



REPORT TO:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	27 MARCH 2024
SUBJECT:	Q3 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 Q3 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 three quarters 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 3 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. 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.
- 2.3 The Council's 2023/24 net budget for investment income is £3.071m. At the end of December 2023 investment income earned was estimated to be approximately £3.685m, which was £1.378m above the profiled budget on a straight line basis. This figure is still an estimate as the actual returns on all property funds to December 2023 are not likely to be known until late March 2024.
- 2.4 The average level of funds available for investment purposes during the first three quarters of the financial year was £103m including property fund investments.
- 2.5 Treasury investments achieved an average rate of 5.03% (previously 4.84%) compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.10% (previously 5.02%). InvestEL loans achieved a rate of 4.00% and property fund investments achieved an average rate of 4.03% (previously 3.96%). The combined rate achieved on all investments was 4.76% (previously 4.60%).
- 2.6 The forecast outturn for investment interest has decreased to £4.826m from £4.863m, a reduction of £37k since Quarter 2. This is due to the Council having lower investment balances during Q3 following the repayment of the £20m PWLB borrowing at a discount of £8.344m.
- 2.7 Following the repayment of PWLB borrowing the projected outturn for borrowing costs for 2023/24 is £285k which is £208k below budget.
- 2.8 The Council received a discount of £8.344m when it repaid its PWLB borrowing of £20m. Under accounting regulations this discount is allocated to revenue over a ten year period so £398k will be credited to the 2023/24 financial year.

2.9 The table below provides an overall summary for 2023/24.

	2023/24 Profiled Q3 Budget	2023/24 Quarter 3 Actual	2023/24 Annual Budget	2023/24 Forecast Outturn	2023/24 Variance
Net Investment Income	(2,307,445)	(3,685,087)	(3,071,000)	(4,826,009)	(1,755,009)
Premature Repayment of Borrowing Discount Allocated to Revenue	0	(192,032)	0	(397,780)	(397,780)
Less: Total Borrowing Costs	371,438	285,118	493,000	285,203	(207,797)
Overall Net Position	(1,936,007)	(3,592,001)	(2,578,000)	(4,938,586)	(2,360,586)

On 31 December 2023 it can be seen from the table above that the overall forecast net position after borrowing costs is £2,360,586 above budget based on current estimated outturns. This compares with £1,792,000 on 30 September 2023.

2.10 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.

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 WORKFORCE CAPACITY IMPLICATIONS

5.4.1 None

5.5 CONSTITUTIONAL AND LEGAL IMPLICATIONS

- 5.5.1 The General Power of Competence in the Localism Act 2011 allows Councils a broad freedom in their operations.
- 5.5.2 Councils have the general power to borrow under Section 1 of the Local Government Act 2003.
- 5.5.3 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.
- 5.5.4 The power that allows councils to spend for capital purposes is included in the Local Government Act 2003.

5.6 DATA PROTECTION

- 5.6.1 None

5.7 FINANCIAL

- 5.7.1 The financial implications are covered in detail in **Appendix A** to this report and in section 2 above.
- 5.7.2 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.

5.8 RISK MANAGEMENT

- 5.8.1 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.
- 5.8.2 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.

5.9 STAKEHOLDER / CONSULTATION / TIMESCALES

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

5.10 REPUTATION

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

5.11 CONTRACTS

- 5.11.1 None

5.12 CRIME AND DISORDER

5.12.1 None

5.13 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

5.13.1 None

5.14 HEALTH AND WELL BEING

5.14.1 None

5.15 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

5.15.1 None

5.16 LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER

5.16.1 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
ECB - European Central Bank
FOMC - US Federal Open Market Committee
GDP – Gross Domestic Product
LOBO - Lender Option Borrower Option
LUF – Levelling Up Fund
m/m – month on month
myy – month year on year
MPC - Monetary Policy Committee
PMI - Purchasing Managers’ Index
PWLB - Public Works Loan Board
q/q - quarter on quarter
QT – Quantitative Techniques
SONIA - Sterling Overnight Index Average
UKSPF- UK Shared Prosperity Fund

APPENDICES

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

APPENDIX A

Q3 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
Q1 Treasury Management Update (Audit and Governance)	27 September 2023
Mid Term Treasury Update (Audit and Governance)	22 November 2023
Mid Term Treasury Update (Council)	13 December 2023
Q3 Treasury Management Update (Audit & Governance) (this report)	27 March 2024

REPORT APPROVAL

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