



FULL COUNCIL

Wednesday, 28 September 2022

Subject	Treasury Management Outturn 2021/22 and Mid-Year 2022/23 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@eastsuffolk.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 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:

That the Annual Report on the Council's Treasury Management activity for 2021/22 incorporating the Mid-Year review for 2022/23 be noted.

That the Prudential Indicators Outturn position for 2021/22 in Appendix B 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 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 Strategic Plan which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		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?

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.

Background and Justification for Recommendation

1 Background facts	
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>2021/22 Summary:</p> <ul style="list-style-type: none">• 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• Total Investments as at 31st March 2022 was £143.37• Interest received on investment balances during the year totalled £1.08m.• East Suffolk Council operated within its approved Prudential Indicator Limits for 2021/22. <p>2022/23 Summary to date:</p> <ul style="list-style-type: none">• Total investments at 31st August 2022 totalled £145.57m• These investments are summarised as Short-term Investments £80.00m, Long-term Investments £35.57m and Liquidity Investments £30.00m.• Interest received to 31st August 2022 totalled £0.30m.
2 Current position	
2.1	<p>TREASURY MANAGEMENT OUTTURN 2021/22</p> <p>BORROWING</p> <p>During 2021/22 the Council did not enter any new borrowing arrangements.</p> <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.</p>

	<table><tr><th>Loans as at 31st March 2022</th><th>Principal £m</th><th>Rate Range %</th><th>Maturity Range (years)</th></tr><tr><td>PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans</td><td>65.81</td><td>3.01 - 8.38</td><td>2.0- 41.0</td></tr><tr><td>Total</td><td>65.81</td><td>3.01 - 8.38</td><td>2.0 - 41.0</td></tr></table>	Loans as at 31 st 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	Total	65.81	3.01 - 8.38	2.0 - 41.0			
Loans as at 31 st March 2022	Principal £m	Rate Range %	Maturity Range (years)													
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Total	65.81	3.01 - 8.38	2.0 - 41.0													
2.2	<p>INVESTMENT ACTIVITY</p> <p>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.</p> <table><tr><th></th><th>Balance at 1st April 2021</th><th>Investment made</th><th>Investments repaid</th><th>Balance at 31st March 2022</th></tr><tr><th>INVESTMENTS</th><th>£m</th><th>£m</th><th>£m</th><th>£m</th></tr><tr><td>Term Investments (liquidity & term <60 months)</td><td>129.67</td><td>238.0</td><td>-224.30</td><td>143.37</td></tr></table> <p>Details of the Councils investment balances at 31st March 2022 can be seen at Appendix A.</p> <p>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.</p> <p>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.</p>		Balance at 1 st April 2021	Investment made	Investments repaid	Balance at 31 st March 2022	INVESTMENTS	£m	£m	£m	£m	Term Investments (liquidity & term <60 months)	129.67	238.0	-224.30	143.37
	Balance at 1 st April 2021	Investment made	Investments repaid	Balance at 31 st March 2022												
INVESTMENTS	£m	£m	£m	£m												
Term Investments (liquidity & term <60 months)	129.67	238.0	-224.30	143.37												
2.3	<p>COMPLIANCE WITH PRUDENTIAL INDICATORS</p> <p>The Council complied with its Prudential Indicators for 2021/22, these were approved by Full Council on 27th January 2021. The Prudential Indicators for 2021/22 can be found at Appendix B.</p>															

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 26th 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 31st 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 st April 2022 £m	1 st April Interest Rate %	31 st August 2022 £m	31 st August 2022 Interest Rate %
Call Accounts (Liquidity Funds)	15.30	0.08% - 0.10%	20.00	0.08% - 0.10%
Money Market Funds	0.00	0.00	10.00	0.00
Term Investments: 3 to 24 months	107.50	0.05% – 1.0%	95.00	0.10% - 1.75%
Property Investment Fund	10.82	4.49%	10.82	4.49%
Multi Asset Fund	9.75	3.36% - 3.82%	9.75	3.36% - 3.82%
Total	143.37		145.57	

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

3.4.4

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

3.4.5

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.

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

3.4.6

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.

3.4.7

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

3.4.8

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:			
		2022/23	2023/24	2024/25
	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:

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

Background reference papers:

None.

Appendix A

INVESTMENTS	Balance at 31 st March 2022 £m	Rate Range	Institution
Short Term Investments			
April 2021 to April 2022	3.00	0.14%	Local Authority
April 2021 to April 2022	5.00	0.15%	Local Authority
June 2021 to June 2022	5.00	0.35%	Local Authority
June 2021 to June 2022	5.00	0.10%	Local Authority
July 2021 to July 2022	4.00	0.35%	Local Authority
September 2021 to September 2022	5.00	0.10%	Local Authority
September 2021 to September 2022	5.00	0.18%	Local Authority
September 2021 to September 2022	5.00	0.10%	Local Authority
October 2021 to October 2022	5.00	0.18%	Local Authority
October 2021 to October 2022	5.00	0.12%	Local Authority
October 2021 to October 2022	5.00	0.18%	Local Authority
December 2021 to June 2022	2.00	0.12%	Local Authority
December 2021 to June 2022	1.00	0.10%	Local Authority
December 2021 to June 2022	3.50	0.10%	Local Authority
December 2021 to September 2022	5.00	0.20%	Local Authority
January 2022 to July 2022	4.00	0.40%	Local Authority
February 2022 to February 2023	5.00	0.70%	Local Authority
February 2022 to February 2023	5.00	0.75%	Local Authority
March 2022 to March 2023	5.00	0.75%	Local Authority
March 2022 to March 2023	5.00	1.05%	Local Authority
Long Term Investments			
August 2020 to August 2022	5.00	0.90%	Local Authority
September 2020 to September 2022	5.00	0.90%	Local Authority
October 2020 to October 2022	5.00	0.90%	Local Authority
September 2021 to September 2023	5.00	0.20%	Local Authority
Long Term Investments - Externally managed funds			
Property Investment Fund	10.78	4.49%	CCLA
Diversified Income Fund	9.75	3.36% & 3.82%	CCLA & Ninety One
Total	128.03		

East Suffolk Council - Compliance with Prudential Indicators 2021/22

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.

	2021/22	2021/22	2021/22
	Estimated £m	In Year Forecast	Outturn £m
Capital Expenditure			
Non-HRA	54.78	16.82	15.64
HRA	22.71	6.84	4.23
Total Capital Expenditure	77.49	23.66	19.87

- 1.2 The £1.18m variance on non-HRA and the £2.61m HRA variance relates to programme delivery being deferred until 2022/23. These were reported to Cabinet on 5 July 2022 part of the Councils Outturn report for 2021/22.

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.

	2021/22	2021/22
	Estimated %	Outturn %
Ratio of Financing Costs to Net Revenue Stream		
Non-HRA	2.88	1.34
HRA	20.25	13.67

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 2021/22.

	2021/22	2021/22
	Estimated £m	Outturn £m
Capital Financing Requirement		
Non-HRA	61.39	52.70
HRA	67.21	67.21
Total	128.60	119.91

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 £155m for 2021/22, with the actual total borrowing being £77.25m.

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 £153m for 2021/22 with the actual borrowing amount being £77.25m.

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.

	2021/22	2021/22
	Estimated	Outturn
	%	%
Upper Limit for Fixed Rate Exposure	100	100
Upper Limit for Variable Rate Exposure	50	0

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.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	Actual Borrowing as at 31 March 2022 £m	Percentage of total as at 31 March 2022 %
under 12 months	50	0	0	0
1 year and within 2 years	50	0	2.0	3
2 years and within 5 years	75	0	10.0	15
5 years and within 10 years	75	0	10.01	15
10 years and within 20 years	75	0	40.96	62
20 years and above	100	0	3.0	5

- 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 £10.82m invested in a long-term property fund, £9.75m invested in long-term multi asset income fund and £20m invested with local authority.