



REPORT TO:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	27 SEPTEMBER 2023
SUBJECT:	Q1 TREASURY MANAGEMENT UPDATE 2023/24
PURPOSE:	TO PROVIDE MEMBERS WITH AN UPDATE ON TREASURY MANAGEMENT PERFORMANCE AND ACTIVITY TO ENSURE BEST PRACTICE IS MAINTAINED.
KEY DECISION:	NO
PORTFOLIO HOLDER:	COUNCILLOR FRY, PORTFOLIO HOLDER FOR FINANCE
REPORT OF:	CHRISTINE MARSHALL – DEPUTY CHIEF EXECUTIVE (CORPORATE DEVELOPMENT) & S151
REPORT AUTHOR:	SEAN HOWSAM, INTERIM TREASURY AND INVESTMENTS MANAGER (PSPSL)
WARD(S) AFFECTED:	NONE DIRECTLY
EXEMPT REPORT?	NO

SUMMARY

Attached at **Appendix A** is the Q1 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 quarter of the 2023/24 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;
- A review of the Council's investment portfolio for 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- Debt rescheduling;
- Compliance with Treasury and Prudential indicators.

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 2023/24.

RECOMMENDATIONS

It is recommended that Members of the Audit and Governance Committee receive and review the contents of the report attached at **Appendix `A`**.

REASONS FOR RECOMMENDATIONS

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

OTHER OPTIONS CONSIDERED

As this is an update report there are no other further options for consideration.

1. BACKGROUND

- 1.1** 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.
- 1.2** 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.
- 1.3** Accordingly treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, including 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".
- 1.4** The risks around investments have always been managed effectively by the Council.

2. REPORT

- 2.1 This report provides the 2023/24 Quarter 1 update on the Council's "Treasury Management Strategy Statement and Annual Investment Strategy" (**Appendix A**).
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in 2021.
- 2.3 The Code suggests that members should be informed of Treasury Management activities at least quarterly. This report therefore ensures this Council is embracing best practice in accordance with CIPFA's revised Code of Practice.
- 2.4 The Council's 2023/24 net budget for investment income is £3.071m. At the end of June 2023 investment income earned was estimated to be approximately £1.062m, which was £298k above the profiled budget on a straight line basis. This figure is still an estimate as the actual returns on all property funds to June 2023 are not likely to be known until late September 2023.
- 2.5 The average level of funds available for investment purposes during the first quarter of the financial year was £74.3m excluding property fund investments.
- 2.6 Treasury investments achieved an average rate of 4.42% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 4.65%.
- 2.7 Property fund investments are estimated to have achieved an average net rate of 4.14%.
- 2.8 The combined rate achieved on all investments is estimated to be approximately 4.34%.
- 2.9 The outturn for investment income for 2023/24 is forecast to be £4.492m which would be £1.421m above budget. This will be monitored on a monthly basis to reflect changing market conditions.
- 2.10 The projected outturn for borrowing costs for 2023/24 is £493k which is in line with the budget.
- 2.11 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 2023/24 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.

3. CONCLUSION

- 3.1** This report provides an update on treasury management performance to Members to ensure Best Practice is maintained as required by CIPFA Code of Practice for Treasury Management.

EXPECTED BENEFITS TO THE PARTNERSHIP

None

IMPLICATIONS

SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP

None

CORPORATE PRIORITIES

None

STAFFING

None

CONSTITUTIONAL AND LEGAL IMPLICATIONS

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

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

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.

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

DATA PROTECTION

None

FINANCIAL

The financial implications are covered in detail in **Appendix A** to this report and in section 2 above.

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.

RISK MANAGEMENT

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.

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.

STAKEHOLDER / CONSULTATION / TIMESCALES

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

REPUTATION

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

CONTRACTS

None

CRIME AND DISORDER

None

EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

None

HEALTH AND WELL BEING

None

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None

LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER

None

ACRONYMS

bps – basis points

CDS - Credit Default Swap

CIPFA - Chartered Institute of Public Finance and Accountancy

CPI - Consumer Price Index

ECB - European Central Bank

FOMC - US Federal Open Market Committee

GDP – Gross Domestic Product

m/m – month on month

MPC - Monetary Policy Committee

PMI - Purchasing Managers' Index

PWLB - Public Works Loan Board

q/q - quarter on quarter

SONIA - Sterling Overnight Index Average

APPENDICES

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

APPENDIX A

Q1 Treasury Management Update 2023/24

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 2023/24

[\(Public Pack\)Agenda Document for Council, 01/03/2023 14:00 \(e-lindsey.gov.uk\)](#)

CHRONOLOGICAL HISTORY OF THIS REPORT**Name of body****Date**

Audit and Governance Committee

27 September 2023

REPORT APPROVAL

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