



REPORT TO:	Governance and Audit Committee
DATE:	Thursday 17 November 2022
SUBJECT:	Mid Term Treasury Management Update 2022/23
KEY DECISION:	<i>No</i>
PORTFOLIO HOLDER:	<i>Councillor Coupland</i>
REPORT AUTHOR:	Sean Howsam (Interim Treasury and Investments Manager (PSPSL))
WARD(S) AFFECTED:	None directly
EXEMPT REPORT?	<i>No</i>

SUMMARY

Attached at **Appendix A** is the Mid 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

That Governance and Audit Committee note this report, the treasury activity as detailed in **Appendix A** and make any comments for consideration by Council at their meeting on 18 January 2023.

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.

OTHER OPTIONS CONSIDERED

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

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.

3. FINANCIAL UPDATE – TO 30 SEPTEMBER 2022

3.1 The latest approved capital program is for £28.164m (GF £12.82m, HRA £15.344m). Actual expenditure as at 30 September 2022 was £9.39m (GF £6.056m, HRA £3.334m).

3.2 The Council’s external borrowing remained at £67.456m as at 30 September 2022.

3.3 The Council’s 2022/23 budget for investment income is £294k. At the end of September 2022 investment income earned was estimated to be approximately £341k.

3.4 The average level of funds available for investment purposes during the first half of the financial year was £52.5m including the loans to Welland Homes which are classified as long-term debtors.

3.5 Treasury investments achieved an average rate of 1.126% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 1.701%.

3.6 The Welland Homes loans were issued at a rate of 3.50%.

3.7 The combined rate achieved on all investments is estimated to be approximately 1.295%.

3.8 An estimate for the outturn of investment income for 2022/23 has been calculated taking into consideration the future expectations for interest rates for the remainder of the financial year and projected cash balances. This estimate is £1.04m which would be £746k above budget. This estimated outturn will be monitored on a monthly basis to reflect changing market conditions and a further update will be provided to this committee in the Q3 Treasury Management Update Report.

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.

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.

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
SHDC Treasury Management Strategy Statement for 2022/23	(Public Pack)Agenda Document for South Holland District Council, 03/03/2022 18:30 (sholland.gov.uk)

CHRONOLOGICAL HISTORY OF THIS REPORT

Name of body	Date
Governance and Audit	19 September 2022

REPORT APPROVAL

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