



# East Lindsey

DISTRICT COUNCIL

REPORT TO:	Full Council
DATE:	14 <sup>th</sup> December 2022
SUBJECT:	Mid Term Treasury Management Report 2022/23
KEY DECISION:	No
PORTFOLIO HOLDER:	Councillor Richard Fry, Portfolio Holder for Finance
REPORT AUTHOR:	Sean Howsam, Interim Treasury and Investment Manager (PSPSL)
WARD(S) AFFECTED:	None directly
EXEMPT REPORT?	No

## SUMMARY

Attached at **Appendix A** is the Mid Term Treasury Management Report on the Council's "Treasury Management Strategy Statement and Annual Investment Strategy". It covers the following areas;

- An economic update for the first half of the 2022/23 financial year;
- The outlook for the remainder of the financial year along with interest rate forecasts;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential indicators for 2022/23.

**This Report refers to a key element of the Council's Governance Framework and represents an important contribution to the evidence trail in support of the Annual Governance Statement 2022/23.**

## RECOMMENDATIONS

1. It is recommended that Council receive and review the contents of the report attached at **Appendix `A`**.
2. On 23 November 2022 the Audit & Governance Committee approved by majority the recommendation to Council that the Sovereign Country Limit (excluding the UK which has no limit) be increased from £5m to £10m. The bank group or individual limit will remain at £5m. The current sovereign limit of £5m is recorded within the Treasury Management Strategy Statement 2022/23 and formed part of the budget setting report which was approved by Council on 2 March 2022.

## REASONS FOR RECOMMENDATIONS

The CIPFA Code of Practice for Treasury Management suggests that members should be informed of Treasury Management activities at least twice a year. This report therefore ensures this Council is embracing Best Practice in accordance with CIPFA's revised Code of Practice.

The Council's priorities when investing surplus cash is security, liquidity and yield in that order.

The Council has a higher level of surplus funds available for investment following the receipt of New Towns Funding.

Other factors are being taken into account so there are currently less counterparties available for investment.

To ensure the Council can sufficiently diversify its portfolio and maximise its investment of surplus cash for periods up to a year at beneficial rates, it is proposed that the Sovereign Country Limit (excluding the UK which has no limit) be increased from £5m to £10m. The individual bank or group limit will remain at £5m.

This recommendation was considered at the Audit and Governance Committee on 23 November 2022 and the Audit and Governance Committee recommend to Council that the Sovereign Investment Limit be increased from £5m to £10m. The committee decision was not unanimous.

## OTHER OPTIONS CONSIDERED

Make no changes to the £5m Sovereign Country Limit approved by Council on 2 March 2022.

### 1. BACKGROUND

- 1.1 This report provides the 2022/23 Mid Term update on the Council's "Treasury Management Strategy Statement and Annual Investment Strategy". (**Appendix A**).
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in 2017.
- 1.3 The Code suggests that members should be informed of Treasury Management activities at least twice a year. This report therefore ensures this Council is embracing best practice in accordance with CIPFA's revised Code of Practice.

## **2. REPORT**

- 2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 2.2 The second main function of the treasury management service is the funding of the Council's capital programme. The capital programme provides a guide to the borrowing need of the Council, essentially longer term cash flow planning to ensure the Council can meet its capital spending requirements. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion, any existing debt may be restructured to meet Council risk or cost objectives.
- 2.3 Accordingly treasury management is defined as:  
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 2.4 The risks around investments have always been managed effectively by the Council.
- 2.5 During 2018/19 the Council completed its purchase of property funds, the purchase of the fund units has significantly increased investment returns to the Council.

## **3. FINANCIAL UPDATE – TO 30 SEPTEMBER 2022**

- 3.1 The Council's 2022/23 budget for investment income is £1.304m. At the end of September 2022 investment income earned was estimated to be approximately £829k. This figure is still an estimate as the actual returns on all property funds to September 2022 are not likely to be known until late December 2022.
- 3.2 The average level of funds available for investment purposes during the first quarter of the financial year was £61.3m excluding property fund investments.
- 3.3 Treasury investments achieved an average rate of 1.34% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 1.701%.
- 3.4 Property fund investments are estimated to have achieved an average net rate of 3.35%.
- 3.5 The combined rate achieved on all investments is estimated to be approximately 1.92%.
- 3.6 Due to increased balances available for investment resulting from additional grant money being received and recent rises in interest rates on new investments, the forecast for the outturn of investment income is £2.23m. This is £926k above budget. This will be monitored on a monthly basis to reflect changing market conditions.
- 3.8 The projected outturn for borrowing costs for 2022/23 is £493k which is in line with the budget.

- 3.9 The Council's Investment Policy and Strategy is kept under constant review with the aim of balancing risk and reward. The investment criteria agreed for 2022/23 permitted investments with banks whose parent bank originates from a country with a sovereign rating of A+ or higher and meets Link Groups counterparty investment criteria.

The Council has a higher level of surplus funds available for investment following the receipt of New Towns Funding. In addition to this, there are less counterparties currently available to the Council. As a result, it is becoming increasingly difficult to invest short term funds for longer durations at higher rates.

It is therefore recommended that the Sovereign Country Limit be increased from £5m to £10m (excluding the UK which has no limit). The bank group or individual limit will remain at £5m. This will enable the Council to achieve higher returns with high credit rated institutions and diversify its portfolio further.

#### **4. CONCLUSION**

- 4.1 This report provides a review of treasury management performance for the financial year 2022/23, to Members to ensure Best Practice is maintained as required by CIPFA Code of Practice for Treasury Management.

#### **5. IMPLICATIONS**

##### **5.1 SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP**

- 5.1.1 None

##### **5.2 CORPORATE PRIORITIES**

- 5.2.1 None

##### **5.3 STAFFING**

- 5.3.1 None

##### **5.4 CONSTITUTIONAL AND LEGAL IMPLICATIONS**

- 5.4.1 The General Power of Competence in the Localism Act 2011 allows Councils a broad freedom in their operations.

- 5.4.2 Councils have the general power to borrow under Section 1 of the Local Government Act 2003.

- 5.4.3 The power to invest is set out in the Local Government Act 2003, Section 12, which gives the Council the power to invest for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs.

- 5.4.4 The power that allows councils to spend for capital purposes is included in the Local Government Act 2003.

##### **5.5 DATA PROTECTION**

- 5.5.1 None

## **5.6 FINANCIAL**

- 5.6.1 The financial implications are covered in detail in **Appendix A** to this report and in Section 3 above.
- 5.6.2 By making the investment criteria relating to financial institutions stringent, the Council receives lower rates of return. The Council therefore aims to strike a balance between risk and reward when considering its portfolio of investments. Treasury Management is a key financial consideration for the Authority especially in respect of its investment returns and Capital Programme.

## **5.7 RISK MANAGEMENT**

- 5.7.1 The Code of Practice sets out the framework for controlling the risks associated with treasury management decisions for borrowing and investing. Ultimately investment and borrowing decisions are made in accordance with the Council's Treasury Management Strategy. The overriding priority is that the security of a deposit takes precedence over a return on investment.
- 5.7.2 The Prudential and Treasury Indicators control the limits for investing and borrowing, to ensure that any borrowing is affordable and sustainable and long term borrowing is for capital purposes only.

## **5.8 STAKEHOLDER / CONSULTATION / TIMESCALES**

- 5.8.1 The Portfolio Holder for Finance is briefed on treasury performance on a regular basis as part of the monthly portfolio meetings.

## **5.9 REPUTATION**

- 5.9.1 The security of investments is the Council's main priority when investing surplus cash.

## **5.10 CONTRACTS**

- 5.10.1 None

## **5.11 CRIME AND DISORDER**

- 5.11.1 None

## **5.12 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING**

- 5.12.1 None

## **5.13 HEALTH AND WELL BEING**

- 5.13.1 None

## **5.14 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

- 5.14.1 None

## **5.15 LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER**

- 5.15.1 None

## **6. ACRONYMS**

- 6.1 CIPFA - Chartered Institute of Public Finance and Accountancy

q/q - quarter on quarter  
 CPI - Consumer Price Index  
 y/y - year on year  
 bps – basis points  
 m/m – month on month  
 PMI - Purchasing Managers’ Index  
 MPC - Monetary Policy Committee  
 ECB - European Central Bank  
 QE – Quantitative Easing  
 S&P - Standard & Poors  
 PWLB - Public Works Loan Board  
 TMSS - Treasury Management Strategy Statement  
 HRA – Housing Revenue Account  
 CFR – Capital Financing Requirement  
 MRP - Minimum Revenue Provision  
 CDS - Credit Default Swap  
 GF – General Fund  
 SONIA - Sterling Overnight Index Average  
 CD – Certificate of Deposit

#### APPENDICES

Appendices are listed below and attached to the back of the report: -

APPENDIX A	Mid Term Treasury Management Report 2022/23
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#### BACKGROUND PAPERS

Background papers used in the production of this report are listed below: -

Document title	Where the document can be viewed
Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.	CIPFA Website
ELDC Treasury Management Strategy Statement for 2022/23	<a href="#">(Public Pack)Agenda Document for Council, 02/03/2022 14:00 (e-lindsey.gov.uk)</a>

#### CHRONOLOGICAL HISTORY OF THIS REPORT

Name of body	Date
Audit and Governance Committee	23 November 2022

<b>REPORT APPROVAL</b>	
Report author:	Sean Howsam – Interim Treasury & Investments Manager (PSPSL) <a href="mailto:Sean.Howsam@pspsl.co.uk">Sean.Howsam@pspsl.co.uk</a>
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Approved for publication:	Portfolio Holder for Finance