



<b>Report To:</b>	Audit and Governance Committee
<b>Date:</b>	Wednesday, 11 September 2024
<b>Subject:</b>	Q1 Treasury Report 2024/25
<b>Purpose:</b>	To provide Members with an update on Treasury Management performance and activity to ensure best practice is maintained.
<b>Key Decision:</b>	No
<b>Portfolio Holder:</b>	CLlr Kemp, Portfolio Holder for Finance.
<b>Report Of:</b>	Christine Marshall, Deputy Chief Executive - Corporate Development (S151).
<b>Report Author:</b>	Sean Howsam, Interim Treasury Manager (PSPSL).
<b>Ward(s) Affected:</b>	None directly.
<b>Exempt Report:</b>	No.

### Summary

Attached at **Appendix A** is the Q1 Treasury 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 2024/25 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 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

**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 2024/25.**

## 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 2024/25 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** Sections 2 and 3 of Appendix A provides an economic update for quarter 1 and interest rate forecasts. The expected direction of interest rates for the remainder of the financial year is a reduction in Bank Rate.
- 2.5** Section 4 and 5 of Appendix A provides details of the Council's investments and borrowing on 30 June 2024.
- 2.6** The table below provides an analysis of the net treasury position as at Quarter 1 and the projected outturn for the year:

Investment Type	2024/25 Budget Quarter 1	2024/25 Actual Quarter 1	2024/25 Variance Quarter 1	2024/25 Annual Budget	2024/25 Forecast Outturn	2024/25 Forecast Variance
Treasury Investments						
Gross Interest	(448,642)	(895,516)	(446,874)	(1,799,498)	(2,847,662)	(1,048,164)
Brokers Fees	<u>4,986</u>	<u>4,147</u>	<u>(839)</u>	<u>20,000</u>	<u>20,000</u>	<u>0</u>
Net Position	(443,656) (4.898%)	(891,369) (5.539%)	(447,713) (0.641%)	(1,779,498)	(2,827,662)	(1,048,164)
Property Funds						
Gross Distributions	(285,242)	(242,921)	42,321	(1,144,102)	(1,101,781)	42,321
Less Management Fees	<u>49,863</u>	<u>42,465</u>	<u>(7,398)</u>	<u>200,000</u>	<u>192,602</u>	<u>(7,398)</u>
Net Distributions	(235,379) (4.000%)	(200,456) (3.867%)	34,923 0.133%	(944,102)	(909,179)	34,923
M&G Property Fund Liquidation Distributions ( <i>to be used for MRP Contributions as the original capital purchase was unfinanced</i> )	0	0	0	0	0	0
<b>Total Net Income</b>	<b>(679,035)</b> <b>(4.547%)</b>	<b>(1,091,825)</b> <b>(5.030%)</b>	<b>(412,790)</b> <b>(0.483%)</b>	<b>(2,723,600)</b>	<b>(3,736,841)</b>	<b>(1,013,241)</b>
Premature Repayment of Borrowing Discount Allocated to Revenue	(208,035)	(208,035)	0	(834,425)	(834,425)	0
<b>Overall Net Position</b>	<b>(887,070)</b>	<b>(1,299,860)</b>	<b>(412,790)</b>	<b>(3,558,025)</b>	<b>(4,571,266)</b>	<b>(1,013,241)</b>

At Quarter 1 there is a favourable variance of £412,790 and the forecast outturn is a favourable variance of £1,013,241.

- 2.7** The average level of funds available for investment purposes during the first quarter of the financial year was £88.7m including the loans to InvestEL which are classified as long-term debtors.

- 2.8** Treasury investments achieved an average rate of 5.539% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.167%, InvestEL loans 4% and property fund investments an average rate of 3.867%. The combined rate achieved on all investments was 5.030%.
- 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 2024/25 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** An update to the Council's prudential and treasury indicators for 2024/25 is provided at Appendix A1.

### **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.

### **Implications**

#### **South and East Lincolnshire Councils Partnership**

None

#### **Corporate Priorities**

None

#### **Staffing**

None

#### **Workforce Capacity Implications**

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.

## **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 Wellbeing**

None

## **Climate Change and Environmental Implications**

None

## **Acronyms**

bps – basis points

CDS - Credit Default Swap

CIPFA - Chartered Institute of Public Finance and Accountancy

CPI - Consumer Price Index

GDP – Gross Domestic Product

m/m – month on month

myy – month year on year

MPC - Monetary Policy Committee  
MRP – Minimum Revenue Provision  
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 Report 2024/25

## 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 2024/25	<u>(Public Pack)Agenda Document for Council, 28/02/2024 14:00 (e-lindsey.gov.uk)</u>

## Chronological History of this Report

### Name of Body

### Date

Audit and Governance

Q1 Update Report - 11 September 2024

## Report Approval

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