



REPORT TO:	Audit and Governance Committee
DATE:	5th December 2022
SUBJECT:	Mid Term Treasury Management Review 2022/23
KEY DECISION:	N/A
PORTFOLIO HOLDER:	<i>Councillor Noble</i>
REPORT AUTHOR:	Sean Howsam (Interim Treasury & Investments Manager PSPSL)
WARD(S) AFFECTED:	N/A
EXEMPT REPORT?	<i>No</i>

SUMMARY

Attached at **Appendix A** is the Mid Term 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;
- 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 therefore represents an important contribution to the evidence trail in support of the Annual Governance Statement 2022/23.

RECOMMENDATIONS

It is recommended that Members of the Audit and Governance Committee consider and approve the contents of the report attached at **Appendix A**.

REASONS FOR RECOMMENDATIONS

The Council is required to produce regular monitoring reports on treasury activity in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.

OTHER OPTIONS CONSIDERED

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

1. INTRODUCTION

- 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. BACKGROUND

- 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 proposed revised budget for the capital programme is £10.682m which is fully funded from external grants and reserves. Actual expenditure as at 30 September 2022 was £1.105m.
- 3.2 The Council's external borrowing remained at £16.449m as at 30 September 2022.
- 3.3 The Council's 2022/23 budget for investment income is £748k net of fees. At the end of September 2022 investment income earned was estimated to be approximately £417k. This figure is still an estimate as the actual returns on all property funds to September 2022 are not likely to be known until December 2022.
- 3.4 The average level of funds available for investment purposes during the first half of the financial year was £29.3m excluding property fund investments.
- 3.5 Treasury investments achieved an average rate of 0.771% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 1.701%.
- 3.6 Property fund investments are estimated to have achieved an average net rate of 3.288%.
- 3.7 The combined rate achieved on all investments is estimated to be approximately 1.741%.
- 3.8 The forecast for the outturn of investment income for 2022/23 has been calculated at £1m which would be £252k above budget. This will be monitored on a monthly basis to reflect changing market conditions.
- 3.9 The Council's property fund investments made an estimated contribution to the Council's 2022/23 revenue account of £304k after fees and the combined Net Asset Value of the funds fell by 1.8% from the 31 March 2022 valuations. A full analysis of the Council's property fund investments can be found in Paragraph 9.4 of **Appendix `A**.
- 3.10 The projected outturn for borrowing costs for 2022/23 is £493,638 which is in line with the budget.
- 3.11 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 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.

CONCLUSION

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.

FINANCIAL IMPLICATIONS

The financial implications are covered in detail in **Appendix A** to this report.

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.

LEGAL IMPLICATIONS

The General Power of Competence (GPOC) 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.

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None

EQUALITY AND SAFEGUARDING IMPLICATIONS

None

OTHER IMPLICATIONS

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.

Impact on Performance

There is a requirement to try and balance the risks and rewards from investing our available cash resources, as outlined within the Treasury Management Strategy 2022/23.

CONSULTATION

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

APPENDICES

Appendix A – Mid Term Treasury Management Update 2022/23

BACKGROUND PAPERS

Background papers used in the production of this report are listed below: -

Document title	Where the document can be viewed
Treasury Management Strategy Statement for 2022/23	https://democracy.boston.gov.uk/documents/g1744/Public%20reports%20ack%2007th-Mar-2022%2018.30%20Full%20Council.pdf?T=10

CHRONOLOGICAL HISTORY OF THIS REPORT

A Quarter 1 Treasury Management report was submitted to this committee on 19 September 2022.

REPORT APPROVAL

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