Southend-on-Sea City Council

Report of Deputy Chief Executive and Executive Director (Finance & Resources)
to
Cabinet
on
8th November 2022

Agenda Item No.

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Treasury Management Report – Mid Year 2022/23
Policy and Resources Scrutiny Committee
Cabinet Member: Councillor Paul Collins
A Part 1 Public Agenda Item

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1. Purpose of Report

1.1 The Mid-Year Treasury Management Report covers the treasury management activity and compliance with the treasury management strategy for both quarter two and the period from April to September 2022.

2. Recommendations

That the following is approved:

2.1 The Treasury Management Mid-Year Position report for 2022/23.

That the following is noted:

2.2 Treasury management activities were carried out in accordance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Sector during the period from April to September 2022.

2.3 The loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk.

2.4 £1.393m of interest and income distributions for all investments were earned during this six-month period at an average rate of 1.62%. This is 0.40% over the average SONIA rate (Sterling Overnight Index Average) and 0.34% over the average bank rate. Also, the value of the externally managed funds decreased by a net of £1.687m due to changes in the unit price, giving a combined overall return of -0.34%. (Section 8).

2.5 The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained at £347.3m (Housing Revenue Account (HRA): £74.2m, General Fund: £273.1m) during the period from April to September 2022 at an average rate of 3.46%.

2.6 The level of financing for 'invest to save' schemes decreased from £8.39m to £8.30m during the period from April to September 2022.

3. Background

3.1 This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code. The code recommends that local authorities submit reports regularly as part of its Governance arrangements.

3.2 Current guidance is that authorities should report formally at least twice a year and preferably quarterly. The Treasury Management Policy Statement for 2022/23 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation. This is the second quarterly report for the financial year 2022/23, covering both quarter two and the period from April to September 2022.

3.3 Appendix 1 shows the in-house investment position at the end of quarter two of 2022/23.

3.4 Appendix 2 shows the treasury management performance specifically for quarter two of 2022/23.

4. National Context

4.1 Given the ongoing economic and fiscal challenges UK gross domestic product (GDP) is estimated to have increased by 0.2% in the quarter from April to June 2022, upwardly revised from a first estimate of 0.1%. The level of real GDP is now estimated to be 0.2% below where it was pre-coronavirus at Quarter 4 (October to December) 2019.

4.2 The unemployment rate for the quarter from June to August 2022 was 3.5%. This is the lowest rate since December to February 1974 with the number of unemployed people per vacancy falling to a record low of 0.9. However, for the quarter from May to July 2022 the economic inactivity rate increased by 0.4% to 21.7%. This increase was largely driven by those aged 16 to 24 years and those aged 50 to 64 years. Looking at economic inactivity by reason, the increase was driven by those inactive because they are students or long-term sick.

4.3 The Consumer Prices Index including owner occupiers' housing costs (CPIH) was at 8.8% in July, at 8.6% in August and 8.8% in September. (The Consumer Prices Index excluding owner occupiers' housing costs (CPI) rose by 10.1% in the 12 months to September 2022.) The largest upward contributions to the annual CPIH inflation rate in September came from housing and household services (principally from electricity, gas and other fuels), food and non-alcoholic beverages and transport (principally motor fuels).

4.4 During the quarter the Bank of England increased the bank base rate from 1.25% to 1.75% on 4th August and further increased the rate to 2.25% on 22nd September. At their September meeting the Monetary Policy Committee voted to reduce the stock of purchased UK government bonds by £80bn over the next 12 months.

4.5 During the quarter Boris Johnson resigned as Prime Minister which triggered a leadership election within the Conservative Party. This resulted in Liz Truss being elected as leader of the Conservative Party and being invited by the late Queen to form a government as Prime Minister in early September. On 23rd September, the Chancellor delivered a “mini budget” which aimed to implement a number of measures announced by the new Prime Minister during her campaign in July and August, as well as a number of further policies. The financial markets and key financial institutions were concerned about how these measures would be funded and this resulted in a lot of market volatility, particularly in the UK government bond markets. This prompted a sell-off in gilts, mainly by pension funds, which resulted in the Bank of England’s pledge to buy £65bn of Government bonds, to reduce the risk to UK financial stability.

4.6 Over the course of the next few weeks the Chancellor was replaced and many of the policies announced in the “mini budget” were reversed. The new Prime Minister’s position became increasingly difficult and she resigned on 20th October, triggering a new leadership election within the Conservative Party. Two candidates put their names forward, Penny Mordaunt and Rishi Sunak. On 24th October Penny Mordaunt withdrew from the contest before the deadline for nominations resulting in Rishi Sunak becoming the leader of the Conservative Party without the need for an MP’s ballot or members’ vote. On 25th October Rishi Sunak was invited by the King to form a government as Prime Minister.

4.7 The PWLB rates are at a margin above Government bonds (gilts) and rates across the yield curve increased in response to these events. This currently has no direct impact on the Council’s borrowing as all our current loans are at fixed rates. Also, the Council took out £40m of new borrowing during 2021/22 at historically low rates of between 1.52% and 1.68%, so does not currently have any requirement for new borrowing. This is advantageous as during the quarter the 50-year PWLB rates fluctuated between 2.79% and 5.17%.

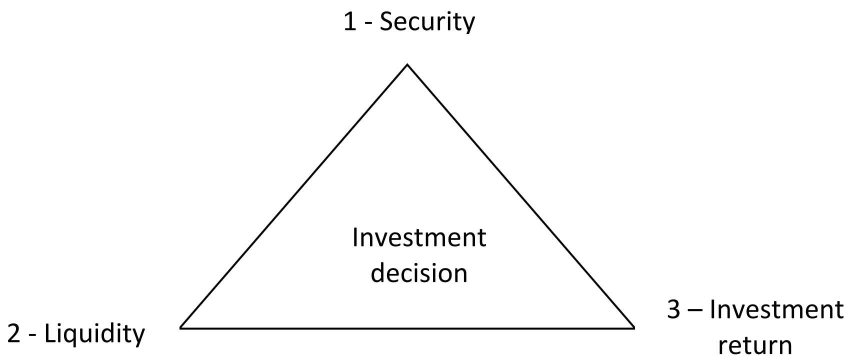
4.8 The economic situation together with the financial market conditions prevailing throughout the quarter provided opportunities for in-house treasury management activities. Variable rate instant access accounts benefited from the increasing interest rates although that effect did not feed through in the same way for notice accounts. As notice accounts and fixed term deposits mature, advantage can be taken of the increased rates when reinvesting those monies.

4.9 The economic conditions and market turmoil has had an impact on the monies invested by our Fund Managers, with the unit price of all the funds decreasing during the quarter. However, as noted throughout this report, in line with the capital finance and accounting regulations the Council’s Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget. These investments are for the medium or long term and the markets are cyclical so the unit price can go up and down, but during the timescale over which they are invested they provide better returns than the in-house investments are able to.

5. Investments – quarter two (July to September)

5.1 A prime objective of our investment activities is the security of the principal sums invested. To ensure this security before a deposit is made an organisation is tested against a matrix of credit criteria. During the period from July to September 2022 investment deposits were limited to those who met the criteria in the Annual Treasury Management Investment Strategy when the deposit was placed.

5.2 Other investment objectives are to maintain liquidity (i.e. adequate cash resources to allow the council to operate) and to optimise the investment income generated by surplus cash in a way that is consistent with a prudent level of risk. Investment decisions are made with reference to these objectives, with security and liquidity being placed ahead of the investment return. This is shown in the diagram below:



Security:

5.3 To maintain the security of sums invested, we seek to lower counterparty risk by investing in financial institutions with good credit ratings, across a range of sectors and countries. The risk of loss of principal of monies is minimised through the Annual Treasury Management Investment Strategy.

5.4 Pie chart 1 of Appendix 1 shows that at the end of quarter two; 34% of our in-house investments were placed with financial institutions with a long-term rating of AAA, 27% with a long-term rating of A+ and 39% with a long-term rating of A.

5.5 As shown in pie chart 2 of Appendix 1, these monies were with various counterparties, 66% being placed directly with banks and 34% placed with a range of counterparties via money market funds.

5.6 Pie chart 3 of Appendix 1 shows the countries where the parent company of the financial institution with which we have monies invested is registered. For money market funds there are various counterparties spread across many countries. The cumulative balance of funds held with any one institution was kept within agreed limits.

Liquidity:

5.7 At the end of quarter two £45.9m of our in-house monies were available on an instant access basis, £27.5m were held in notice accounts and £20m was invested in fixed term deposits. The table below shows the fixed term deposits during the period July to September 2022.

Table 1: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Lloyds Bank Corporate Markets (NRFB)*	29/06/2022	29/12/2022	183	0.216	12.5
Goldman Sachs International	29/06/2022	29/12/2022	183	0.219	7.5

* NRFB – Non Ring-Fenced Bank

5.8 The maturity profile of our investments is shown in pie chart 4 of Appendix 1.

Investment return:

5.9 During the quarter the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £5.0m was invested in these funds during the quarter. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 3 of Appendix 2.

Table 2: Payden Sterling Reserve Fund

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	4.991	
Decrease in fund due to value of unit price	(0.095)	(7.52)
Value of fund at end of quarter	4.896	
Income distributions	0.020	1.61
Combined investment income (income distribution plus change in fund value due to unit price)	(0.075)	(5.91)

5.10 The Council had an average of £110.5m of investments managed in-house over the period from July to September, and these earned an average interest rate of 1.47%. Of the in-house managed funds:

- an average of £21.3m was held in the Council's main bank account earning an average of 1.42% over the quarter.
- an average of £41.7m was held in money market funds earning an average of 1.60% over the quarter. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.

- an average of £27.5m was held in notice accounts earning an average of 0.81% over the quarter.
- an average of £20.0m was held in fixed term deposits and earned an average return of 2.17% over the quarter.

5.11 In accordance with the Treasury Management Strategy the in-house performance during the quarter is compared to the SONIA rate. Overall, investment performance was 0.08% lower than the SONIA rate (Sterling Overnight Index Average). This was due to the interest rates on notice accounts not increasing in line with the SONIA rate. Notice was given on these accounts early in quarter two and when the monies are returned at the end of the notice period, they can be invested at higher rates. The SONIA rate fluctuated between 1.190% and 2.190% throughout the quarter. The bank base started the quarter at 1.25%, increased to 1.75% on 4th August and increased to 2.25% on 22nd September. Performance is shown in Graph 1 of Appendix 2.

5.12 As investment balances fluctuate, all investment returns quoted in this report are calculated using the average balance over the period and are quoted as annualised returns.

6. Short Dated Bond Funds – quarter two (July to September)

6.1 Throughout the quarter medium term funds were invested in two short-dated bond funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

6.2 The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one-to-five-year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the value of the corporate bonds in the fund. So, these investments would be over the medium term with the aim of realising higher yields than short term investments.

6.3 In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in the unit price.

6.4 An average of £7.3m was managed by AXA Investment Managers UK Limited. The table on the next page shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 3: AXA Sterling Credit Short Duration Bond Fund

Quarter 2	£m	Investment return (%)
Value of fund at start of quarter	7.316	
Decrease in fund due to value of unit price	(0.327)	(17.77)
Value of fund at end of quarter	6.989	
Income distributions*	0.029	1.58
Combined investment income (income distribution plus change in fund value due to unit price)	(0.298)	(16.19)

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

6.5 An average of £7.2m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 4: Royal London Investment Grade Short Dated Credit Fund

Quarter 2	£m	Investment return (%)
Value of fund at start of quarter	7.158	
Decrease in fund due to value of unit price	(0.486)	(26.96)
Value of fund at end of quarter	6.672	
Income distributions	0.050	2.80
Combined investment income (income distribution plus change in fund value due to unit price)	(0.436)	(24.16)

7. Property Funds – quarter two (July to September)

7.1 Throughout the quarter long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property Trust.

7.2 The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.

7.3 In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in unit price.

7.4 An average of £23.3m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 5: Patrizia Hanover Property Unit Trust

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	23.289	
Decrease in fund due to value of unit price	(0.965)	(16.44)
Value of fund at end of quarter	22.324	
Income distributions*	0.178	3.04
Combined investment income (income distribution plus change in fund value due to unit price)	(0.787)	(13.40)

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

7.5 An average of £15.0m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 6: Lothbury Property Trust

Quarter 2	**£m**	**Investment return (%)**
Value of fund at start of quarter	15.225	
Decrease in fund due to value of unit price	(0.730)	(19.29)
Value of fund at end of quarter	14.495	
Income distributions*	0.098	2.59
Combined investment income (income distribution plus change in fund value due to unit price)	(0.632)	(16.70)

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

8. Investments – quarter two cumulative position

8.1 During the period from April to September 2022 the Council complied with all the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. Its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low-risk approach.

8.2 The Council is aware of the risks of passive management of the treasury portfolio and has proactively managed levels of debt and investments over the six-month period with the support of its treasury management advisers.

8.3 The table below summarises the Council's investment position for the period from April to September 2022:

Table 7: Investment position

	At 31 March 2022	At 30 September 2022	April to September 2022	
	Actual Balance (£000s)	Actual Balance (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts[#]	19,922	13,928	20,775	1.13
Money market funds	30,000	32,000	48,191	1.23
Notice accounts	27,500	27,500	27,500	0.74
Fixed term deposits	32,500	20,000	17,405	1.41
Total investments managed in-house	**109,922**	**93,428**	**113,871**	**1.12**
Enhanced Cash Funds	5,032	4,896	5,008	1.32
Short Dated Bond Funds	14,972	13,661	14,645	2.11
Property funds	37,059	36,818	37,787	2.99
Total investments managed externally	**57,063**	**55,375**	**57,440**	**2.62**
Total investments	**166,985**	**148,803**	**171,311**	**1.62**

[#]The council's main current account.

8.4 In summary the key factors to note are:

- An average of £113.9m of investments were managed in-house. These earned £0.639m of interest during this six-month period at an average rate of 1.12%. This is 0.10% below the average SONIA rate and 0.16% below the average bank base rate.

- An average of £5.0m was managed by an enhanced cash fund manager. During this six-month period this earned £0.033m from income distributions at an average rate of 1.32% and the value of the fund decreased by £0.135m giving a combined overall return of -4.07%

- An average of £14.6m was managed by two short-dated bond fund managers. During this six-month period these earned £0.155m from income distributions at an average rate of 2.11% and the value of the funds decreased by £1.310m giving a combined overall return of -15.73%

- An average of £37.8m was managed by two property fund managers. During this six-month period these earned £0.566m from income distributions at an average rate of 2.99% and the value of the funds decreased by £0.241m giving a combined overall return of 1.71%.

8.5 The total for interest and income distributions in paragraph 8.4 above is £1.393m. The total change in external fund values due to the unit price is a net decrease of £1.687m, which is set out in the table below. In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget.

Table 8: Externally managed funds – changes in unit price

Fund	**Table Number**	**Amount (£m)**
Payden Sterling Reserve Fund	Paragraph 8.4	(0.135)
AXA Sterling Credit Short Duration Bond Fund	11	(0.529)
Royal London Investment Grade Short Dated Credit Fund	12	(0.781)
Patrizia Hanover Property Unit Trust	13	0.016
Lothbury Property Trust	14	(0.258)
Total net decrease due to changes in unit price		**(1.687)**

8.6 Some cash balances held by the Council are required to meet short term cash flow requirements and therefore throughout the six-month period monies were placed into Money Market Funds 5 times for periods of one year or less. The table below shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 9: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
BlackRock	Money Market Fund (Various Counterparties)	2	19
Goldman Sachs	Money Market Fund (Various Counterparties)	2	17
Aberdeen Liquidity	Money Market Fund (Various Counterparties)	1	8
Total		**5**	**44**

8.7 In addition to the above, use was also made of call accounts during the year, because they provide instant access to funds. This meant that funds were available for unexpected cash flow events to avoid having to pay higher rates to borrow from the market. During the period from April to September 2022 an average of £20.8m was held in such accounts.

8.8 For cash balances that are not needed to meet immediate or very short-term cash flow requirements, monies were invested in:

- a 95-day notice account with Barclays.
- a 95-day notice account with Santander.
- a 185-day notice account with Goldman Sachs.

Notice was given on all these accounts in July and the monies are due to be returned in quarters three and four respectively. The monies will be re-invested at higher rates.

8.9 Monies were also invested in fixed term deposits of up to one year, depending on the liquidity requirements. The table below shows the fixed term deposits held during the period from April to September 2022.

Table 10: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK plc	12/07/2021	12/04/2022	274	0.250	5.0
Goldman Sachs International	09/07/2021	08/04/2022	273	0.225	2.5
Standard Chartered	19/11/2021	19/05/2022	181	0.290	10.0
National Bank of Kuwait (International) plc	19/11/2021	19/05/2022	181	0.340	15.0
Lloyds Bank Corporate Markets (NRFB)*	29/06/2022	29/12/2022	183	0.216	12.5
Goldman Sachs International	29/06/2022	29/12/2022	183	0.219	7.50

* NRFB – Non Ring-Fenced Bank

9. Short Dated Bond Funds – quarter two cumulative position

9.1 An average of £7.3m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 11: AXA Sterling Credit Short Duration Bond Fund

April to September 2022	**£m**	**Investment return (%)**
Value of fund at start of financial year	7.518	
Decrease in fund due to value of unit price	(0.529)	(14.30)
Value of fund at end of quarter 2	6.989	
Income distributions*	0.059	1.61
Combined investment income (income distribution plus change in fund value due to unit price)	(0.470)	(12.69)

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

9.2 An average of £7.3m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 12: Royal London Investment Grade Short Dated Credit Fund

April to September 2022	£m	Investment return (%)
Value of fund at start of financial year	7.454	
Decrease in fund due to value of unit price	(0.781)	(21.44)
Value of fund at end of quarter 2	6.673	
Income distributions	0.095	2.62
Combined investment income (income distribution plus change in fund value due to unit price)	(0.686)	(18.82)

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

10. Property Funds – quarter two cumulative position

10.1 An average of £22.8m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 13: Patrizia Hanover Property Unit Trust

April to September 2022	£m	Investment return (%)
Value of fund at start of financial year	22.308	
Increase in fund due to value of unit price	0.016	0.14
Value of fund at end of quarter 2	22.324	
Income distributions*	0.365	3.19
Combined investment income (income distribution plus change in fund value due to unit price)	0.381	3.33

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

10.2 An average of £15.0m was managed by Lothbury Investment Management Limited. The table on the next page shows the movement in the fund value over the period from April to September, the income distributions for that period, the returns both for each element and the combined return.

Table 14: Lothbury Property Trust

April to September 2022	**£m**	**Investment return (%)**
Value of fund at start of financial year	14.752	
Decrease in fund due to value of unit price	(0.258)	(3.43)
Value of fund at end of quarter 2	14.494	
Income distributions	0.201	2.68
Combined investment income (income distribution plus change in fund value due to unit price)	(0.057)	(0.75)

* This income distribution is an estimate and will be confirmed and distributed in quarter 3.

11. Borrowing – quarter two

11.1 The Capital Financing Requirement (CFR) is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position by either:

1. borrowing to the CFR;
2. choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
3. borrowing for future increases in the CFR (borrowing in advance of need)

11.2 The Council began quarter two in the second of the above scenarios, with actual borrowing below CFR.

11.3 This, together with the Council's cash flow, the prevailing Public Works Loans Board (PWLB) and the future requirements of the capital investment programme, will be taken into account when deciding the amount and timing of any future loans. During the quarter no new PWLB loans were taken out, no loans matured, and no debt restructuring was carried out.

11.4 The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained the same at £347.3m during the quarter. The average rate of borrowing at the end of the quarter was 3.46%. A profile of the repayment dates is shown in Graph 2 of Appendix 2.

11.5 The level of PWLB borrowing at £347.3m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council's prudential indicators and is proportionate, prudent, affordable and sustainable.

11.6 Interest rates from the PWLB fluctuated throughout the quarter in response to economic and political events: 10-year PWLB rates between 2.62% and 5.11%; 25-year PWLB rates between 3.04% and 5.44% and 50-year PWLB rates between 2.79% and 5.17%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

11.7 During quarter two, no short-term loans were taken out for cash flow purposes. This is shown in Table 4 of Appendix 2.

12. Borrowing – quarter two cumulative position

12.1 The Council's borrowing limits for 2022/23 are shown in the table below:

Table 15: Borrowing limits

	2022/23 Original (£m)
Authorised Limit	395
Operational Boundary	385

The Authorised Limit is the "Affordable Borrowing Limit" required by the Local Government Act 2003. This is the outer boundary of the Council's borrowing based on a realistic assessment of the risks and allows sufficient headroom to take account of unusual cash movements.

The Operational Boundary is the expected total borrowing position of the Council during the year and reflects decisions on the amount of debt needed for the Capital Programme. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

12.2 The Council's outstanding borrowing as at 30 September 2022 was:

- Southend-on-Sea City Council £355.6m
  - PWLB: £347.3m
  - Invest to save: £8.3m
- ECC transferred debt £9.23m

Repayments in the first 6 months of 2022/2023 were:

- Southend-on-Sea City Council £0.09m
  - PWLB: £0.00m
  - Invest to save: £0.09m
- ECC transferred debt £0.41m

12.3 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1st April 1998, remains under the management of ECC. Southend City Council reimburses the debt costs incurred by the County. The debt is recognised as a deferred liability on our balance sheet.

12.4 The interest payments for PWLB and excluding transferred debt, during the period from April to September 2022 were £6.0m which is same as the original budget for the same period.

12.5 The table on the next page summarises the PWLB borrowing activities over the period from April to September 2022:

Table 16: PWLB borrowing activities

Quarter	Borrowing at beginning of quarter (£m)	New borrowing (£m)	Re-financing (£m)	Borrowing repaid (£m)	Borrowing at end of quarter (£m)
April to June 2022	347.3	0	0	(0)	347.3
July to September 2022	347.3	0	0	(0)	347.3
Of which:					
General Fund	273.1	0	0	(0)	273.1
HRA	74.2	0	0	(0)	74.2

All PWLB debt held is repayable on maturity.

13. Funding for Invest to Save Schemes

13.1 Capital projects have been completed on energy efficiency improvements at the new Beecroft Art Gallery, replacement lighting on Southend Pier, lighting replacements at University Square Car Park and Westcliff Library and LED lighting at the Priory Park workshop which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.

13.2 To finance these projects the Council has taken out interest free loans of £0.161m with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for periods of four and five years with equal instalments to be repaid every six months. There are no revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.016m of these loans were repaid during the period from April to September 2022.

13.3 At the meeting of Cabinet on 23 June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance ‘invest to save’ finance from L1 Renewables Finance Limited. The balance outstanding at the end of quarter two was £8.28m. A repayment of £0.07m was made during the period from April to September 2022.

13.4 Funding of these invest to save schemes is shown in Table 5 of Appendix 2.

14. Compliance with Treasury Management Strategy – quarter two

14.1 The Council's investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, which has been implemented in the Annual Treasury Management Investment Strategy approved by the Council on 24 February 2022. The investment activity during the quarter conformed to the approved strategy and the cash flow was successfully managed to maintain liquidity. This is shown in Table 7 of Appendix 2.

15. Other Options

15.1 There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

16. Reasons for Recommendations

16.1 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2022/23 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

17. Corporate Implications

17.1 Contribution to Council's Vision & Critical Priorities

Treasury Management practices in accordance with statutory requirements, together with compliance with the prudential indicators acknowledge how effective treasury management provides support towards the achievement of the Council's ambition and desired outcomes.

17.2 Financial Implications

The financial implications of Treasury Management are dealt with throughout this report.

17.3 Legal Implications

This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code.

17.4 People Implications

None.

17.5 Property Implications

None.

17.6 Consultation

The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

17.7 Equalities and Diversity Implications

None.

17.8 Risk Assessment

The Treasury Management Policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

17.9 Value for Money

Treasury Management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

17.10 Community Safety Implications

None.

17.11 Environmental Impact

None.

18. Background Papers

None.

19. Appendices

Appendix 1 – In-House Investment Position as at 30 September 2022

Appendix 2 – Treasury Management Performance for Quarter Two – 2022/23