of Loan	Start Date	Maturity	Principal	Interest Rate	GF/HRA
Maturity Loans					
Fixed	30/11/1995	30/09/2024	2,000,000	8.375%	GF/HRA
Fixed	10/08/2007	31/03/2055	3,000,000	4.550%	GF/HRA
Fixed	28/03/2012	28/03/2039	10,000,000	3.470%	HRA
Fixed	28/03/2012	28/03/2036	10,000,000	3.420%	HRA
Fixed	28/03/2012	28/03/2027	10,000,000	3.010%	HRA
Fixed	28/03/2012	28/03/2041	10,000,000	3.490%	HRA
Fixed	28/03/2012	28/03/2032	10,000,000	3.300%	HRA
Fixed	28/03/2012	28/03/2042	8,000,000	3.500%	HRA
Equal Instalments of Principle (EIP)					
Fixed	15/05/2015	15/11/2035	2,640,000	3.69%	GF
Annuity					
Fixed	10/09/1968	26/08/2028	5,829.12	7.62%	GF/HRA
Total			65,645,829		

Investment Portfolio:

Counterparty	Type of investment	Principal Balance	Duration	Start Date	Effective Maturity	Interest Rate
Bank 1 (Lloyds)	Instant Access	10,000,000	Overnight	N/A	N/A	2.15%
		10,000,000				
DMO (Central Government)	Fixed Term	5,000,000	5 Months (153 days)	23/09/2022	23/02/2023	2.83%
DMO (Central Government)	Fixed Term	5,000,000	4 Months (124 days)	28/09/2022	30/01/2023	3.27%
DMO (Central Government)	Fixed Term	5,000,000	3 Months (92 days)	17/10/2022	17/01/2023	2.91%
DMO (Central Government)	Fixed Term	5,000,000	2 Months (65 days)	01/11/2022	05/01/2023	2.70%
DMO (Central Government)	Fixed Term	5,000,000	6 Months (182 days)	02/12/2022	02/06/2023	3.40%
		25,000,000				
North Lanarkshire Council	Fixed Term	5,000,000	1 Year	21/02/2022	20/02/2023	0.70%
Blackpool Borough Council	Fixed Term	5,000,000	1 Year	16/03/2022	15/03/2023	0.75%
Fareham Borough Council	Fixed Term	5,000,000	1 Year	24/02/2022	23/02/2023	0.75%
Peterborough City Council	Fixed Term	5,000,000	1 Year	14/04/2022	13/04/2023	1.20%
London Borough of Croydon	Fixed Term	5,000,000	1 Year	29/06/2022	28/06/2023	1.35%
London Borough of Croydon	Fixed Term	5,000,000	1 Year	27/07/2022	26/07/2023	1.60%
Darlington Borough Council	Fixed Term	5,000,000	364 days	01/09/2022	31/08/2023	2.30%
Cheltenham Borough Council	Fixed Term	3,000,000	6 months	13/10/2022	13/04/2023	3.00%
Suffolk County Council	Fixed Term	5,000,000	1 year	30/09/2022	29/09/2023	3.15%
Epping Forest District Council	Fixed Term	2,000,000	6 months	03/10/2022	14/04/2023	3.55%
Epping Forest District Council	Fixed Term	4,000,000	9 months	18/10/2022	18/07/2023	4.10%
London Borough of Haringey	Fixed Term	5,000,000	6 months	14/11/2022	15/05/2023	3.40%
Wirral Borough Council	Fixed Term	2,000,000	3 months	17/11/2022	23/02/2023	3.00%
Kirklees Council	Fixed Term	5,000,000	6 months	15/12/2022	15/06/2023	3.60%
Watford Borough Council	Fixed Term	5,000,000	2 years	29/09/2021	29/09/2023	0.20%
		66,000,000				
Money Market Fund (MMF) - (CCLA)	Instant Access	10,000,000	Overnight	N/A	N/A	2.82%
		10,000,000				
Pooled Property Fund 1 (CCLA)	Notice - Long Term	10,818,950	N/A	29/11/2017	N/A	3.91%
Pooled DIF 1 (CCLA)	Notice - Long Term	4,774,348	N/A	25/11/2019	N/A	3.91%
Pooled DIF 2 (NinetyOne)	Notice - Long Term	4,749,478	N/A	17/10/2019	N/A	2.60%
		20,342,776				
Total		131,342,776				