

**Title:** Treasury Management Report – Mid Year 2023/24

**Meeting:** Cabinet

**Date:** 20 November 2023

**Classification:** Part 1

**Policy Context:**

**Key Decision:** No

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**Executive Councillor:** Councillor Cox Leader and Cabinet Member for SEND

## **1. Executive Summary**

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 2023.

## **2. Recommendations**

**That the following is approved:**

**2.1 The Treasury Management Mid-Year Position report for 2023/24.**

**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 2023.**

**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 £3.130m of interest and income distributions for all investments were earned during this six-month period at an average rate of 4.41%. This is 0.32% lower than the average SONIA rate (Sterling Overnight Index Average) and 0.39% lower than the average bank rate. Also, the value of the**

externally managed funds decreased by a net of £0.561m due to changes in the unit price, giving a combined overall return of 3.62%. (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 1<sup>st</sup> April 1998) remained at £347.3m (Housing Revenue Account (HRA): £74.2m, General Fund: £273.1m) during the period from April to September 2023 at an average rate of 3.46%.**

**2.6 The level of financing for 'invest to save' schemes decreased from £8.22m to £8.13m during the period from April to September 2023.**

### **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 2023/24 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 2023/24, covering both quarter two and the period from April to September 2023.

3.3 Appendix 1 shows the in-house investment position at the end of quarter two of 2023/24.

3.4 Appendix 2 shows the treasury management performance specifically for quarter two of 2023/24.

### **4. National Context**

4.1 Due to the ongoing economic and fiscal challenges UK gross domestic product (GDP) is estimated to have shown no growth in the quarter from July to September 2023, following an increase of 0.2% in the previous quarter. The services sector fell by 0.1% on the quarter, offset by a 0.1% increase in construction output and broadly flat output in the production sector.

4.2 The latest unemployment rate for the quarter from May to July 2023 was 4.3%, an increase of 0.5% on the previous quarter (February to April 2023). The increase was largely driven by people unemployed for up to 12 months. The economic inactivity rate increased for people aged 16 to 24 years. Those looking after family or home decreased to a record low, whereas those inactive because of long-term sickness increased to another record high.

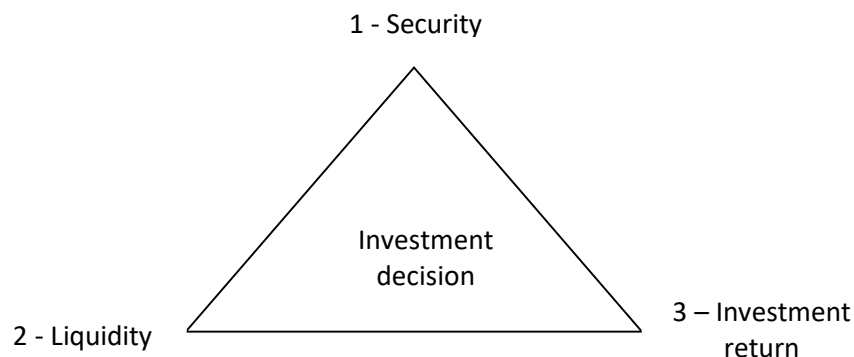
4.3 The Consumer Prices Index including owner occupiers' housing costs (CPIH) was at 6.4% in July, at 6.3% in August and 6.3% in September. The largest downward contributors to the CPIH inflation rate came from food and non-

alcoholic beverages, where prices fell for the first time since September 2021, and furniture and household goods, where prices rose by less than a year ago. Rising prices for motor fuel made the largest upward contribution to the change in rates.

- 4.4 During the quarter, in response to persistent inflationary pressures, the Bank of England increased the bank base rate from 5% to 5.25% on 3 August. The Monetary Policy Committee will continue to closely monitor indications of inflationary pressures in the economy as a whole and have indicated that they will adjust the bank base rate as necessary to return inflation to the 2% target.
- 4.5 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 and as fixed term deposits matured, advantage could be taken of the increased rates when reinvesting those monies. However, the prevailing financial market conditions were less favourable to the performance of the property funds, with their unit prices decreasing over the period from July to September 2023, albeit to a lesser extent than during 2022/23. These funds have been impacted by falling property valuations since mid-2022 and it is predicted that further smaller valuation declines are likely in 2023, followed by a period of stabilisation.

## 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 2023 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; 26% of our in-house investments were placed with financial institutions with a long-term rating of AAA, 28% with a long-term rating of A+ and 46% with a long-term rating of A.
- 5.5 As shown in pie chart 2 of Appendix 1, these monies were with various counterparties, 74% being placed directly with banks and 26% 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 £43.8m of our in-house monies were available on an instant access basis and £37.5m was invested in fixed term deposits. The table below shows the fixed term deposits during the period July to September 2023.

Table 1: Fixed Term Deposits

| Counterparty                                | Date of Deposit | Return Date | Number of days | Interest rate (%) | Amount (£m) |
|---|-----------------|-------------|----------------|-------------------|-------------|
| Santander UK plc                            | 21/10/2022      | 23/10/2023  | 367            | 5.00              | 5           |
| Santander UK plc                            | 14/11/2022      | 14/11/2023  | 365            | 4.95              | 10          |
| Lloyds Bank Corporate Markets (NRFB)*       | 29/12/2022      | 29/09/2023  | 274            | 4.71              | 10          |
| Lloyds Bank Corporate Markets (NRFB)*       | 29/09/2023      | 27/09/2024  | 364            | 5.78              | 10          |
| National Bank of Kuwait (International) plc | 17/05/2023      | 16/05/2024  | 365            | 5.27              | 12.5        |

\* 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 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 3 of Appendix 2.

Table 2: Payden Sterling Reserve Fund

| <b>Quarter 2</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of quarter  | 4.926     |                              |
| Increase in fund due to value of unit price  | 0.050     | 4.00                         |
| Value of fund at end of quarter  | 4.976     |                              |
| Income distributions   | 0.044     | 3.51                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.094     | 7.51                         |

5.10 The Council had an average of £92.9m of investments managed in-house over the period from July to September, and these earned an average interest rate of 5.05%. Of the in-house managed funds:

- an average of £26.4m was held in the Council's main bank account earning an average of 5.00% over the quarter.
- an average of £29.0m was held in money market funds earning an average of 5.14% 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 £37.5m was held in fixed term deposits and earned an average return of 5.01% 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 0.04% lower than the SONIA rate (Sterling Overnight Index Average). This was due to the balances invested in fixed term investments where the interest rate does not vary with the Bank of England base rate whereas the SONIA rate does. The SONIA rate fluctuated between 4.929% and 5.186% throughout the quarter. The bank base rate started the quarter at 5% and increased to 5.25% on 3 August. 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 £7.2m was managed by AXA Investment Managers UK 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 2 of Appendix 2.

Table 3: AXA Sterling Credit Short Duration Bond Fund

| <b>Quarter 2</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of quarter  | 7.105     |                              |
| Increase in fund due to value of unit price  | 0.177     | 9.80                         |
| Value of fund at end of quarter  | 7.282     |                              |
| Income distributions*  | 0.064     | 3.54                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.241     | 13.34                        |

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

- 6.5 An average of £6.9m 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

| <b>Quarter 2</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of quarter  | 6.791     |                              |
| Increase in fund due to value of unit price  | 0.149     | 8.60                         |
| Value of fund at end of quarter  | 6.940     |                              |
| Income distributions   | 0.066     | 3.83                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.215     | 12.43                        |

## 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 £19.1m 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

| <b>Quarter 2</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of quarter  | 19.056    |                              |
| Decrease in fund due to value of unit price  | (0.111)   | (2.32)                       |
| Value of fund at end of quarter  | 18.945    |                              |
| Income distributions*  | 0.181     | 3.77                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.070     | 1.45                         |

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

- 7.5 An average of £11.2m 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

| <b>Quarter 2</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of quarter  | 11.206    |                              |
| Decrease in fund due to value of unit price  | (0.182)   | (6.43)                       |
| Value of fund at end of quarter  | 11.024    |                              |
| Income distributions*  | 0.100     | 3.52                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | (0.082)   | (2.91)                       |

\* 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 2023 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 2023:

Table 7: Investment position

|   | At 31<br>March<br>2023       | At 30<br>September<br>2023   | April to September<br>2023    |                     |
|---|------------------------------|------------------------------|-------------------------------|---------------------|
|   | Actual<br>Balance<br>(£000s) | Actual<br>Balance<br>(£000s) | Average<br>Balance<br>(£000s) | Average<br>Rate (%) |
| Call accounts <sup>#</sup>                      | 19,017                       | 22,759                       | 25,603                        | 4.66                |
| Money market funds                              | 21,000                       | 21,000                       | 30,847                        | 4.77                |
| Fixed term deposits                             | 27,500                       | 37,500                       | 35,642                        | 4.96                |
| <b>Total investments<br/>managed in-house</b>   | <b>67,517</b>                | <b>81,259</b>                | <b>92,092</b>                 | <b>4.81</b>         |
| Enhanced Cash Funds                             | 4,962                        | 4,976                        | 4,968                         | 4.07                |
| Short Dated Bond Funds                          | 14,262                       | 14,222                       | 14,116                        | 3.08                |
| Property funds                                  | 30,504                       | 29,968                       | 30,393                        | 0.19                |
| <b>Total investments<br/>managed externally</b> | <b>49,728</b>                | <b>49,166</b>                | <b>49,477</b>                 | <b>1.40</b>         |
| <b>Total investments</b>                        | <b>117,245</b>               | <b>130,425</b>               | <b>141,569</b>                | <b>3.62</b>         |

<sup>#</sup>The council’s main current account.

8.4 In summary the key factors to note are:

- An average of £92.1m of investments were managed in-house. These earned £2.221m of interest during this six-month period at an average rate of 4.81%. This is 0.08% above the average SONIA rate and 0.01% above 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 £0.088 from income distributions at



an average rate of 3.51% and the value of the fund increased by £0.014m giving a combined overall return of 4.07%.

- An average of £14.1m was managed by two short-dated bond fund managers. During this six-month period these earned £0.257m from income distributions at an average rate of 3.64% and the value of the funds decreased by £0.039m giving a combined overall return of 3.08%
- An average of £30.4m was managed by two property fund managers. During this six-month period these earned £0.564m from income distributions at an average rate of 3.70% and the value of the funds decreased by £0.536m giving a combined overall return of 0.19%.

8.5 The total for interest and income distributions in paragraph 8.4 above is £3.130m. The total change in external fund values due to the unit price is a net decrease of £0.561m, 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

| <b>Fund</b>  | <b>Table Number</b> | <b>Amount (£m)</b> |
|--|---------------------|--------------------|
| Payden Sterling Reserve Fund                           | Paragraph 8.4       | 0.014              |
| AXA Sterling Credit Short Duration Bond Fund           | 11                  | (0.004)            |
| Royal London Investment Grade Short Dated Credit Fund  | 12                  | (0.035)            |
| Patrizia Hanover Property Unit Trust                   | 13                  | (0.166)            |
| Lothbury Property Trust                                | 14                  | (0.370)            |
| <b>Total net decrease due to changes in unit price</b> |                     | <b>(0.561)</b>     |

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 6 times for periods of one year or less. The table on the next page 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<br>(Various Counterparties) | 3            | 29                  |
| Aberdeen Liquidity | Money Market Fund<br>(Various Counterparties) | 2            | 20                  |
| Goldman Sachs      | Money Market Fund<br>(Various Counterparties) | 1            | 5                   |
| <b>Total</b>       |   | <b>6</b>     | <b>54</b>           |

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 2023 an average of £25.6m was held in such accounts.

8.8 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 2023.

Table 10: Fixed Term Deposits

| Counterparty                                | Date of Deposit | Return Date | Number of days | Interest rate (%) | Amount (£m) |
|---|-----------------|-------------|----------------|-------------------|-------------|
| Santander UK plc                            | 21/10/2022      | 23/10/2023  | 367            | 5.00              | 5           |
| Santander UK plc                            | 14/11/2022      | 14/11/2023  | 365            | 4.95              | 10          |
| Lloyds Bank Corporate Markets (NRFB)*       | 29/12/2022      | 29/06/2023  | 182            | 4.33              | 2.5         |
| Lloyds Bank Corporate Markets (NRFB)*       | 29/12/2022      | 29/09/2023  | 274            | 4.71              | 10          |
| National Bank of Kuwait (International) plc | 17/05/2023      | 16/05/2024  | 365            | 5.27              | 12.5        |
| Lloyds Bank Corporate Markets (NRFB)*       | 29/09/2023      | 27/09/2024  | 364            | 5.78              | 10          |

\* NRFB – Non Ring-Fenced Bank

## 9. Short Dated Bond Funds – quarter two cumulative position

9.1 An average of £7.2m was managed by AXA Investment Managers UK 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 11: AXA Sterling Credit Short Duration Bond Fund

| <b>April to September 2023</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of financial year   | 7.286     |                              |
| Decrease in fund due to value of unit price  | (0.004)   | (0.10)                       |
| Value of fund at end of quarter 2  | 7.282     |                              |
| Income distributions*  | 0.126     | 3.49                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.122     | 3.39                         |

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

- 9.2 An average of £6.9m 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

| <b>April to September 2023</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of financial year   | 6.975     |                              |
| Decrease in fund due to value of unit price  | (0.035)   | (1.03)                       |
| Value of fund at end of quarter 2  | 6.940     |                              |
| Income distributions   | 0.131     | 3.78                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.096     | 2.75                         |

\* 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 £19.1m 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

| <b>April to September 2023</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of financial year   | 19.111    |                              |
| Decrease in fund due to value of unit price  | (0.166)   | (1.74)                       |
| Value of fund at end of quarter 2  | 18.945    |                              |
| Income distributions*  | 0.363     | 3.80                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | 0.197     | 2.06                         |

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

- 10.2 An average of £11.3m was managed by Lothbury Investment Management 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 14: Lothbury Property Trust

| <b>April to September 2023</b>   | <b>£m</b> | <b>Investment return (%)</b> |
|--|-----------|------------------------------|
| Value of fund at start of financial year   | 11.393    |                              |
| Decrease in fund due to value of unit price  | (0.370)   | (6.52)                       |
| Value of fund at end of quarter 2  | 11.023    |                              |
|  |           |                              |
| Income distributions   | 0.201     | 3.54                         |
| Combined investment income (income distribution plus change in fund value due to unit price) | (0.169)   | (2.98)                       |

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

- 10.3 As reported in the quarter one report, over the last few quarters the Lothbury Fund has received a lot of redemption requests from unitholders. In the best interests of all investors the Fund Managers suspended redemptions. The suspension was put in place to run for a period of up to 12 months from the settlement date of 10 October 2023.
- 10.4 The Executive Board presented a revised fund strategy to all investors but those in the redemption queue did not change their mind and withdraw their requests. This left three options: a smaller fund, termination of the fund or a merger with another property fund. Given the level of remaining redemption requests, continuing the fund with a smaller size was not deemed to be a viable option. This meant that a fund termination would be the likely outcome, however a merger with another property fund remains as an option to explore.
- 10.5 The Fund Managers have now given notice to all unitholders that, in the event that no other option has been identified for the continuation of the Fund by 31 December 2023, the Fund will terminate. If another option is identified and deemed to be viable prior to the termination date, then an EGM will be held to determine whether to move forward with that option, to postpone the termination date, or determine not to proceed with the termination of the fund.
- 10.6 The fund's portfolio is not required to be realised in full by the termination date. The fund managers will continue with the sale programme whilst options are being explored. If the termination of the fund does occur, then distributions would be paid to unitholders pro rata to the number of units they hold in the fund as at the termination date and then over a period of time until all assets were sold in an orderly and planned way.
- 10.7 A further update will be provided as part of the quarter three report to March Cabinet.

**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 4.97% and 5.52%; 25-year PWLB rates between 5.18% and 5.73% and 50-year PWLB rates between 4.86% and 5.45%. 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 2023/24 are shown in the table below:

Table 15: Borrowing limits

|                      | <b>2023/24<br/>Original<br/>(£m)</b> |
|----------------------|--------------------------------------|
| Authorised Limit     | 400                                  |
| Operational Boundary | 390                                  |

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 2023 was:

- Southend-on-Sea City Council £355.4m
  - PWLB: £347.3m
  - Invest to save: £8.13m
- ECC transferred debt £8.83m

Repayments in the first 6 months of 2023/2024 were:

- Southend-on-Sea City Council £0.09m
  - PWLB: £0.00m
  - Invest to save: £0.09m
- ECC transferred debt £0.39m

12.3 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1<sup>st</sup> 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 2023 were £6.0m which is same as the original budget for the same period.

12.5 The table below summarises the PWLB borrowing activities over the period from April to September 2023:

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 2023     | 347.3                                  | 0                  | 0                 | (0)                   | 347.3                            |
| July to September 2023 | 347.3                                  | 0                  | 0                 | (0)                   | 347.3                            |
| <i>Of which:</i>       |  |                    |                   |                       |                                  |
| 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 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 £0.079m 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. £0.008m of these loans were repaid during the period from April to September 2023.
- 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 £8.12m. A repayment of £0.085m was made during the period from April to September 2023.
- 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 23 February 2023. 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. Reasons for Decisions**

- 15.1 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2023/24 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

## **16. Other Options**

- 16.1 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.

## **17. Financial Implications**

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

## **18. Legal Implications**

- 18.1 The 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.

## **19. Carbon Impact**

- 19.1 None arising from this report.

## **20. Equalities**

- 20.1 None arising from this report.

## **21. Consultation**

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

## **22. Background Papers**

None.

## **23. Appendices**

Appendix 1 – In-House Investment Position as at 30 September 2023

Appendix 2 – Treasury Management Performance for Quarter Two – 2023/24



## Report Authorisation

This report has been approved for publication by:

| <b>This report has been approved for publication by:</b> |                |              |
|--|----------------|--------------|
|  | <b>Name:</b>   | <b>Date:</b> |
| S151 Officer   | Joe Chesterton | 23/10/2023   |
| Monitoring Officer                                       |                |              |
| Executive Director(s)                                    | Joe Chesterton | 23/10/2023   |
| Relevant Cabinet Member(s)                               | Councillor Cox | 23/10/2023   |