

REPORT TO:	Audit and Governance Committee
DATE:	22 November 2023
SUBJECT:	Mid Term 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 & Investments 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 2023/24 financial year;
- 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 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

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

That Audit and Governance Committee note this report, the treasury activity as detailed in **Appendix A** and make any comments for consideration by Council at their meeting on 13 December 2023.

REASONS FOR RECOMMENDATIONS

The CIPFA Code of Practice for Treasury Management suggests that members should be informed of Treasury Management activities on a quarterly basis. 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 Mid Term 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 September 2023 net investment income earned was estimated to be approximately £2.399m, which was £863k above the profiled budget on a straight line basis.
- 2.5** The average level of funds invested during the first half of the financial year was £104m including property fund investments.
- 2.6** Treasury investments achieved an average rate of 4.84% (Q1 4.42%) compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.024% (Q1 4.65%). InvestEL loans achieved a rate of 4.00% and property fund investments achieved an average rate of 3.96% (Q1 4.14%). The combined rate achieved on all investments is estimated to be 4.60% (Q1 4.34%).
- 2.7** The expected outturn for investment income has increased to £4.863m from £4.492m, an increase of £371k since Quarter 1. This is mainly due to revised information being received regarding the profiled spend of the Towns Fund and LUF capital expenditure projects. This gives an estimated surplus above budget of £1.792m.
- 2.8** On 30 September the projected outturn for borrowing costs for 2023/24 was £493k which was in line with the budget.
- 2.9** 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 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.
- 2.10** On 9 October 2023 the Council prematurely repaid £20m of external borrowing to the Public Works Loan Board. As this transaction falls into Quarter 3, the financial implications of this decision will be reflected in the Quarter 3 Treasury Update Report.

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.

4. EXPECTED BENEFITS TO THE PARTNERSHIP

4.1 None

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 2 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
- bps – basis points
 - CDS - Credit Default Swap
 - CFR – Capital Financing Requirement
 - CIPFA - Chartered Institute of Public Finance and Accountancy
 - CPI - Consumer Price Index
 - GDP – Gross Domestic Product
 - GF – General Fund
 - HRA – Housing Revenue Account
 - m/m – month on month
 - myy – month on year on year
 - MPC - Monetary Policy Committee
 - MRP – Minimum Revenue Provision
 - PWLB - Public Works Loan Board
 - q/q - quarter on quarter
 - S&P – Standard & Poors
 - SONIA - Sterling Overnight Index Average

APPENDICES

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

APPENDIX A	Mid Term Treasury Management Update
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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 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	Q1 Update Report 27 September 2023 Mid Term Report 22 November 2023 (this report)

REPORT APPROVAL

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Approved for publication:	Cllr Fry - Portfolio Holder for Finance