



## AUDIT & GOVERNANCE COMMITTEE

Monday, 25 July 2022

<b>Subject</b>	Treasury Management 2022/23 Quarter 1 Report
<b>Report by</b>	Councillor Edward Back Assistant Cabinet Member 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:**

In the Authority 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 Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

The Authority's treasury management strategy for 2022/23 was approved at a meeting on 26<sup>th</sup> January 2022. The Authority 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 Authority'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 Authority 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 1 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
<b>Environmental:</b> No impacts.
<b>Equalities and Diversity:</b> No impacts.
<b>Financial:</b> Management of the Council’s cash flows; banking; and capital market transactions.
<b>Human Resources:</b> No impacts.
<b>ICT:</b> No impacts.
<b>Legal:</b> No impacts.
<b>Risk:</b> 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.

<b>External Consultees:</b>	None
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## 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"/>
<b>XXX</b>	<b>Governance</b>		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>How does this proposal support the priorities selected?</b>			
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

<b>1 Background facts</b>	
1.1	The UK economy entered 2022 still affected by two major impacts of the path out of Covid – very high inflation, and a very tight labour market with strong pay growth. The bank of England is predicting further inflationary pressures for the immediate future. Inflation is expected remain at about 10% through the Summer and fall back to 2% by spring 2024. The Russian invasion of Ukraine is anticipated to intensify and prolong the surge in inflation and tighten the squeeze on household incomes.
1.2	It is expected that the Bank of England's Monetary Policy Committee (MPC) will continue to raise the base rate at 0.25% increments over its next four meetings until it reaches 2.25% by December 2022.
1.3	The resulting effect on the Local Authority investment market is such that rates will continue in an upward trajectory and it is therefore prudent that any fixed term investments are in line with this predicted increase in rate.

## 2 Current position

### 2.1 TREASURY MANAGEMENT QUARTER 1 2022/23

### 2.2 DAILY CASH MANAGEMENT

The report reviews performance of the treasury management function for the first quarter of 2022/23.

#### 2022/23 Quarter 1 Summary:

- Total investments at 30<sup>th</sup> June 2022 totalled £150.3m
- These investments are summarised as Short-term Investments £73.0m, Long-term Investments £40.34m and Liquidity Investments £36.96m.
- Interest on Investments to 30<sup>th</sup> June totalled £265k.

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 2022/23

2.4 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.

2.5 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 £143.4m and £150.3 million due to timing differences between income and expenditure. The investment position is shown in table below.

	1 <sup>st</sup> April 2022 £m	1 <sup>st</sup> April Interest Rate %	30 <sup>th</sup> June 2022 £m	30 <sup>th</sup> June Interest Rate %
<b>Call Accounts (Liquidity Funds)</b>	15.3	0.08% - 0.10%	37.0	0.90%
<b>Money Market Funds</b>	0.0	0.03%	0.0	1.03%
<b>Term Investments:</b>				
3 to 12 months	87.5	0.05% – 1.0%	73.0	0.10% - 1.35%
24 months	20.0	0.90%	20.0	0.90%
<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>143.4</b>		<b>150.5</b>	

- 2.6 The Council's investment portfolio is looking healthy with both the Property Investment and Multi Asset Fund still performing well.
- 2.7 Inter Local Authority investments have increased in yield during the first quarter as a consequence of the Bank of England base rate increases and the Covid grant support mechanism ending which has removed the short-term cash surplus for Councils and has led to an increased demand on Local Authority borrowing for cash flow purposes. As current short-term investments mature, re-investments will be made which will attract a higher yield than previously attained.
- 2.8 The table below demonstrates that since the start of 2022 interest rates have been increasing and typically a 1-year investment in February attracted a rate of 0.70% compared to June where a 1-year investment attracted a rate of 1.35%.

Council	Amount £	Duration	Start Date	End Date	Rate
Local Authority 1	4,000,000	1 Year	28/07/2021	27/07/2022	0.35%
Local Authority 2	5,000,000	1 Year	22/09/2021	21/09/2022	0.10%
Local Authority 3	5,000,000	1 Year	27/09/2021	26/09/2022	0.18%
Local Authority 4	5,000,000	1 Year	27/09/2021	26/09/2022	0.10%
Local Authority 5	5,000,000	1 Year	25/10/2021	24/10/2022	0.18%
Local Authority 6	5,000,000	1 Year	29/10/2021	28/10/2022	0.12%
Local Authority 7	5,000,000	1 Year	29/10/2021	28/10/2022	0.18%
Local Authority 8	5,000,000	9 months	20/12/2021	20/09/2022	0.20%
Local Authority 9	4,000,000	6 months	11/01/2022	18/07/2022	0.40%
Local Authority 10	5,000,000	1 Year	21/02/2022	20/02/2023	0.70%
Local Authority 11	5,000,000	1 Year	24/02/2022	23/02/2023	0.75%
Local Authority 12	5,000,000	1 Year	16/03/2022	15/03/2023	0.75%
Local Authority 13	5,000,000	6 months	28/03/2022	28/09/2022	1.05%
Local Authority 14	5,000,000	1 Year	14/04/2022	13/04/2023	1.20%
Local Authority 15	5,000,000	1 Year	29/06/2022	28/06/2023	1.35%
	<b>73,000,000</b>				

- 2.9 Likewise, this has also been the case for the call accounts where the rate of interest has increased on these accounts over the last few months and liquid cash is attracting a rate of 0.90%. As a direct result in the unforeseen market changes the Council will be revisiting the investment income budget during the Autumn as part of its budget setting process and will benefit from the increase rate of return available.
- 2.10 The interest on investments for the quarter totals £265k against a budget of £163k with the increase against budget being a direct result of the increase in investment rates since budget setting.
- 2.11 **BORROWING**
- 2.12 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

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

2.14 Over the April-June quarter, short-term rates rose between 0.5% and 0.9% and long-term rates rose between 0.6% and 0.8%.

2.15 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 during the quarter £m	30th June 2022 Principal £m
PWLB Fixed Rate Maturity/EIP Loans	65.81	-0.08	65.73

2.16 **COMPLIANCE**

2.17 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.

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

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

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

	2022/23 Q1 Maximum	30.6.22 Actual	2022/23 Limit Per Counterparty	Complied? Yes/No
Any single organisation, except the UK Government	£525m	£130m	£25m	Yes
Unsecured investments with building societies	£15m	£0	£15m	Yes
Money Market Funds	£20m	£0	£20m	Yes
Strategic pooled funds	£60m	£20.57m	£20m	Yes
Real Estate Investment Trusts	£0	£0	£10m	Yes

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

2.21 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.

	30.6.22 Actual	2022/23 Target	Complied?
Portfolio average credit score	4.8	4	Yes

2.22 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.

	30.6.22 Actual	2022/23 Target	Complied?
Total cash available within 3 months	£37m	£30m	Yes

2.23 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	30.6.22 Actual	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

2.24 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
Actual principal invested beyond year end	£40m	£30m	£30m
Limit on principal invested beyond year end	£5m	£0	£0
Complied?	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 quarterly report to be produced on the Treasury Management function and noted by Committee.

## Appendices

### Appendices:

None

### Background reference papers:

<b>Date</b>	<b>Type</b>	<b>Available From</b>
July 2022	Arlingclose Q1 Template	Financial Services